Investor Challenges in the Digitalized Retail Investment Market: An Analysis of Influencing Factors

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Peer Review Information	Abstract
	The introduction of digitalization and increased investor financial knowledge have significantly changed the ever-changing retail investing landscape. This study examines how financial literacy and digitization interact to influence the actions and results of retail investors. The study assesses how investors' knowledge levels and digital tools and platforms affect decision-making, risk assessment, and portfolio diversification using empirical data from a sample of retail investors. Retail investors, usually referred to as individual investors who trade using their funds, face several challenges that could make it more difficult for them to succeed in the financial markets. The study primarily focuses on the variables that influence the difficulties faced by investors in the retail investment industry. The study selected 190 individuals who made retail investments in the Chennai district. The samples were chosen using a non-probability sampling approach called convenience sampling. A research tool is a questionnaire. To determine the difficulties that investors experience, exploratory factor analysis is used. Dependability is measured using Cronbach's alpha, which is 85.1% in this study, and the data analysis was conducted using SPSS v26. The results indicate that the obstacles faced by retail investors are influenced by a number of external factors, including technical knowledge, emotional challenges, and modern digital challenges.

Introduction

Technology has caused a paradigm shift in retail investment, which is defined by individual involvement in stock markets and other financial instruments. Digital platforms have democratized access to investment opportunities, making financial markets more accessible. At the same time, the abundance of internet learning materials has enabled investors to make well-informed choices. Retail investors also referred to as individual investors who trade with their funds face a number of challenges that could make it more difficult for them to succeed in the financial markets. Retail investors sometimes lack the extensive financial expertise and resources available to institutional investors. These difficulties may lead to the interpretation of financial accounts, the analysis of investments, and the understanding of market patterns. In most cases, institutional investors have access to top-notch tools, real-time data, and exclusive market research. It is feasible for individual investors to rely on publicly available information, which can be incomplete or outdated. Because retail investors are more prone than institutional investors to base their decisions on fear, greed, or panic, these factors could lead to bad timing when buying or selling assets. It is possible for retail investors to incur brokerage fees, charges, and trading

expenditures that are comparable to those of institutional investors, who often benefit from economies of scale. Retail investors are occasionally at the mercy of larger actors when it comes to market manipulation. Pump-and-dump scams and high-frequency trading are two examples of these manipulations that could affect market values. Retail investors may encounter it challenging to effectively diversify their holdings due to their smaller portfolios, making them more vulnerable to certain risks. Sophisticated risk management tools, such as options, hedging strategies, and other derivatives, which can offer protection against unfavorable market movements, might be unavailable to regular investors. These kinds of psychological biases, such as herd mentality, loss aversion, and overconfidence, can lead retail investors to make less-than-ideal decisions. Retail investors may find it challenging to navigate the complexities of financial regulations, tax implications, and compliance obligations.

Unlike professional investors, retail investors often lack the time to dedicate to managing their portfolios and monitoring the markets. Sometimes, retail investors engage in the practice of chasing trends or following social media buzz (such as meme stocks), which can result in significant losses when market sentiment changes. Institutional investors sometimes have privileged access to initial public offerings (IPOs) and other exclusive investment opportunities. This situation leaves ordinary investors with fewer options. Retail investors may not have access to the same advanced tools used by professional investors, such as algorithmic trading or artificial intelligence-driven analytics, even though they can use online trading platforms. Retail investors occasionally focus too much on short-term gains rather than long-term wealth accumulation, which raises transaction costs and increases trading activity. Because they do not have the resources or strategies to sustain large value declines, retail investors are more vulnerable to the detrimental consequences of market volatility. Financial expertise, strategic planning, diversification, and disciplined investing frequently combine to handle these challenges successfully. Providing private investors with improved resources and reliable guidance can also promote fairness. However, the confluence of digital tools and financial knowledge is necessary for these developments to be effective. With an emphasis on the viewpoints and experiences of retail investors, this study investigates the combined effects of digitalization and financial literacy on retail investment behaviour. Significant advantages have resulted from the digitization of the retail investment industry, such as increased accessibility, reduced expenses, and a wider selection of investment options. However, it also presents specific challenges for investors, including:

1. **Overwhelming information:**
   The abundance of information and choices offered by digital platforms can be overwhelming for individual investors and complicate decision-making. It makes it harder to separate important information from irrelevant data, which could result in poor investment choices or analysis paralysis.

