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A Study of Behavioral Biases in Mutual Fund Investment Decision Among Investors in Amravati City

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Abstract

The study explores the role of psychological and cognitive factors in shaping investor behavior. The primary objectives of the study are to identify the key behavioral biases influencing mutual fund investors, evaluate their impact on investment decisions and portfolio performance, and examine their association with demographic variables such as age, education, and income. A descriptive research design was adopted, and primary data was collected from 100 investors through a structured questionnaire. The collected data was analyzed using descriptive statistical tools such as percentages, averages, and frequency distributions. The findings indicate that biases such as overconfidence, herding behavior, loss aversion, anchoring, and recency effect significantly influence investment choices, risk perception, and timing decisions. The study concludes that improving investor awareness and financial literacy can help minimize irrational decision-making and enhance overall investment performance. Furthermore, the study emphasizes the importance of incorporating behavioral insights into financial planning strategies. It also suggests that investor training and awareness programs can reduce the adverse effects of biases. The findings highlight the need for better advisory services to support rational investment decisions.

Keywords: Behavioral Finance, Mutual Funds, Investor Behavior, Behavioral Biases, Investment Decision-Making, Financial Literacy, Investment Awareness.

1. Introduction :-

The mutual fund industry in India has witnessed substantial growth over the past two decades, driven by increasing financial awareness, expanding investment opportunities, and supportive regulatory frameworks. The Securities and Exchange Board of India (SEBI) has played a crucial role in ensuring transparency, investor protection, and the efficient functioning of the industry. As a result, mutual funds have emerged as one of the most preferred investment avenues among retail investors. The availability of diverse schemes, such as equity, debt, hybrid, index, and sectoral funds, enables investors to select investment options based on their financial goals, risk tolerance, and time horizon. A mutual fund is a pooled investment vehicle that collects funds from multiple investors and invests them in a diversified portfolio of financial instruments, including equities, bonds, and government securities. Managed by professional fund managers, mutual funds offer benefits such as diversification, liquidity, convenience, and

professional expertise. These features make them particularly attractive to individual investors who may lack the time or knowledge required for direct market participation. With the rise of digital platforms and initiatives such as "Mutual Funds Sahi Hai," investor participation has significantly increased, especially among young and salaried individuals.

Investment decision-making is a critical component of personal financial planning, involving the allocation of financial resources across various investment avenues to achieve long-term objectives. Traditional financial theories assume that investors act rationally, making decisions based on logical evaluation of risk and return. However, real-world observations suggest that investor behavior often deviates from rationality due to psychological and emotional influences. Factors such as market uncertainty, limited information, and individual perceptions frequently impact investment choices.

In this context, behavioral finance has emerged as an important field of study that integrates psychology and economics to explain investor behavior. It highlights how cognitive biases and emotional factors influence financial decision-making processes. Investors often rely on heuristics and personal beliefs, which can lead to systematic errors in judgment. Common behavioral biases such as overconfidence, herding behavior, loss aversion, anchoring, and recency effect significantly affect investment decisions, including fund selection, timing, and portfolio diversification.

Despite the availability of financial information and analytical tools, these behavioral biases can result in suboptimal investment outcomes and reduced portfolio performance. Therefore, understanding the role of behavioral factors in mutual fund investment decisions has become increasingly important. This study aims to examine the impact of behavioral biases on investors in Amravati City and provide insights into how psychological factors shape their investment behavior.

2. Definition of the Problem

Mutual funds provide professional management and diversification, making them a popular investment option for individual investors. By pooling funds from multiple investors and investing in a diversified portfolio of securities such as stocks and bonds, mutual funds help reduce risk while offering opportunities for stable returns. Professional fund managers, equipped with financial expertise, make investment decisions on behalf of investors. This enables individuals with limited knowledge of financial markets to participate in investment activities. Despite these advantages, investment decisions are not always completely rational, as investors may not fully rely on objective financial analysis.

Behavioral biases play a significant role in influencing the decision-making process of investors. Investors are often guided by emotions, personal beliefs, and social influences rather than logical reasoning. In Amravati City, many investors tend to depend on limited or easily accessible information instead of conducting detailed analysis of mutual fund schemes. They frequently rely on recommendations from friends, colleagues, or social media platforms when making investment choices. Such behavior reduces the quality of decision-making and increases susceptibility to various behavioral biases, including overconfidence, herding, and loss aversion.

