A Conceptual Synthesis of Emotional, Cognitive, and Heuristic Influences in Mutual Fund Investment Decisions

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ABSTRACT

Purpose: This article summarises emotional, cognitive, and heuristic factors on mutual fund investment decision-making that counter traditional beliefs that the investor is a rational decision maker. The model combines various behavioural constructs to determine the influence of the psychological processes on investment intention and actual behaviour.

Design/Methodology/Approach: A conceptual synthesis is developed from an extensive literature review focusing on emotional triggers, cognitive distortions, heuristic shortcuts, and moderating variables, including emotional intelligence, financial literacy, and cultural context. The interdisciplinary behavioural finance literature has been used to develop insights for an integrated conceptual model.

Results: The analysis shows that fear, regret, greed, and overconfidence significantly impact investor perceptions and decision-making tendencies. These emotional drives engage cognitive biases, such as anchoring, representativeness, loss aversion, and cognitive dissonance, which distort information processing. In conditions of uncertainty and mental overload, investors turn more to heuristics, including, but not limited to, herding, familiarity, and recognition-based decisions. Other moderating effects of emotional intelligence, financial literacy, and socio-cultural factors are also emphasised in the model and can moderate or enhance behavioural distortions. All these together contribute to significant non-rational decision-making by mutual fund consumers.

Originality/Value: The paper introduces a coherent behaviour framework that combines emotional, cognitive, and heuristic effects, along with the essential modulator variables. It provides research propositions for empirical testing. Also, it leads to practical implications for investors, advisors, and policymakers interested in improving the quality of their decisions and minimising biases in their behaviour.

KEYWORDS

Anchoring, Behavioral Finance, Cognitive Biases, Emotional Intelligence, Heuristics, Investment Decision-Making, Mutual Funds, Regret Aversion

1 1. INTRODUCTION

1.1   Background of Mutual Fund Decision-Making

Among retail investors, mutual funds have been the preferred choice due to diversification, professional management, and accessibility. The traditional financial models assumed that investors make rational decisions when deciding to invest in mutual funds and objectively evaluate trade-offs between risk and reward, as well as market indicators. However, the growing body of evidence demonstrates that the mutual fund investors model is not frequently correlated with the rational one (Shah et al., 2017; Goetzmann & Peles, 1997). The investors will tend to make decisions based on emotions and personal impressions, and to use simplified mental shortcuts rather

than basing their decisions on analytical appraisals. The evidence for the role of emotions, cognitive biases, and heuristic tendencies in influencing the intention to invest and actual behaviour in investment decision-making is rather strong (Sourirajan & Perumandla, 2022; Vishnani et al., 2024; Noch & Rumasukun, 2024).

1.2   Applicability of Behavioral Factors to Investment of Mutual Funds

One of the key determinants of mutual fund performance is behaviour. Some of the emotional factors that may affect risk, past performance, and future return expectations processing among investors are fear, regret, greed, and overconfidence (Verma et al., 2025; Joseph, 2024). The regret projected, e.g., will deny investors an opportunity to switch funds even when they are not performing well (Sourirajan & Perumandla, 2022). When they become terrified of investing in high-risk assets, market volatility prompts investors to pull out at the wrong time, and greed prompts them to invest more in highly risky assets in the aftermath of short-term returns (Vishnani et al., 2024).

Information-processing biases such as anchoring, representativeness, loss aversion, and cognitive dissonance will distort objective analysis of fund options (Sharanraj & Chatni, 2024; Chadha, 2024). Herding, familiarity, recognition, and other decision-making shortcuts simplify the decision-making process but bring in systematic errors, especially when there is ambiguous or large amounts of information (Jain et al., 2023; Lavin et al., 2019). The Consensus review claims that emotional, cognitive, and heuristics biases explain a large percentage of the variance in investment decisions and frequently surpass 60% (Verma et al., 2025; Sharanraj & Chatni, 2024). Moreover, the moderating variables, such as emotional intelligence, financial literacy, and cultural orientation, are also important in explaining the level of behavioral bias (Annapurna & Basri, 2024; Khan et al., 2025; Noch & Rumasukun, 2024). More financially literate investors show better analytical processing, and more emotionally intelligent investors are better at controlling their emotions and making less biased decisions.

1.3   Research Gaps as defined in the Literature

Despite strong evidence, several gaps remain. First, the literature on the effects of emotional, cognitive, and heuristic variables is rather comprehensive, though in practice, few models capture their interactions holistically and dynamically (Verma et al., 2025). Second, they identify the moderating roles of emotional intelligence, financial literacy, and cultural context, but the existing frameworks do not detail these moderators (Annapurna & Basri, 2024; Vishnani et al., 2024). Third, the review indicates a lack of longitudinal, intervention-based studies to determine whether behavioral biases remain stable over time and whether debiasing interventions are effective. Fourth, there is also a lack of research on technological interventions, e.g., AI-based advisory systems, to mitigate bias. However, so far, there is already some evidence that such interventions can improve decision-making (Rehman et al., 2024). Finally, behavioral biases across cultures are also poorly studied, even though the risk that collectivist cultures amplify the impact of heuristics like herding is high (Kartini & Nahda, 2021).

