ShodhPrabandhan: Journal of Management Studies
January-June 2026 3(1)
https://shodhprabandhan.com

Original Article

INVESTMENT BEHAVIOUR OF INVESTORS TOWARDS MUTUAL FUNDS: AN EMPIRICAL ANALYSIS

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ABSTRACT

Mutual funds have provided unprecedented opportunities for millions of investors, effectively bringing investment options directly to their doorstep. In India, investors typically seek information that does not offer protection against inflation and frequently results in negative real returns. He perceives himself as an anomaly within the realm of investment. Mutual funds have emerged as a significant resource for these investors. Skilled fund managers and vigilant investors collaborate to make mutual funds successful. In the present context, it is crucial to assess the financial literacy levels of investors and evaluate their investment behaviours. This study seeks to examine the correlation between financial literacy and investment behaviour, specifically in the context of mutual fund investments. This study selected a total of 156 respondents who have invested in mutual funds in Palakkad. The convenience sampling technique was employed for sample selection, and a questionnaire served as the study instrument. The statistical tools employed to accomplish the objectives include Karl Pearson's correlation coefficient and a one-way ANOVA. The study demonstrates a reliability coefficient of 84.6%. Data analysis was conducted using SPSS version 26. The findings indicate a positive correlation between components of financial literacy and investment behaviour in mutual fund investments. Nevertheless, understanding financial concepts is crucial for enhancing investment behaviours in relation to mutual fund investments. The analysis reveals a notable effect of age, education, annual income, and employment status on individuals' investment behaviour toward mutual funds.

Keywords: Investment, Investment Behavior, Investors Perception, Mutual Funds

INTRODUCTION

The development of mutual funds has been characterised by a gradual progression, with a significant amount of time required to evolve contemporary mutual fund structures. Mutual funds first appeared in the Netherlands during the 18th century, subsequently making their way to Switzerland, Scotland, and eventually the United States in the 19th century. The primary objective of mutual fund investments is to provide a diversified investment solution. Throughout the years, the concept evolved, leading to an increasing array of options for individuals seeking diversified investment portfolios via mutual funds. The concept of mutual funds in India originated in the year 1960. UTI holds the credit for introducing the first mutual fund in India. The Monetary Fund has derived significant advantages from mutual funds. Historically, investors engaged in direct stock market investments, often encountering financial losses as a result of inaccurate speculation. However, the emergence of mutual funds, managed by proficient fund managers, significantly reduced investment risks. The varied investment framework of mutual funds, along with the distribution of risk, has significantly facilitated their expansion. The market has seen the introduction of a significant number of new

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Received: 11 December 2025; **Accepted:** 25 January 2026; **Published** 12 February 2026
DOI: 10.29121/ShodhPrabandhan.v3.i1.2026.67
Page Number: 16-22
Journal Title: ShodhPrabandhan: Journal of Management Studies
Journal Abbreviation: ShodhPrabandhan J. Manag. Stud.
Online ISSN: 3049-2416, **Print ISSN:** 3108-1975
Publisher: Granthaalayah Publications and Printers, India
Conflict of Interests: The authors declare that they have no competing interests.
Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.
Authors' Contributions: Each author made an equal contribution to the conception and design of the study. All authors have reviewed and approved the final version of the manuscript for publication.
Transparency: The authors affirm that this manuscript presents an honest, accurate, and transparent account of the study. All essential aspects have been included, and any deviations from the original study plan have been clearly explained. The writing process strictly adhered to established ethical standards.

mutual funds over time. The methodologies and approaches to the sale of these funds have evolved. However, the expansion of mutual funds continues unabated. The evolution toward a more promising future persists, providing investors with novel opportunities. The current landscape of globalisation and competitive dynamics indicates that an industry's efficacy is largely assessed through the performance metrics of its stocks in the market. Investors tend to focus their investments on the stocks of companies that offer the potential for maximum returns. During the initial stages of the mutual fund industry's development, investors had access to only a limited number of investment options for allocating their capital. Over time, numerous opportunities have emerged for investors to allocate their funds across various investment channels. One potential avenue for investment is through mutual funds, complemented by sound financial management practices. The growth of mutual funds has been significant over the past few years. The outcome presented here is a product of the collaborative endeavours of broking firms and fund managers, who play a crucial role in supporting investors through educational initiatives and raising awareness about various mutual fund schemes via diverse promotional strategies.