As a result of these psychological influences, investors may make decisions that do not align with their financial objectives. This can lead to lower returns, improper timing of investments, and poor portfolio diversification. Inefficient decision-making may also increase the level of risk in investment portfolios. Therefore, it becomes essential to examine the impact of behavioral biases on mutual fund investment decisions among investors in Amravati City. A better understanding of these behavioral factors can help improve investor awareness, promote rational decision-making, and enhance overall investment performance.

3. Review of Literature

Warren Bailey, Alok Kumar, and David Ng (2010) studied behavioral biases among mutual fund investors and found that biases such as overconfidence, attention, and familiarity significantly influence investment decisions. Their research showed that investors often engage in excessive trading and poor fund selection due to these biases. Trend-chasing behavior was driven more by psychological factors than rational analysis. The study also classified investors into different behavioral types. Overall, behavioral biases were found to reduce investment performance and efficiency. Satish K. Mittal (2015) developed a theoretical framework to identify key behavioral biases affecting investment decisions. The study reviewed five decades of behavioral finance literature to understand investor behavior. It identified major biases that lead to irrational financial decisions. The research highlighted the lack of studies in developing countries like India. It also provided a strong foundation for future research in behavioral finance. Mehtab and Nagaraj (2017) examined the influence of behavioral factors on mutual fund investors in Bangalore. Their study focused on how attitudes, perceptions, and behavior impact investment decisions. Using factor analysis, they identified key psychological factors affecting investment patterns. The findings showed that investor psychology plays a significant role in financial decisions. The study emphasized improving awareness to enhance investment performance. Madaan and Singh (2019) analyzed the impact of behavioral biases on investment decisions in the stock market. The study identified overconfidence, anchoring, herding, and disposition effect as major influencing factors. Results showed that overconfidence and herding significantly affect investor choices. Many investors were found to have limited financial knowledge. The study suggested that understanding these biases can improve decision-making. Banerji, Kundu, and Alam (2020) studied the role of behavioral biases among Gen Z investors. The research highlighted the influence of social media and financial influencers on investment decisions. It categorized biases into different types such as aversion and mental accounting. The findings showed that digital platforms amplify behavioral biases. The study recommended improving digital literacy and regulating financial influencers. Khan and Kotishwar (2014) analyzed investor perception towards mutual funds in Telangana. The study found that demographic factors like age, education, and income influence investment decisions. It also identified factors such as returns, fees, and fund security affecting investor preferences. The research highlighted the importance of mutual funds as investment tools. It provided useful insights for policymakers and fund managers. Neha Verma (2016) examined the role of behavioral biases in investment decision-making. The study identified biases such as loss aversion, overconfidence, and familiarity bias. It found that these biases lead to irrational and inaccurate financial decisions. The research emphasized the importance of understanding investor psychology. It suggested financial education as a way to reduce the impact of biases. Sugandha Sharma and Shilpi Khandelwal (2025) studied the impact of cognitive biases on mutual fund investment decisions. The research identified biases such as overconfidence, disposition effect, loss aversion, and herding behavior. It showed that these biases significantly influence investment patterns and performance. The study also analyzed different types of herding behavior. It emphasized the need for awareness to improve investment decision quality. Sadhna Bagchi, Dewasish Mukherjee, Debasis Mohanty, and Anju Verma (2025) examined the influence of behavioral biases on mutual fund investment decisions. The study identified biases such as anchoring, herding, framing, and representativeness. Using statistical tools like regression and ANOVA, it found that these biases significantly affect investor choices.

4. Objectives of the Study

The study focuses on achieving the following objectives.

- To analyze the various behavioral biases in mutual fund investment decision.
- To examine the awareness of various behavioral biases among investor in Amravati.
- To study the effect of behavioral biases on mutual fund investment decision.

5. Research Hypotheses

The study formulated hypotheses to examine the level of awareness of behavioral biases among mutual fund investors and their influence on investment decisions. It focused on understanding whether investors recognize psychological factors affecting their choices. The analysis explored the relationship between awareness and decision-making behavior. The findings provided insights into how behavioral biases impact mutual fund investment patterns.