1.4   Contribution and Purpose of the Paper

This paper will fill these gaps by synthesizing emotional, cognitive, and heuristic implications on mutual fund investment decision-makers in the conceptual paper. The paper presents a detailed conceptual model of how emotional stimuli may impact cognitive processes, thereby leading to heuristic decision shortcuts. It also identifies important moderating variables, that is, emotional intelligence, financial literacy, and culture, that establish the magnitude of such behavioral pathways.

The paper has four major contributions:
> **Integration Theoretical:** It brings together the discontinuous research streams into a multidimensional behavioral model.

> **Moderator emphasis:** It presents personal and environmental moderators that influence the behavioral outcomes.
> **Propositional development:** It takes the research propositions to the next stage for future empirical testing.
> **Practical relevance:** It provides information to investors, advisors, and policymakers to develop interventions that reduce behavioral biases and improve investor outcomes.

By synthesizing, this paper contributes to the behavioral finance literature and provides a basis for future studies to examine the psychological intricacy of mutual fund investment decision-making.

2   CONCEPTUAL AND THEORETICAL FOUNDATIONS

2.1   Behavioural Finance Paradigm

There is no doubt that financial markets today deploy methods of finance and thus are largely shaped by financial economics. Behavioural finance questions the assumptions of rationality and utility maximisation in the traditional model. Rather, it accepts that financial decisions are systematically influenced by psychology. Surveys of mutual fund investors demonstrate that emotions, cognitive constraints, and shortcuts influence intentions to invest and actual investment decisions to a great extent (Sourirajan & Perumandla, 2022). Behavioural tendencies are exacerbated by mutual fund settings characterised by complex information, volatile markets, and product diversification. Consequently, investors tend to rely on subjective opinions rather than objective evaluation, and thus fail to act rationally. Regret, fear, and overconfidence are examples of emotional biases; anchoring and representativeness are examples of cognitive biases; and herding and familiarity bias are examples of heuristic biases, all of which affect investor judgments (Verma et al., 2025). Therefore, behavioural finance is a legitimate theory for examining the role of psychological forces in mutual fund decision-making. The paradigm also acknowledges that the investor's tendencies, such as emotional intelligence, cultural background, and financial literacy, moderate the extent of bias enhancement or reduction (Arora & Kumari, 2023). This reaffirms the need for a multidimensional approach to behavioural impacts rather than a purely rational one in investment decisions.

2.2   Dual-Process Theory

The dual-process theory provides a framework for understanding the decisions people make as investors, based on two cognitive systems. System is fast, fast, and emotional, whereas System is slow, considerate, and calculative (Kahneman, 2011). System is most common in decision-making about mutual funds, as investment choices are often uncertain and time-bound. The emotional excitement, whether fear of a falling market or potential regrets in a volatile atmosphere, is fast and makes an investor ready to invest or pull out (Sourirajan & Perumandla, 2022). It is also possible that system one processing leads investors to use heuristics, including herding and recognition biases, when presented with too many funds to choose from. Meanwhile, System entails deliberate work and increased analysis of information, but most retail investors lack the skill and desire to analyse the data. As a result, cognitive biases, such as anchoring and loss aversion, are realised even though the investors are expected to evaluate them logically (Verma et al., 2025). Dual-process theory allows understanding why predictable biases occur among investors, even when they are presented with information or advice. It restates that human judgment, where emotional and heuristics-based judgments are not exceptions but rather a normal part of it, especially in monetary contexts.

2.3   Psychological basis of Emotions, Cognition, and Heuristics

The psychological foundation of investor behaviour provides insight into how emotions, cognition, and heuristics interact to shape financial decisions. The focus is on emotions, and factors such as anticipated regret, loss, fear, and overconfidence are taken into account to shape intentions and behaviours. The studies show that emotional

intelligence would help balance such effects, as it allows investors to regulate their responses and make more stable decisions (Arora & Kumari, 2023).

The cognitive processes, in turn, impact the interpretation and analysis of information by the investors. People with low levels of rationality employ mental shortcuts to handle complex financial data. It results in mental biases, including representativeness, cognitive dissonance, and anchoring bias, that are important in making mutual fund decisions (Verma et al., 2025). Investors also interpret new information based on their existing beliefs or the latest market trends, thereby creating a less objective evaluation.

Heuristics are used when information overload or uncertainty is presented to investors. Mutual fund cases are characterised by herding, familiarity bias, and status quo bias. Such shortcuts conserve cognitive resources, but in many cases, they have led to poor decisions. The literature states that cultural elements, financial literacy, and social norms can be significant in determining how much investors use heuristics (Sourirajan & Perumandla, 2022).

All these psychological factors are combined as a reminder that investors' behaviour is not entirely rational but is rooted in emotional and cognitive systems.

The conceptual synthesis is justified by the historical background and by the fact that we operate in a distinctive time period marked by numerous social and economic challenges.