Mutual funds have become a significant investment option for retail investors. A mutual fund serves as an investment vehicle for individuals who aggregate their savings to invest in a diversified portfolio of securities. According to AMFI's definition, professionals administer a mutual fund in India as a form of collective investment. In the context of mutual funds in India, capital is aggregated from a diverse group of investors, which is subsequently allocated to a range of financial instruments, including bonds, equities, and other securities. The fund manager of a mutual fund in India gathers the interest income, which is subsequently allocated to individual investors according to the number of units they possess. A mutual fund seeks to attract potential investors by presenting a range of schemes tailored to meet the diverse needs of various investor categories. Various mutual fund schemes exist to accommodate the diverse needs and preferences of investors. The regulatory framework for mutual funds in India is now established under the SEBI (Securities and Exchange Board of India) regulations of 1996. In India, numerous companies are engaged in the mutual fund sector, including Reliance Mutual Funds, HDFC, ABN Amro, AIG, Bank of Baroda, Canara Bank, Birla Sun Life, DSP Merrill Lynch, and DBS Chola Mandalam.

REVIEW OF LITERATURE

Hamurcu et al. (2025) conducted an investigation into the investment behaviours of mutual fund investors, focusing on the influence of financial literacy, risk tolerance, and portfolio decision-making processes. The research focused on examining the impacts of various elements of financial literacy on the mutual fund allocation behaviours of investors. Data were gathered from individual mutual fund investors through the administration of a structured questionnaire. The study included a total of 312 participants, who were chosen through a convenience sampling method. The researcher utilised descriptive statistics, correlation analyses, and multiple regression analyses to examine the proposed relationships. The results indicate that there is a notable positive impact of financial knowledge and financial attitude on mutual fund investment behaviour. Additionally, financial behaviour serves as a partial mediator between financial literacy and portfolio decisions. The findings indicate that elevated financial literacy correlates positively with increased investor confidence and promotes more rational decision-making in mutual fund investments.

Nixon (2025) conducted an investigation into the behaviour of investors switching between mutual funds, utilising sophisticated predictive models for analysis. The research employed secondary data sourced from an extensive dataset of retail mutual fund investors, which includes over 10,000 transaction records. The aim of this research is to examine behavioural and performance-related factors that affect investors' decisions to transition between mutual fund schemes. Data analysis was conducted using machine learning techniques, specifically random forests and logistic regression models. The findings suggest that recent fund performance, fee structures, and investor attention play a significant role in influencing switching behaviours. The researchers emphasised that behavioural factors frequently surpass conventional risk-return analyses when influencing mutual fund investment choices.

Zhang (2024) conducted an analysis of the relationship between mutual fund performance and investor behaviour through an examination of fund flow patterns. The research utilised secondary data, encompassing 485 equity mutual funds across a five-year period. To evaluate the influence of historical performance on investor inflows and outflows, panel data regression and time-series analysis were used. The results indicate that investors demonstrate a tendency to chase performance, as evidenced by increased inflows into funds that have shown strong performance in the recent past. Nonetheless, the research highlighted that fluctuations in the market affect how investors react, suggesting a tendency to be cautious in the face of economic uncertainty.

Vishnani (2024) undertook an empirical investigation to explore the behavioural factors that influence mutual funds' investment choices among retail investors. Data were obtained from a sample of 220 respondents through the use of a structured questionnaire, employing a judgemental sampling technique. The researchers used factor analysis and structural equation modelling (SEM) to investigate the interconnections between financial knowledge, perceived risk, trust, and investment intentions. The findings indicate that financial literacy and trust play a significant role in the adoption of mutual funds, whereas perceived risk has a detrimental impact on investment intentions. The findings indicate that improving investor education and transparency may have a beneficial effect on mutual fund investment behaviour.

Suresh and Kumar (2023) investigated the impacts of behavioural biases on investment behaviours associated with mutual funds. This study sought to investigate the influence of herding behaviour and overconfidence on investors' mutual fund selection processes. Data were gathered from 180 retail mutual fund investors through the administration of a questionnaire, employing a convenience sampling method. The analysis involved employing correlation analysis alongside multiple regression techniques. The results indicate that herding behaviour and overconfidence play a significant role in investors' selection of mutual funds, frequently leading to irrational investment choices. The researchers indicated that it is essential to tackle behavioural biases by implementing investor awareness initiatives.