H_{01}: There is no awareness of behaviour biases among investors in Amravati city.
H_{02}: There is no significant effect of awareness of behavioural biases on mutual fund investment decision.

6. Research Methodology

The study adopted a descriptive research design to examine the influence of behavioral biases on mutual fund investment decisions among investors in Amravati City. The universe consisted of all mutual fund investors, while the target population included active investors regularly participating in such investments. The sampling unit comprised individual investors, and the sampling frame was prepared using lists obtained from share broking firms. A sample size of 100 respondents was selected to represent the population effectively. The study employed a simple random sampling technique to ensure equal selection opportunity and minimize bias. Primary data were collected through a structured questionnaire focusing on investment behaviour and awareness of biases. Secondary data were gathered from journals, research papers, websites, and other reliable sources. The collected data were analyzed using descriptive statistical tools such as percentages and frequency distributions. Tables, charts, and graphs were used for clear presentation of the findings. This approach helped in deriving meaningful conclusions regarding investor behaviour.

Limitations of the study:

The limitations of the study were as follows:

- The study was limited to the city of Amravati only.
- The study was limited to one year only.
- The study was limited to mutual fund investors only.

7. Analysis And Interpretation of Data

Demographic Profile (N = 100)

7.1 Analysis of Demographic Profile of Respondents

Category	Subgroup	Percentage %
Gender	Male	73
	Female	27
Age Group	Below 25 yrs	26
	26 yrs – 35 yrs	41
	36 yrs – 45 yrs	26
	46 yrs – 55 yrs	07
	Above 56 yrs	00

Educational Qualification	Undergraduate	17
	Graduate/Diploma	45
	Postgraduate	27
	Professional	11

(Source: Primary Data)

Interpretation:

The table presents the demographic profile of mutual fund investors in Amravati City based on gender, age, and education. A majority of respondents are male (73%), indicating higher male participation in investments. The age distribution shows that most investors (41%) belong to the 26–35 years group, reflecting active involvement of young adults. Equal representation is seen in below 25 and 36–45 age groups (26% each), while very few fall in the 46–55 category (7%). In terms of education, most investors are graduates or diploma holders (45%), followed by postgraduates (27%). This indicates that a relatively educated population is more inclined towards mutual fund investments**.**

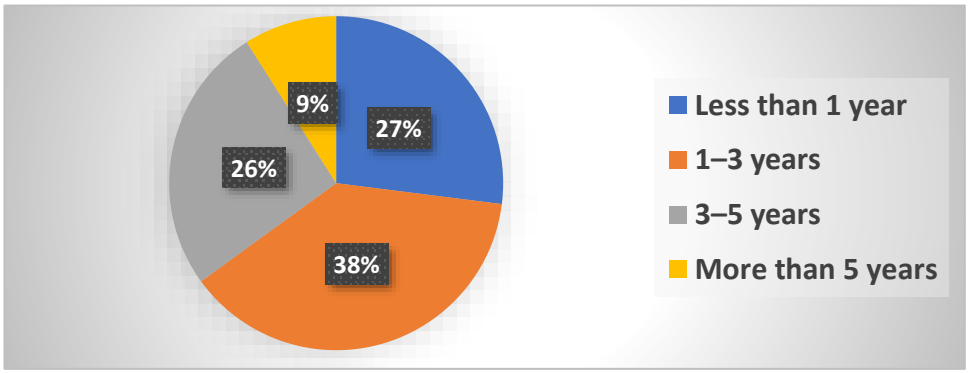
7.2 Analysis of investment experience wise classification of the respondents

Table 7.2 Classification of Respondents by Investment Experience

Investment Experience	No. of Respondents	Percentage (%)
Less than 1 year	27	27
1–3 years	38	38
3–5 years	26	26
More than 5 years	09	09
Total	**100**	**100**

(Source: Primary Data)

Graph 7.2 Classification of Respondents by Investment Experience



(Source: Primary Data)

Interpretation:

From the collected data analysis, the study found that 38% of respondents have 1–3 years of investment experience, forming the largest group. This is followed by 27% with less than 1 year, 26% with 3–5 years, and only 9% having more than 5 years of experience. This indicates that most investors are relatively less experienced. Limited experience may increase the influence of behavioral biases in investment decisions.