2.4   Reason to synthesise Conceptually

The historical background and the fact that we are working in a unique time period marked by many social and economic challenges provide a reason to synthesise the concept. Despite previous studies on the emotional, cognitive, and heuristic effects of motivation on employees, the current literature identifies a significant gap in translating these realms into a coherent conceptual framework. The existing literature tends to focus on a single type of bias at a time and does not specify the dynamics of their interaction. In the literature, it is also stated that the moderating variables need more profound studies, including emotional intelligence, financial literacy, and cultural context, which may support or undermine behavioural distortions (Verma et al., 2025). There are several reasons why a conceptual synthesis is justified. To begin with, the decision-making process of investors is multidimensional, which presupposes the need for a model that accounts not only for emotional triggers and cognitive evaluation but also for heuristic shortcuts. Secondly, the combination of these determinants helps explain the role of emotions in cognitive processing, thereby affecting reliance on heuristics. Third, a holistic model will enable better predictions of investor behaviour, thereby addressing the lack of integration in the existing literature. Lastly, a synthesised model has practical usefulness because it informs financial educators, advisors, and policymakers on how to structure interventions to enhance investment decision-making through debiasing interventions, emotional regulation training, and literacy interventions. In this way, the integrated emotional, cognitive, and heuristic effects play an important role in the development of behavioural finance and provide a well-grounded basis for the conceptual framework developed in this paper.

3 MUTUAL FUND INVESTMENT DECISION MAKING UNDER EMOTIONS

3.1   Regret, Fear, and Greed

Regret, fear, and greed are some emotions that play a major role in the decision-making process of mutual fund investors. Regret, especially future regret, affects investors before they make decisions, leading them to shun decisions they may later realise were errors. Even financially rational choices may cause investors to fail to switch funds or diversify their portfolios because they fear regretting a possible loss. Projected remorse consequently compromises investment flexibility and adds to decision paralysis (Sourirajan & Perumandla, 2022).

The role of fear is even more dominant in times of market volatility. When markets go bad, the sensitivity to losses increases, and people withdraw due to panic or reluctance to invest more. Long-term risk is a common pitfall that may lead investors to make decisions that run counter to long-term wealth-building rules during temporary volatility. Fear reactions are complemented by emotional distress associated with financial loss, which strengthens loss aversion and risk avoidance (Verma et al., 2025).

Greed is a stabilising feeling, yet may be destabilising; as such, investors aiming to achieve higher returns without a detailed examination of the risks do so at their own risk. It might be greed that drives the urge to transfer money as fast as possible or even add more money to trending funds. The side effects of this money-grabbing might lead to dangers being overestimated, particularly when investors view short-term market gains as a proxy for long-term results. Fear and greed are the two emotional drivers of financial markets, and when combined, they can significantly alter investor behaviour, affecting mutual fund selection.

3.2 Habitual Emotional Responses

Beyond the extreme emotional reactions, there are less obvious habitual emotional reactions that guide investor behaviour. Habit-based judgments are based on repetitive habits and emotional familiarity with well-known fund houses, the historical performance of certain investments, or established portfolio models. Investors often use these emotional associations because they simplify decision-making, thereby minimizing the cognitive burden of choosing new alternatives. The presence of a habitual behaviour leads investors to stay in the status quo despite having a superior-performing fund, an example of the close connection between emotional comfort and investment stability (Sourirajan & Perumandla, 2022). Such automatic reactions are found in regular investment habits, such as monthly SIP (Systematic Investment Plan) contributions, which are driven by emotional comfort and automaticity rather than active assessment. Although habits help with consistency, they can make it harder to change when financial goals change. Habitual investing is a stabilising and limiting emotional process.

3.3 Intelligence as a Moderator

Emotional intelligence (EI) is a crucial moderating factor because it shapes the influence of emotions, particularly on mutual fund investment decisions. EI means that feelings are subject to feeling, understanding, managing, and determining. It has been shown that more emotionally intelligent investors are less prone to fear or overconfidence and more likely to follow their impulses. They can also more effectively sense emotional stimuli, manage stress, and demonstrate discipline in the face of changes in market conditions (Arora & Kumari, 2023). An increased level of EI will help investors manage their emotional desires more judiciously, with more rational factors, and, in general, reduce their vulnerability to emotive biases. Indicatively, investors with emotional intelligence can understand the fear of a falling market and adopt long-term investment strategies. Equally, EI serves as a cushion against overconfidence, helping individuals accurately assess their capabilities and avoid overtrading or taking unnecessary risks. This is the regulatory EI that performs, and consequently, investor behaviour becomes less volatile, and finally, financial performance improves. In addition, emotional intelligence enhances tolerance and satisfaction with the decision. With this, the strong EI investors will be well positioned to absorb short-term losses or market uncertainty and invest even in unfavourable circumstances. So, EI appears to act as a psychological buffer, alleviating the negative impact of emotional biases and leading to more stable investment behaviour.

3.4 Intention to Behaviour vs. Intention to Link

Emotions are important in shaping the intention to invest and the actual investment behaviour, but they need not be the same. Research has revealed that regret and fear are emotional stimuli that influence investment intentions on perceptions of risk and investment expectations (Sourirajan & Perumandla, 2022). However, practical behaviours are often dictated by immediate emotional reaction, habits, and setting. This is an intention-behaviour gap that explains how investors can be rationally oriented in their thinking and yet behave emotionally. For

example, an investor might have planned to allocate more funds to mutual funds in line with long-term objectives but end up failing to do so due to immediate panic over market news. On the other hand, greed can cause an investor to do the opposite of what he claims, leading him to invest in risky funds. Emotional intelligence once again has a mediating role in enhancing the congruence between intention and action. Overall, emotions act as antecedents and as interferers with investment actions. This is because knowing the avenues through which emotions influence intention and behaviour will enable the creation of interventions that enhance consistent decision-making.