2. **Risks to Cybersecurity:**
   Investors that rely more on online platforms are vulnerable to cyberthreats such as phishing, hacking, and data breaches. It may result in the loss of financial assets, investment account access, or personal information.

3. **Frauds and scams:**
   Due to the market's digital character, scams such as phishing attempts, bogus investment schemes, and phony trading platforms have become more common. It results in a loss of money and confidence in online investing platforms.

4. **Dependence on Technology:**
   Due to their heavy reliance on digital tools and platforms, retail investors may encounter technological difficulties, outages, or delayed information. It results in the inability to make transactions or obtain vital information instantly.

5. **Lack of Digital Literacy:**
   Not all investors possess the technical know-how to efficiently use digital tools or navigate sophisticated trading systems. It results in missed opportunities and less-than-ideal use of investment resources.

6. **Automated and Algorithmic Systems:**
   Robo-advisors and algorithmic trading dominate parts of the market, creating competition for regular investors without access to comparable technologies. It causes algorithm-driven market movements to make regular investors feel tricked or at a disadvantage.

7. **Over-Reliance on Online Commendations:**
   Individual investors rely on online discussion boards, influencers, or algorithm-generated recommendations, which might not be reliable or accurate. It increases the chance of taking

unreliable or skewed advice, which could result in losses.

8. **Digital Trends-Related Market Volatility:**
Market trends are amplified by social media and online trading platforms, which cause abrupt and erratic price fluctuations (e.g., meme stocks, cryptocurrency frenzy). Individual investors regard markets riskier due to speculative bubbles and increased volatility.

9. **Privacy Matters:**
Digital platforms raise concerns over the storage, sharing, and usage of the vast amounts of financial and personal data they gather. It could result in data misuse or privacy infringement.

10. **Gaps in Guideline:**
In many areas, the swift expansion of digital platforms has surpassed legal frameworks, resulting in deficiencies in investor protection. It raises the possibility of unfair practices, fraud, and exploitation.

11. **Philosophy of Short-Term Trading:**
Because of their ease of use and gamification features, digital tools promote frequent trading, which may cause users to concentrate on short-term profits. Higher transaction costs and perhaps long-term underperformance are the results.

12. **Insufficient Human Engagement:**
Personalized guidance and human advisor consultation are frequently absent from online platforms. It causes retail investors to feel alone or unsupported, especially when they have to make difficult financial decisions.

13. **Marketplace Globalization:**
Investing in foreign markets has become simpler because of digitization, but there are drawbacks as well, such as currency concerns, inconsistent regulations, and complicated tax laws. It makes managing a worldwide portfolio more difficult.

14. **Fear of Missing Out (FOMO):**
Digitization cultivates a "FOMO" culture where investors feel compelled to take immediate action in response to viral news or current issues. It results in rash financial choices and needless risk exposure.

15. **Trust Matters with Emerging Platforms:**
Investors find it challenging to identify which new digital platforms are trustworthy and dependable due to their ubiquity. This results in lost opportunities for creative investment solutions and a reluctance to embrace new technologies.

Investor Education tackles the aforementioned challenges.

- Investor Education: Initiatives to raise financial and digital literacy.
- Enhanced Security: Investors' individual attention to detail and platforms' strong cybersecurity procedures.
- Regulation: Tighter control to safeguard individual investors and guarantee ethical behaviour.
- Hybrid Models: Providing individualized assistance by fusing digital technologies with human advisors.
- Technical Simplicity: Platforms should prioritize user-friendly interfaces and clear communication.

While digitization makes investing more accessible and democratic, resolving these issues is essential to guaranteeing retail investors a safe and satisfying experience.