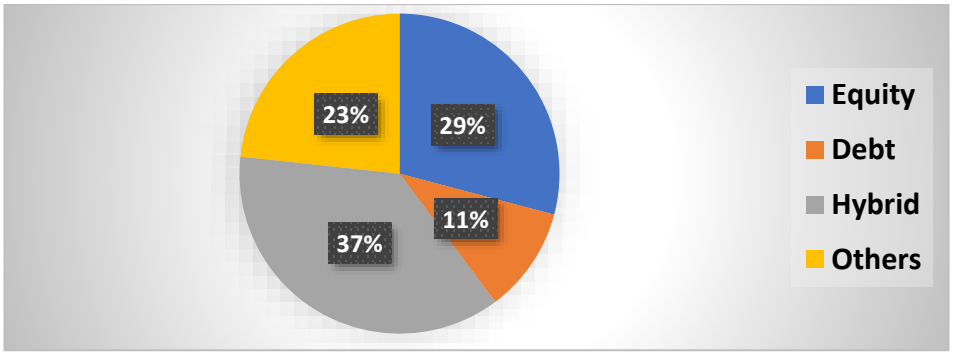
7.3 Analysis of preferred type of mutual funds wise classification of the respondents

Table 7.3 Preferred type of mutual funds wise classification of the respondents

Mutual Funds Types	No. of Respondents	Percentage (%)
Equity	30	29
Debt	11	11
Hybrid	38	37
Others	24	23
Total	**103**	**100**

(Source: Primary Data)

Graph 7.3 Preferred type of mutual funds wise classification of the respondents



(Source: Primary Data)

Interpretation:

From the above data analysis, the study found that 37% of respondents prefer hybrid mutual funds, making it the most popular choice. This is followed by 29% who invest in equity funds, 23% in other types, and 11% in debt funds. This indicates that investors prefer a balanced approach between risk and return. Fund type selection may also be influenced by behavioral biases such as risk perception and overconfidence.

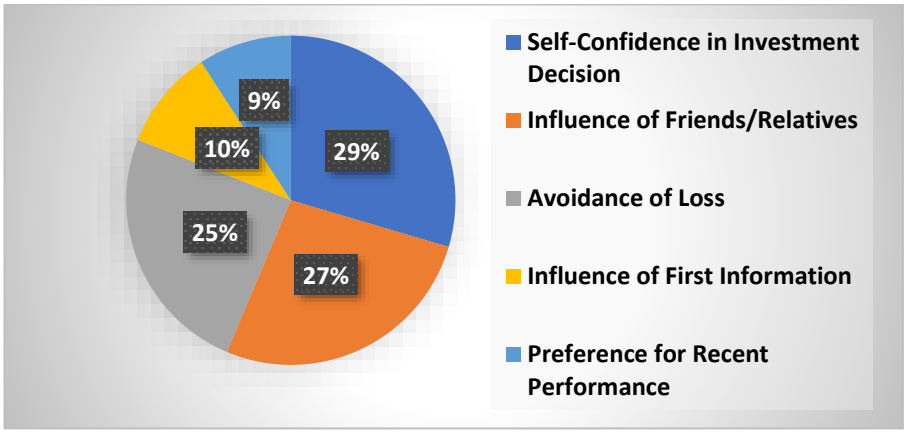
7.4 Analysis of factors considered for choosing mutual fund investment decision wise classification of the respondents

Table 7.4 Classification of factors considered for choosing mutual fund investment decision of the respondents

Behavioral Bias Factor	No. of Respondents	Percentage (%)
Self-Confidence in Investment Decision	42	29
Influence of Friends/Relatives	38	27
Avoidance of Loss	35	25
Influence of First Information	14	10
Preference for Recent Performance	13	09
Total	**142**	**100**

(Source: Primary Data)

Graph 7.4 Graph showing factors considered for choosing mutual fund investment decision wise classification of the respondents



(Source: Primary Data)

Interpretation:

From the above data analysis, the study found that 29% of respondents are influenced by self-confidence, followed by 27% affected by friends or relatives and 25% by loss avoidance. Initial information and recent performance influenced 10% and 9% of investors, respectively. This shows that overconfidence, social influence, and risk perception significantly affect investment behavior.