4 THE COGNITIVE BIASES THAT DRIVE INVESTMENT DECISIONS

4.1   Anchoring and Adjustment Bias

The anchoring-and-adjusting bias occurs when an approximation of an unknown value and probability distribution is made using a fixed point. The first is anchoring bias: the tendency of investors to attach disproportionate importance to early information, such as a fund's past performance, NAV level, or market direction, when making investment decisions. Mutual fund investors tend to anchor on past returns, believing that their last performance will persist, even though markets are volatile and unpredictable. This reliance on first anchors results in poor adaptation when new information is provided. For example, an investor may be willing to continue with a fund, even if historical returns have been good, even though current indicators are negative (Verma et al., 2025). The complexity of the evaluation can maintain the anchoring effect and be reduced to help investors avoid cognitive overload. Anchoring can also influence risk assessment, leading investors to underestimate risk in emerging markets when their initial impression of an investment fund is very positive. On the other hand, money that is initially viewed negatively could be unjustly discounted after improvements. This is a loop in which investment decisions are based on outdated reference points rather than objective, up-to-date evaluations (Sourirajan & Perumandla, 2022).

4.2   Representation and Heuristic classification

Representativeness bias is the tendency to draw conclusions based on shallow similarity or very recent trends rather than statistical data. Given this bias, investors may believe that a fund has recently experienced a surge in performance and will continue to perform well, merely because it resembles a winning pattern. Likewise, they can categorise funds by labels such as blue-chip or aggressive growth, where it is presumed that these two labels are likely to deliver performance results. Representativeness can lead to misinterpretation of market signals. In particular, investors can draw unwarranted conclusions about long-term patterns from short-term changes, leading to a premature switchover to a new fund or to taking on greater risk (Verma et al., 2025). Since most mutual fund markets are noisy and unpredictable, representativeness bias may lead to misleading long-term strategies and investor expectations.

This bias is common among investors who are less trained in analysis and rely more on categorization and intuition than on a scientific basis. According to the literature, one factor contributing to poor fund choice and high turnover among retail investors is representativeness.

4.3   Loss Aversion and Emotional-Cognitive Interactions

Loss aversion is one of the most essential concepts of prospect theory, which holds that a loss evokes stronger emotional reactions in investors than an equal gain. Loss aversion affects mutual fund decisions by encouraging excessive conservatism in investment during a recession and by disincentivizing the necessary adjustments due to fear of losses. Loss aversion is closely linked to emotional stimuli: fear and regret are generated by cognitive risk analysis, which creates resistance to behavioural change. Investors can hold underperforming funds longer than necessary in the hope of breaking even, or they can avoid committing capital to high-risk funds that align well with long-term objectives (Sourirajan & Perumandla, 2022). This communication presents the interaction

between cognitive bias and emotional influence, which support each other and have a significant impact on intention and behaviour. Expectations are also shaped by loss aversion; such expectations are better realised by losses than by gains, and therefore investors overweight bad news and underweight good prospects. Consequently, there is a reduction in risk-taking behaviour, and the portfolios turn out to be more conservative than they should be.

4.4   Cognitive Dissonance and Selective Processing of Information

Cognitive dissonance occurs when investors experience a discrepancy between their intentions and the performance of their funds. They can also selectively interpret information to minimise psychological discomfort by seeking information that would affirm their current decision and ignoring any contradictory information. The example of a highly confident investor in a certain fund manager, overlooking signs of poor performance to remain emotionally and cognitively consistent, can be used (Arora & Kumari, 2023). This bias prevents the correctional action from taking place, as it prevents investors from making objective judgments. Cognitive dissonance can also contribute to overconfidence, leading investors to be stubborn enough to hold on to their initial decisions, even when they have evidence that contradicts them. The adaptive capacity and portfolio maximisation are compromised in the case of mutual funds, where continuous evaluation is required, by the dissonance-based selective information processing.

4.5   Information-Processing Limitations and Bounded Rationality

Mutual fund decision-making involves substantial data, including fund type, risk, past performance, fund managers' reputations, and macroeconomic data. Limited rationality prevents investors from accessing all available information, leading them to use cognitive shortcuts. Anchoring, representativeness, and overconfidence are some of the biases caused by poor information-processing ability (Sourirajan & Perumandla, 2022). With too many choices to make, investors risk making no decisions or basing them on the easiest clues they have, e.g., brand recognition or friend recommendations. Such a reliance on distilled information is more likely to succumb to cognitive biases and less precise financial decision-making. In addition to misinterpreting the information, bounded rationality leads to some misperception- investors may focus on the short-term trend or fail to observe the complex risk indicators. These limits underscore the inertial nature of cognitive biases, which cannot be changed without active effort.