Patel and Shah (2023) conducted an analysis of the correlation between demographic variables and investment behaviours associated with mutual funds. The research gathered primary data from a sample of 250 mutual fund investors located in urban areas through the administration of a structured questionnaire. The methodology utilised stratified sampling to ensure sufficient representation across diverse age and income demographics. Various statistical methodologies, including chi-square tests, ANOVA, and regression analysis, were employed in the study. The study's results demonstrated the significant impact of factors such as age, income, education, and occupation on mutual fund investment behaviour. Investors who are younger and possess higher income levels demonstrated a stronger inclination toward equity-orientated mutual fund schemes.

Li (2022) conducted an analysis of mutual fund investment behaviour, focusing on the strategies employed by fund managers and the corresponding responses from investors. The researchers used secondary data derived from 620 actively managed mutual funds and employed panel regression analysis for their examination. The aim of this study was to analyse the impacts of alterations in fund strategies on investor behaviour. The findings suggest that investors exhibit favourable responses to active portfolio management strategies and enhanced transparency, which results in an increase in fund inflows. The findings indicate that decisions made at the fund level have an indirect influence on investors' behaviours.

Rana (2022) conducted an investigation into the influence of financial literacy on mutual fund investment behaviours among retail investors. Data were gathered from a sample of 300 respondents through the administration of a questionnaire, using a convenience sampling method. The analysis employed descriptive statistics, correlation analyses, and structural equation modelling methodologies. The results indicate that both financial knowledge and attitude have a significant impact on mutual fund investment behaviours, with financial behaviour serving as a partial mediator in this relationship. The researchers highlighted the significance of organised financial education initiatives for enhancing participation in mutual funds.

OBJECTIVES

1) To study the perception about financial literacy components towards mutual fund investment
2) To analyse the relationship between financial literacy and the investment behaviour of mutual fund investors.
3) To assess the influence of demographic variables on the investment behaviour of mutual fund investors.

HYPOTHESES

H01: There is no significant relationship between financial literacy and investment behaviour towards Mutual funds investment.

H02: There is no significant influence of demographic variables on Investment Behaviour towards Mutual funds.

METHODOLOGY

This research seeks to examine the correlation between financial literacy and investing behaviour in mutual fund investments. This study selected a total of 156 respondents who have invested in mutual funds in Palakkad. The convenience sampling technique, classified as a non-probability sampling method, was used for the selection of samples. The questionnaire serves as a tool for data collection in the study. The questionnaire is structured into three distinct sections: the first and second sections include scales that assess financial literacy and investment behaviour, while the third section is dedicated to demographic variables. The application of Karl Pearson's correlation coefficient enables an examination of the relationship between financial literacy and investment behaviour. A one-way ANOVA is used to examine the impact of demographic variables on investor behaviour. The data has been analysed using SPSS version 26.

RESULTS AND DISCUSSION

The Cronbach's alpha of 0.846 indicates that the reliability of the study is 84.6%. Analysis reveals that 58.6% of the population is male, with 40.8% falling within the age range of 31–40 years. Furthermore, 31.2% of the individuals are graduates, while 57.9% are reported to be living in a married state. Furthermore, 33.2% of the respondents work in the private sector, and 31.5% earn between Rs.8-10 lakhs per annum. Table 1, Table 2 and Table 3 provides the perception of the respondents on financial literacy.

Table 1

Table 1 Perception about Financial Knowledge

S.No	Statement	Mean	SD
1	I am aware about the Asset Management companies offering Mutual funds	3.98	1.190
2	I am knowledgeable about all the services offered by Mutual funds	3.55	1.100
3	I have good knowledge about selecting the right mutual fund to fulfill my long-term goal	4.01	0.829
4	I know the taxation aspects in mutual fund investment	3.51	1.069
5	I have knowledge on How SIP works	3.80	1.236

Note: Mean score ranges from 1 (strongly disagree) to 5 (strongly agree)

Table 1 illustrates the perceptions of mutual fund investors regarding their financial knowledge. The mean values suggest that these investors possess a strong understanding of how to select the appropriate mutual fund to achieve their long-term financial objectives, which is a critical component of their financial literacy. Furthermore, the investors acknowledged their understanding of asset management companies, the services provided by mutual funds, the taxation implications associated with mutual fund investments, and the operational mechanics of systematic investment plans (SIPs). The findings indicate that the financial knowledge among mutual fund investors is at a commendable level.