7.5 Analysis of impact of behavioral biases on mutual fund investment returns wise classification of the respondents

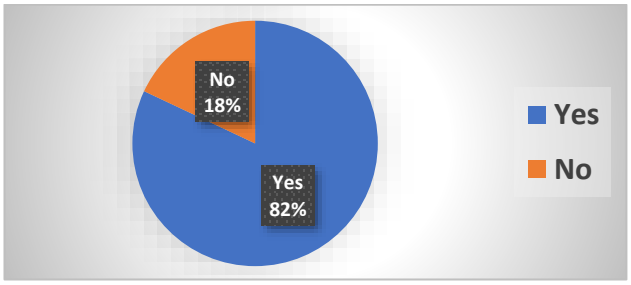
Table 7.5 Classification of Respondents by Impact of Behavioral Biases on Mutual Fund Investment Returns

Impact on Investment Returns	No. of Respondents	Percentage (%)

Yes	82	82
No	18	18
Total	**100**	**100**

(Source: Primary Data)

Graph 7.5 Classification of Respondents by Impact of Behavioral Biases on Mutual Fund Investment Returns



(Source: Primary Data)

Interpretation:

The study found that 82% of respondents believe behavioral biases affect their mutual fund investment returns, while 18% do not. This shows that most investors recognize the influence of psychological factors on their financial outcomes. It highlights the significant role of behavioral biases in shaping investment performance and emphasizes the importance of understanding and managing these biases for better investment decisions.

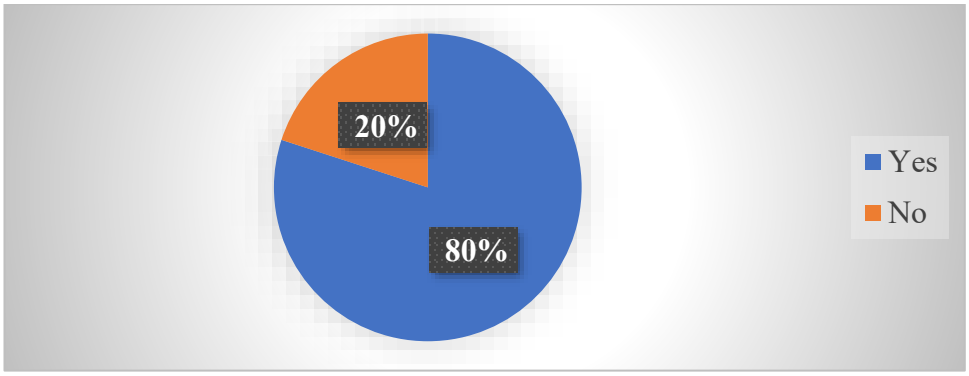
7.6 Analysis of effect of behavioral biases on financial goal planning wise classification of the respondents

Table 7.6 Distribution of Respondents by Effect of Behavioral Biases on Financial Goal Planning

Effect on Financial Goal Planning	No. of Respondents	Percentage (%)
Yes	80	80
No	20	20
Total	**100**	**100**

(Source: Primary Data)

Graph 7.6 Distribution of Respondents by Effect of Behavioral Biases on Financial Goal Planning



(Source: Primary Data)

Interpretation:

The results show that 80% of respondents believe that behavioral biases affect their financial goal planning, while 20% do not perceive such an effect. This indicates that a majority of investors recognize the influence of psychological factors on their financial planning decisions. It highlights the importance of behavioral aspects in setting and achieving financial goals. Therefore, managing these biases is essential for effective financial planning.

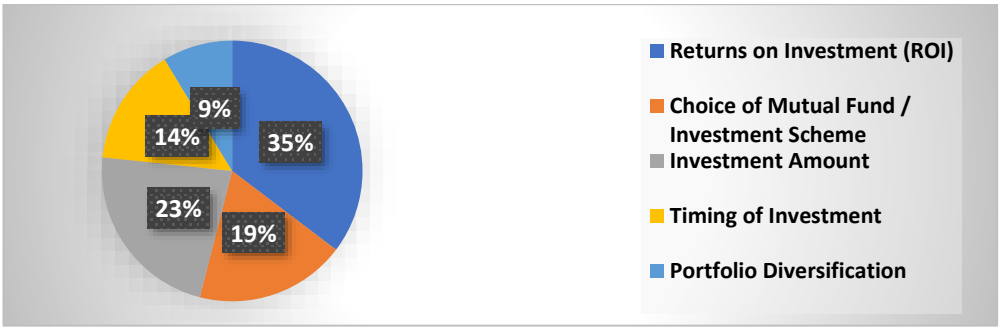
7.7 Analysis of areas of investment affected by behavioral biases wise classification of the respondents