4.6   General Implications of the Decision of a Mutual Fund

The cognitive bias not only affects the intention to invest but also investment behaviour, leading to a discrepancy between strategizing and decision-making. The use of cognitive distortions will act as an obstacle to the action plan, even though the investor might be ready to diversify, rebalance, or pursue long-term strategies. Three of them are especially strong and anchor, representativeness, and loss aversion, which influence perceptions of risk and misjudge expectations (Verma et al., 2025). Such biases need to be identified to gain a deeper understanding of how to design behavioural interventions and more effective financial literacy programmes. Having a better understanding of how cognitive frameworks play out in mutual fund decision-making, researchers and practitioners will be able to design more effective decision-support systems that help investors make more rational and useful decisions.

5   HEURISTIC BIASES IN MUTUAL FUND INVESTMENT BEHAVIOR

5.1   Herding Behavior

Herding is one of the most frequently reported heuristic behaviours in mutual fund investing. It is a symptom of investors being inclined to do what others do rather than form their own conclusions. Herding in a world of uncertainty has the emotional benefit of allowing individuals to make a decision consistent with perceived group

wisdom. The heuristic is especially prevalent among the retail investors who perceive the actions of their colleagues, relatives, or the crowd in the marketplace as being reliable (Sourirajan & Perumandla, 2022).

Mutual fund flows may lead to severe distortions through herding. For example, when a certain sum gains popularity due to short-term performance, the resulting herd effect can render the fund's performance precarious. Conversely, during low periods, withdrawals concentrate, making markets volatile. Herding, therefore, undermines rational decision-making and exaggerates market cycles. It has also been found that herding is propelled by cultural forces, i.e., collectivist orientation, which promotes conformity and dependence on group decisions (Verma et al., 2025).

5.2   Recognition and familiarity Heuristics

The familiarity heuristic leads investors to make investments based on familiarity with the options, even when objective performance measures are used. Money provided by household-name asset management firms or those typically advertised is frequently selected because it appears less risky than other types. Such reliance on familiarity reduces cognitive load, whereas constraining the search to potentially more suitable or better-performing investment options.

Closely related to it is the recognition heuristic, in which investors assume that knowing a fund's name indicates it is superior to lesser-known funds. Such bias gives an unjust edge to competition in the mutual fund market to those that are highly visible or have excelled over a long period, even when they are average. Instead of being analytical, familiarity-based choices can be attributed to exposure to a particular brand, high brand presence, or even social recommendation (Sourirajan & Perumandla, 2022). Recognition heuristics also contribute to status quo bias, leading investors to remain in familiar funds even as market conditions change. This type of behaviour is a symptom of emotional comfort and a way to avoid unpredictability.

5.3   Status Quo Bias and Default Preferences

Status quo bias refers to the tendency for investors to maintain existing investment habits rather than adopt new ones. This heuristic is driven by emotional comfort, cognitive inertia, and a desire to avoid the complexity of decision-making. The fact that switching mutual funds is unsafe or difficult also leads investors to keep the same funds year after year. Status quo bias is supported with regret aversion: investors fear making new moves that can turn out to be wrong. This leads to the majority of them remaining in their current portfolios despite the objective evidence that the switch is moving to more successful funds. This can impede diversification, reduce returns, and orient portfolios to evolving financial purposes (Verma et al., 2025). According to the literature, the above-mentioned habitual investing behaviours interact closely with the status quo bias, which strengthens current decisions and prevents adaptive ones.

5.4   Rule-of-Thumb Shortcuts

To a large extent, heuristics may take the form of rule-of-thumb decisions, shortcuts that investors use to deal with complex financial situations. These are options selected solely on their star ratings, the lowest cost and risk without factoring risk in, or even on the simplest diversification rule, such as one fund per category. Although these shortcuts can ease cognitive load, they can compromise decision quality. For example, a strict rating can override valuable factors such as fund managers' consistency, fund composition, and fund volatility. Considering the same, poor decisions can be made simply by focusing on low expense ratios without reviewing a fund's performance and risk. The dominance of rule-of-thumb thinking leads to the notion that investors cannot process vast amounts of financial information and contributes to the notion of limited rationality (Sourirajan & Perumandla, 2022).

5.5   Overall Effects on Investment Decisions

Heuristic biases largely explain intentional and actual behaviour among mutual fund investors. As heuristics may simplify the decision-making process and provide a certain level of psychological satisfaction, they tend to influence investment performance suboptimally by encouraging fast rather than thorough decision-making. Excessive investment in trending funds can result from herding; failure due to familiarity can stem from a lack of investigation into possible alternatives with higher returns; and the status quo can result from failure to alter portfolios toward a more long-term goal.

The sum of these heuristics contributes to the accumulation of the behavioural tendencies in the mutual fund markets. Such tendencies need to be understood to develop investor education programmes, advisory systems, and behavioural interventions that would shift investors towards more rational behaviour. The consequences of the combination of heuristics and cognitive and emotional biases also draw scientists closer to the need to focus more on the interaction of these phenomena, which, in turn, underscores the need for a universal framework of behaviour (Sourirajan & Perumandla, 2022).