Table 2

Table 2 Perception about Financial Behaviour

S.No	Statement	Mean	SD
1	Savings & Safety are the basic objectives of my investment	4.07	1.065
2	Diversified Equity Funds are preferred for savings in Equity Funds	3.38	1.312
3	Mutual fund gives me safety while I invest	3.68	1.449
4	I prefer Mutual funds as the best avenue to invest my savings	3.71	1.014
5	I always expect good returns for the investment	3.20	0.998
6	My investment should not be a burden for me and my family	2.92	1.052

Note: Mean score ranges from 1 (strongly disagree) to 5 (strongly agree)

Table 2 presents an analysis of mutual fund investors' perceptions regarding financial behaviour. The mean values suggest that these investors exhibit commendable financial behaviours. Investors have reached consensus that the fundamental objectives of their investment are centred around saving and safety, which have emerged as critical components of financial behaviour. Furthermore, the investors expressed a tendency to focus on diversified equity funds, consistently seeking optimal avenues for investing their savings and anticipating favourable returns on their investments. Nevertheless, a limited number of investors perceived that, at times, the investment could pose a burden for them.

Table 3

Table 3 Perception about Financial Attitude

S.No	Statement	Mean	SD
1	I compare features of all financial products before investing in Mutual funds	2.85	1.591
2	I always look for safety of my invested capital in my mutual fund investment	4.27	1.011
3	I usually take time to decide on my mutual fund investment	3.46	0.824
4	I invest in multiple funds to diversify my portfolio	4.16	1.023
5	I assess the funds past performance before investing	3.92	0.991
6	I withdraw my investment when my financial goal is achieved	2.85	1.189
7	I make investment only when I have surplus	3.61	1.559

Note: Mean score ranges from 1 (strongly disagree) to 5 (strongly agree)

Table 3 illustrates the perceptions of mutual fund investors regarding their financial attitudes. The mean values suggest that these investors exhibit a commendable financial attitude. We can infer that investors consistently prioritise the security of their capital when investing in mutual funds. The investors indicated that they allocate capital across various funds, engage in a thorough decision-making process regarding mutual fund investments, evaluate historical performance prior to committing funds, and typically invest when they have surplus capital available. Nevertheless, the investors concurred that, in most instances, they do not engage in a comparative analysis of the features of various financial products prior to investing in mutual funds, nor do they tend.

This section identifies the relationship between financial literacy and investment behaviour in the context of mutual funds' investments. The analysis of bivariate correlation is employed to examine the relationship, with the findings presented in Table 4.

H01: There is no significant relationship between financial literacy and investment behaviour towards Mutual funds investment

Table 4

Table 4 Relationship of Financial Literacy and Investment Behaviour

Financial literacy	Investment behaviour	
	r-value	p-value
Financial knowledge	0.623**	.000
Financial attitude	0.552**	.000
Financial behaviour	0.504**	.000

** p< .01

Significant positive correlations have been identified between financial knowledge and investment behaviour regarding mutual fund investments (r=0.623, p=.000), financial attitude and investment behaviour towards mutual fund investments (r=0.552, p=.000), as well as financial behaviour and investment behaviour concerning mutual fund investments (r=0.504, p=.000). The null hypothesis H01 has been rejected at the 1% significance level. The findings indicate a positive correlation between components of financial literacy and investment behaviour in mutual fund investments. The financial knowledge possessed by mutual fund investors appears robust, and this expertise contributes positively to their investment behaviour by facilitating improved outcomes in their investment activities. We observe that the respondents' financial attitudes and behaviours positively influence their investment behaviours. Nevertheless, the acquisition of financial knowledge is crucial for enhancing investment behaviours with respect to mutual fund investments. This section aims to elucidate the impact of investment-related variables on the investment behaviour exhibited by investors in relation to mutual funds. One-way ANOVA evaluates the influence. The findings are illustrated in Table 5.

H02: There is no significant influence of demographic variables on Investment Behaviour towards Mutual funds

Table 5

Table 5 Influence of Demographic Variables on Investment Behaviour

	Classification	Mean	S D	F-value
Age (in years)	21-30	3.83	0.752	7.725** (p=.000)
	31-40	3.67	0.903	
	41-50	3.52	1.451	
	50 and above	2.64	0.948	
Gender	Male	3.32	0.658	1.108 (p=.217)
	Female	3.27	0.758	
Education	Higher secondary	2.45	1.995	8.014** (p=.000)
	Bachelor degree	3.3	1.025	
	Master’s Degree	3.57	1.031	
	Professional Degree	4.06	0.543	
Marital status	Single	3.87	0.742	0.836 (p=.218)
	Married	3.57	1.044	
Annual income (in Lakhs)	< 2	2.79	1.795	8.654** (p=.000)
	2 to 5	3.42	1.019	
	5 to 10	3.7	0.754	