Table 7.7 Table showing areas of investment affected by behavioral biases wise classification of the respondents

Parts of Investment Affected by Behavioral Biases	No. of Respondents	Percentage (%)
Returns on Investment (ROI)	53	35
Choice of Mutual Fund / Investment Scheme	28	19
Investment Amount	34	23
Timing of Investment	22	14
Portfolio Diversification	13	09
Total	**150**	**100**

(Source: Primary Data)

Graph 7.7 Graph showing areas of investment affected by behavioral biases wise classification of the respondents



(Source: Primary Data)

Interpretation:

From the above data analysis, the study found that 35% of respondents reported that behavioral biases affect their returns on investment, making it the most impacted area. This is followed by 23% affected in investment amount, 19% in choice of mutual fund or scheme, 14% in timing of investment, and 9% in portfolio diversification. This indicates that behavioral biases influence multiple aspects of investment decisions, with returns being the most significantly affected.

8. FINDINGS

Following are the key findings of the study:

✓ The study reveals that 73% of respondents are male and 27% are female, indicating higher participation of male investors in mutual fund investments.

✓ It is observed that 41% of respondents belong to the 26–35 age group, followed by 26% each in below 25 and 36–45 groups, while only 7% are in the 46–55 range.

✓ The analysis shows that 45% of respondents have completed graduate or diploma education, 27% are postgraduates, 17% undergraduates, and 11% professionals, indicating a moderate to high level of education among investors.

✓ It is observed that 38% of respondents have 1–3 years of investment experience, 27% have less than 1 year, 26% have 3–5 years, and 9% have more than 5 years, suggesting most investors are relatively new or moderately experienced.

✓ The analysis shows that 42% of respondents rely on self-confidence in decisions, 38% on influence from friends/relatives, 35% on avoidance of loss, 14% on first information, and 13% on recent performance, highlighting common behavioral factors.

✓ of biases on performance.

✓ The analysis shows that 80% of respondents feel that behavioral biases affect their financial goal planning, while 20% do not, highlighting the influence on planning decisions.

✓ It is found that behavioral biases most affect returns on investment (53 respondents), investment amount (34), choice of mutual fund (28), timing (22), and portfolio diversification (13), showing varied areas of impact.

✓ The study reveals that investors' choices, influenced by biases, are reflected across multiple dimensions such as risk preference, social influence, overconfidence, and recency effects, demonstrating the pervasive role of behavioral factors in mutual fund investment decisions.

9. Conclusion

The Study concludes with the following point:

The study concludes that behavioral biases such as self-confidence, social influence, and loss aversion are highly prevalent among investors of mutual funds, with the top three biases accounting for 81%, showing that psychological factors strongly dominate investment decision-making mutual finds. The majority of investors, especially those with 1–5 years of experience (65%), have limited awareness of behavioral biases, making them more prone to irrational investment decisions. The study clearly establishes that behavioral biases have a significant impact on mutual fund investment decisions, as 82% of investors reported an effect on returns and 80% on financial goal planning, mainly influencing ROI, investment amount, and scheme selection.

10. Suggestions

Investors are often influenced by biases such as overconfidence, herding, anchoring, and loss aversion, which affect rational decision-making. These biases lead to reliance on emotions and market trends instead of proper financial analysis. Managing these biases is essential for improving investment outcomes and ensuring disciplined behavior. The study indicates that awareness of behavioral biases among investors is moderate and needs improvement. Many investors rely on informal sources like peers and social media rather than professional guidance. Enhancing financial literacy can help investors recognize and control their psychological biases effectively. Behavioral biases significantly impact investment decisions, particularly in terms of risk perception, timing, and portfolio selection. Investors may make irrational choices, resulting in lower returns and inefficient diversification. Adopting systematic approaches like SIPs and focusing on long-term goals can reduce these effects.

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