6   INTERACTION OF THE AFFECTIVE, COGNITIVE, AND HEURISTIC PROCESSES

6.1   Emotional Triggers Which Determine Cognitive Biases

Emotions are also essential in shaping information processing and the interpretation of market signals by investors. The feelings that lead to cognitive distortions influencing investor decisions include fear, regret, greed, and overconfidence. To explain this, it is with no fear, no aversion to losses, and investors will overestimate the likelihood and results of a poor market performance. The feeling of regret leads to anchoring and the inability to change their minds because investors do not want to realise they made errors. On the other hand, greed and overconfidence strengthen the representativeness bias, leading investors to believe the recent upsurge will persist (Sourirajan & Perumandla, 2022).

These are the emotional triggers that affect the selective information processing. Investors are more likely to strengthen their confirmatory information and ignore countervailing forces when they are experiencing strong emotions, a phenomenon related to cognitive dissonance. As a result, emotions influence thought processes, which create biased attitudes of fund performance, market risk, and investment prospects. This type of dynamics shows that emotional and cognitive processes cannot be considered independently, as emotional processes frequently create or amplify cognitive biases.

6.2   Cognitive Overload and Reliance on Heuristics

An overload of data drives the mutual fund investment process: past returns, risk factors, fund types, managers' methodologies, and macroeconomic factors. Due to limited information-processing capacity, investors tend to experience cognitive overload, particularly those with lower financial literacy or who are novice investors. The limited rationality also prevents them, as it restricts their capacity to conduct a comprehensive analysis, forcing them to use irrational shortcuts such as herding, familiarity, and recognition-based decisions (Verma et al., 2025).

Heuristics are cognitive simplifiers that make the brain work less, but they also have systematic errors. Investors can also be influenced to act like a mob rather than consider alternatives when cognitive capacity is challenged. Equally, familiarity is a default preference when the perceived cost of evaluating a new or unfamiliar fund is high. Such tendencies demonstrate that heuristic dependency is not a simple by-product of laziness or lack of attention, but it is a natural psychological constraint. Decision-making based on heuristics is becoming increasingly common as markets grow more complex, further reinforcing the close connection between cognitive overload and heuristic bias.

6.3   Emotion–Heuristic Reinforcement Cycle

Emotions not only cause cognitive biases but also support heuristic behaviours. Herding can also be increased by emotional reactions, such as fear, in an uncertain or volatile market, where investors may seek comfort in group behaviour. On the same note, overconfidence reinforces the rule-of-thumb approach to decision-making because people feel their intuitive decisions are better than their analytical judgments (Sourirajan & Perumandla, 2022).

Familiarity heuristics also have an emotional foundation: investors are more comfortable with funds they are familiar with and experience less anxiety when investing in unknown funds. Feeling of comfort, therefore, becomes a key motivator of heuristic preference. This way, the interaction between emotions and heuristics is reciprocal: emotions make people increasingly reliant on heuristics, and heuristics confirm judgments that are more influenced by emotions.

This is a cyclical trend, which justifies why investors can make suboptimal decisions despite having better options available to them. The literature has highlighted that these interactions play a critical role in determining actual investment behaviour, which is usually highly influenced by them, rather than cognitive assessments.

6.4   Moderating Effect of the Financial Literacy, Emotional Intelligence, and Culture

Several investor-specific and contextual variables moderate the combination of emotional, cognitive, and heuristic effects. Financial literacy may enhance analytical power by reducing reliance on biased judgment and shortcuts. A group of investors with a decent level of financial literacy can provide a more objective evaluation of fund performance, identify market anomalies, and prevent herd behaviour (Verma et al., 2025).

Emotional Intelligence (EI) is another key moderating variable because it enables investors to recognise and regulate emotional impulses before they interfere with their cognitive functioning. Greater EI will eliminate emotional overreacting, panic selling, and impulse overtrading. The EI also strengthens alignment between the message and the act, allowing investors to stick to a long-term strategy even amid short-term fluctuations in their emotions (Arora & Kumari, 2023).

The combination of influences on behaviour is also predetermined with socio-cultural factors, i.e., collectivist inclinations. An environment with collectivist conditions leads to increased trust in social norms and peer counselling, thus enhancing herding and familiarity biases. Cultural demands also increase emotional expression, risk-taking, conformity pressure, and hence some behaviour patterns are stronger in specific societal environments.

These moderating variables contribute to variation in investor behaviour across demographic, psychological, and cultural groups. They drive home the point that emotional, cognitive, and heuristic effects are not equally perceived but are influenced by other personal and environmental factors.

6.5   Integrated Understanding of Investor Behavior

The interaction of emotional, cognitive, and heuristic factors indicates that mutual funds make multidimensional, dynamic decisions. The factors influencing cognitive bias construction are emotional triggers, cognitive overload, and heuristic support through emotional comfort. These interrelationships in behaviour can be cited as reasons why most investors do not make rational decisions, even when they are supposed to.

This system of integrated behaviour is significant for understanding conceptual models of investor decision-making. It underscores the need for a holistic approach, i.e., one that recognises overlapping influences and accounts for the mutual impact of psychological factors on the intention to invest and investor behaviour.