	10 to 20	3.84	0.901	
	> 20	4.16	1.063	
Employment	Government employee	3.98	0.554	6.258** (p=.000)
	Private sector employee	3.8	0.746	
	Business	3.79	0.648	
	Professional	4.03	1.171	
	Others	2.6	1.185	

** p<.01

Significant influence of age (F=7.725, p=.000), education (F=8.014, p=.000), annual income (F=8.654, p=.000), and employment (F=6.258, p=.000) on investment behaviour towards mutual fund investment is observed; in this case the null hypothesis is rejected at the 1% level. Gender (F=1.108, p=.217) and marital status (F=0.721, p=.213) do not significantly influence investment behaviour towards mutual fund investment; in these cases, the null hypothesis is accepted at the 5% level.

Respondents in the age group of 21-30 years have scored the highest mean value of 3.83 and the lowest mean value is scored by the respondents above 50 years of age (2.64). It is observed that the investors in the age group of 21-30 years are having better investment behaviour towards investment in mutual funds and investors above 50 years of age are having lesser investment behaviour towards investment in mutual funds.

Respondents possessing a professional degree have scored the highest mean value of 4.06 and the lowest mean value is scored by respondents with higher secondary education (2.45). It is noted that the investors possessing professional degrees have a better level of investment behaviour and the respondents with higher secondary school education have a lesser level of investment behaviour towards investment in mutual funds.

Respondents earning more than 20 lakhs annually have achieved the highest mean value of 4.16, while those earning less than 2 lakhs per annum have the lowest mean value of 2.79. It can be inferred that investors earning more than Rs20 lakh per year exhibit better investment behaviour toward mutual funds, whereas those earning less than Rs2 lakh per year demonstrate relatively poor investment behaviour.

Professionals employed as respondents scored the highest mean value (4.03), while female respondents from other organisations scored the lowest mean value (2.60). Investment behaviour is found to be better among professionals, while investors employed by other companies exhibit a lower level of behaviour toward investments in mutual funds.

CONCLUSION

This paper empirically investigated the relationship between financial literacy and the investment behaviour of mutual fund investors, with specific emphasis on financial knowledge, attitude, and behaviour. The study's findings clearly establish a positive and significant association between all components of financial literacy and investment behaviour towards mutual fund investments. The results indicate that mutual fund investors possess a satisfactory level of financial knowledge, which plays a crucial role in enhancing their ability to make informed, rational, and goal-orientated investment decisions. A strong understanding of asset management companies, mutual fund services, taxation aspects, and systematic investment plans enables investors to align their investments with long-term financial objectives.

The study further reveals that investors' financial attitudes and behaviours significantly contribute to improved investment behaviour. Investors show a strong preference for safety and savings, prioritise diversification, and focus on protecting their capital, which is a sign of smart financial behaviour. However, the findings also suggest that while investors are cautious and security-orientated, they do not always engage in a comprehensive comparison of financial products before investing, nor do they consistently withdraw investments upon achieving financial goals. These behavioural patterns indicate the presence of partial rationality in investment decisions, emphasising the need for deeper financial understanding.

The analysis of demographic variables reveals that age, education, annual income, and employment status significantly influence investment behaviour towards mutual funds, whereas gender and marital status do not exert a significant effect. Younger investors, professionally qualified individuals, higher-income earners, and professionals exhibit superior investment behaviour, indicating higher exposure to financial information, greater risk tolerance, and stronger decision-making confidence. Conversely, investors with lower educational qualifications and income levels demonstrate comparatively weaker investment behaviour, highlighting disparities in financial capability across demographic groups.

In the current investment environment, characterised by rapid financial innovation and increased product complexity, financial literacy serves as a critical determinant of effective investment behaviour. The study conclusively demonstrates that enhanced financial literacy empowers investors to manage risk, avoid irrational biases, and engage in systematic and disciplined mutual fund investments. Therefore, strengthening financial education initiatives, investor awareness programs, and transparent communication by financial institutions are essential to improving investment behaviour and promoting sustainable participation in mutual fund markets. By enhancing financial literacy, investors can achieve better financial outcomes, while policymakers and the mutual fund industry can foster long-term market stability and investor confidence.

ACKNOWLEDGMENTS

None.

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