7   PROPOSED CONCEPTUAL MODEL

7.1   Overview of the Conceptual Model

The conceptual model (Figure 1) proposed integrates emotional, cognitive, and heuristic effects to explain how the intentions of mutual fund investors are formed and translated into actual investment behaviour. Available literature demonstrates that the three dimensions of behaviour do not act in isolation and that a compound framework would offer a more reliable portrayal of investor decision-making (Sourirajan & Perumandla, 2022).

The model ranks emotional variables, including regret, fear, and overconfidence, as the first triggers of investor impressions. These affective inputs influence cognitive decisions and trigger biases, including anchoring, representativeness, and loss aversion. The cognitive distortions, in turn, increase the likelihood of adhering to the heuristics of herding, familiarity, and the status quo bias. The overall impact of these mechanisms of behaviour defines the intention to invest and the actual investment behaviour.
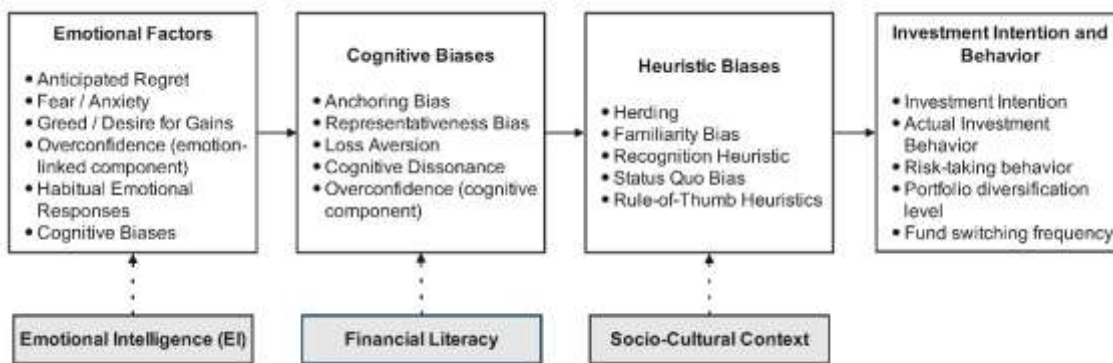

Figure 1: Conceptual Model
Source: Author's contribution based on conceptual understanding

7.2   Key Constructs and Relationships

7.2.1   Affective Influences on Cognitive Biases

Emotions are lower in the model because they motivate the interpretation of information and the perception of risk. The loss aversion is increased by fear, the switching decision is hindered by regret, and anchoring on previous performance is influenced by overconfidence. Such relations indicate recorded emotional-cognitive correlations in the financial part of behaviour (Verma et al., 2025).

7.2.2   Biases in thinking and Heuristics

The model states that there is a growing dependence on heuristic shortcuts when cognitive overload and distorted information processing occur. The herding and familiarity biases trigger a cognitive bias that occurs when people face complexity or uncertainty. This connection aligns with the results that limited rationality contributes to increased use of heuristics (Sourirajan & Perumandla, 2022).

7.2.3   Heuristic Bias to Investment Intention and Behaviour

Investment intentions are based on heuristic-driven decisions and are common in real behaviour. Persistent behaviours are guided by herding, participation as influenced by familiarity, and status quo biases. Heuristics, therefore, serve as the last filter in behaviour that dictates investment results.

7.3   Moderating Variables

The model uses emotional intelligence (EI), financial literacy, and socio-cultural context as mediators. Emotional intelligence reduces the impact of emotional impulses on cognitive bias formation, thereby increasing decision

stability (Arora & Kumari, 2023). Financial literacy also reduces reliance on heuristics to enhance analytical strength, whereas cultural elements, including collectivism, enhance social heuristics, such as herding (Verma et al., 2025). These moderators enable the model to capture variability across groups of investors.

The proposed model can overcome significant gaps in the research literature, particularly the absence of integrated conceptual frameworks and the deficiency in the analysis of moderating factors (Sourirajan & Perumandla, 2022).

The model offers a universal insight into mutual fund decision-making and provides a systematic foundation for empirical evidence, supporting the creation of investor education, advisor strategies, and debiasing interventions.

8   RESEARCH PROPOSITIONS AND FUTURE RESEARCH DIRECTIONS

8.1   Research Propositions

The suggested conceptual model implies that emotional, cognitive, and heuristic variables jointly influence mutual fund investment decisions. Even though these dimensions were examined separately in previous research, there is still a need for combined empirical validation. Based on the synthesised framework and literature, the following research propositions are developed (Table 1).

Table 1: Propositions and Supporting Literature

No	Statement	Supporting Literature
1	Investment intention is directly affected by emotional issues (regret, fear, overconfidence).	Expected regret and affective arousal significantly influence intention formation among mutual fund investors. *(Sourirajan & Perumandla, 2022)*
2	Cognitive biases mediate the association between emotional aspects and heuristic dependence.	Emotional triggers such as fear and regret intensify loss aversion and anchoring, strengthening dependence on heuristics. *(Verma et al., 2025)*
3	Heuristic biases (herding, familiarity, recognition) play a significant role in actual investment behaviour, often contradicting intentions.	Heuristic shortcuts explain substantial behavioural variance and dominate decisions under uncertainty. *(Jain et al., 2023; Sharanraj & Chatni, 2024)*
4	Emotional intelligence acts as an intervening variable in the effect of emotional factors on cognitive and heuristic biases.	EI helps reduce overconfidence and herd behaviour by managing emotional impulses. *(Annapurna & Basri, 2024)*
5	Financial literacy mediates the impact of cognitive biases on reliance on heuristics.	Higher financial literacy enhances analytic reasoning, reducing use of heuristics like familiarity and herding. *(Vishnani et al., 2024)*
6	Socio-cultural background strengthens the link between heuristics and investment behaviour.	Collectivist norms intensify herding tendencies and conformity-driven choices. *(Noch & Rumasukun, 2024)*

Source: Authors compositions

8.2   Future Research Directions

Although behavioural effects on mutual fund decisions are well established, several gaps remain. First, to analyse the progress of emotional, cognitive, and heuristic biases, longitudinal studies should be performed. The literature

is mostly based on cross-sectional data, which does not allow for developing causal conclusions (Sourirajan & Perumandla, 2022).

Secondly, comparative studies in cross-cultural research are underresearched. Given the powerful impact of cultural norms on herding and the expression of emotions, future studies should investigate differences between collectivistic and individualistic societies.

Third, behavioural interventions have become a topic of interest. The effectiveness of interventions such as debiasing training, reflective prompts, or emotional regulation exercises in reducing biases should be tested using sustainable experimental designs. It is even suggested that emotional intelligence and financial literacy programmes could enhance decision-making quality but have not been adequately tested in the context of mutual funds (Annapurna & Basri, 2024; Khan et al., 2025).

Fourth, recent advances in hybridizing AI-based advisory systems with technology create a research opportunity in digital debiasing. The current literature suggests that artificial intelligence may regulate emotional responses and reduce heuristically motivated errors, but this has yet to be empirically proven (Rehman et al., 2024).

Lastly, nonlinear relationships between emotions, cognition, and heuristics should be studied in the future using structural equation modelling (SEM) or hybrid machine-learning models to describe them.

9   IMPLICATIONS AND CONCLUSION

9.1   Theoretical Implications

The integrated model presented in this paper contributes to the theory of behavioural finance by combining emotional, cognitive, and heuristic determinants into a conceptual framework. Whereas these behavioural biases have been investigated separately in the past, the current synthesis demonstrates how emotions cause cognitive distortions, which, in turn, induce shortcuts in decision-making by heuristics (Sourirajan & Perumandla, 2022). This stratified interaction provides a deeper explanation of why mutual fund investors do not make rational decisions. Fear, regret, and other emotions affect cognitive judgments, such as loss aversion and anchoring, which, in turn, impact heuristic behaviour, such as herding or familiarity-based decisions. This connected approach aligns with studies indicating that considerable variation in investment decision-making is driven by behavioural biases, some of which can exceed 60 percent (Sharanraj & Chatni, 2024; Verma et al., 2025). The model also highlights the moderating roles of emotional intelligence, financial literacy, and cultural situation and demands, and increasingly specific behavioural theories based on variations across people and socio-cultural settings (Annapurna & Basri, 2024; Noch & Rumasukun, 2024).

9.2   Practical Implications

In practice, the findings' implications can be useful to investors, financial advisors, and policymakers. Individual investors should also identify emotional triggers and thought distortions to enhance the quality of their decisions. Emotional intelligence training and reflective decision-making tools can help investors overcome fear, avoid impulsive behaviour, and adhere to long-term strategies. The integrated model increases financial advisors' likelihood of diagnosing their clients' behavioural patterns. Advisors can communicate with clients by identifying whether they are making emotion-based, cognitively biased, or heuristic-based choices, and communicate accordingly, reducing their behavioural blind spots and directing their clients to more stable portfolios. Financial institutions and policymakers should also promote effective financial literacy education because it will allow reducing the use of heuristics and improve analytical processing (Vishnani et al., 2024). In the same way, regulators can create disclosure forms that represent complex information, thereby reducing cognitive overload.

The other new intervention avenue is technology. The AI-supported advisory systems, robo-advisors, and nudges also have the potential to reduce emotional and heuristic biases by offering real-time feedback and systematic investment advice. Such tools have preliminary evidence supporting their use to balance the impact of emotional impulses on decision-making (Rehman et al., 2024). However, this evidence needs to be tested further empirically.

9.3   Conclusion

This concept paper shows that the emotional, cognitive, and heuristic forces, when combined, have a significant impact on decision-making in mutual fund investments. Emotional triggers cause cognitive distortions, including anchoring, representativeness, and loss aversion. Motivated by cognitive overload and limited rationality, heuristics, such as familiarity and herding, are more often used. These processes are interdependent, which is why investors are more likely to make irrational decisions, even when they have information and are ready to make rational ones. The synthesis of the dimensions into a single framework addresses one of the most significant deficiencies in the literature: the absence of theory. It provides grounds for conducting additional empirical research (Sourirajan & Perumandla, 2022). Finally, investor behaviour will need to be enhanced through greater emotional intelligence and financial literacy, and digital tools will be required to create a more efficient market with mutual funds. The knowledge contained in this synthesis will provide improved insight into behavioural finance and open new avenues for research, practice, and policy.

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