Review of Literature
Hohyun Kim (2025) utilized data from an extensive national financial competence survey to examine the impact of social media activity on the investment horizons of retail investors. The study found that short-term trading behaviour is more common among retail investors who primarily rely on social media for financial information, especially among younger and overconfident individuals. According to the research, social media serves as a behavioural trigger that increases speculative trading and emotional decision-making, making investors more vulnerable in digitalized markets. To lessen the detrimental behavioural effects of digital information channels, the study emphasizes the necessity of investor education and regulatory control. **Sonja Warkulat and Matthias Pelster (2024)** investigated how social media attention influences the behaviour of retail investors by analysing brokerage-level trading data in conjunction with online discussion platforms. The investigation revealed that heightened social media focus results in ill-informed trading, greater risk exposure, and diminished future returns for retail investors. Emotional narratives and online sentiment significantly impact trading decisions, highlighting the influence of psychological biases and information overload in digital investment markets. According to **Audhesh Kumar et al. (2024)** the digital revolution has drastically changed the financial

environment in India, causing regular investors to switch from traditional techniques to digital platforms. With accessibility, real-time data, and ease of use as major motivators, digital efforts such as Digital India have improved financial inclusion. The regulatory changes made by SEBI protect investors while promoting digital investment. The literature highlights the impact of digitalization on trading patterns, risk management, and investing preferences. Despite the advantages, worries about privacy, openness, and cybersecurity still exist. Fintech's changing position and long-term financial security for retail investors may be the subject of future studies. **Mahesh Rana (2024)** study explores the impact of financial literacy on individual investors' decisions in the Nepalese stock market. A structured survey was employed to gather data, and IBM SPSS 26 and AMOS 22 were used for analysis. A causal-comparative study design was employed, utilizing a sample of 429 retail investors. Reliability analysis, factor analysis, correlation analysis, descriptive statistics, and structural equation modelling (SEM) were among the statistical techniques used. The results indicate that while financial attitude has no discernible impact on investing decisions, financial knowledge, behaviour, and abilities do. The study enhances the domains of behavioural finance and financial literacy in Nepal, proposing that future research may incorporate factors such as personality traits, emotional intelligence, and biases. **Francesco Reichenbach et al. (2023)** investigated the efficacy of online investing suggestions disseminated on social media platforms. The study discovered that while certain recommendation-based portfolios produced greater raw returns, their risk-adjusted performance was significantly worse. The risks of relying too much on unreliable digital advice were highlighted by the increased volatility and losses experienced by retail investors who followed internet recommendations. The study points out that there must be improved investor education and regulatory safeguards. In this paper, **Sifat, Imtiaz (2023)** investigates the benefits and drawbacks of using artificial intelligence (AI) in retail investing. The author presents an interdisciplinary framework that integrates machine learning, ethics, and behavioural finance to examine the impact of AI on the financial sector. The study looks at how narratives affect investment decisions, the persistence of information asymmetry, and the challenges of understanding and scaling data.

Objectives
- To assess the factors that determine the challenges faced by the retail investors after digitalization

Methodology
The goal of this study is to pinpoint the difficulties investors encounter when the retail investment industry goes digital. The study selected a total of 190 individuals who made retail investments in the Chennai district. The samples were chosen using a non-probability sampling approach called convenience sampling. A research tool is a questionnaire. The questionnaire is broken up into three sections: the first collects respondents' personal information, the second contains information about investments, and the third comprises scales pertaining to investor challenges. To determine the difficulties that investors experience, exploratory factor analysis is used. The reliability statistic Cronbach's alpha is used to evaluate reliability. SPSS v26 has been used to analyse the data.

Results and Discussion
Cronbach's alpha for the analysis is 0.851, indicating a reliability of 85.1%. of the respondents, 41.9% are female, 58.1% are male, and 33.1% are between the ages of 31 and 40. Approximately 59.2% of the respondents are married, and 33.6% of them have completed their graduation. 39.2% of respondents work in the private sector. Among the respondents, 45.3% earn income between Rs. 25,001 to 50,000 per month. It is observed that 33.9% of respondents invest between Rs. 50,001 to 75,000 annually, 30.4% have two to five years of stock market experience, 34.6% are balanced investors, 42.9% use both cash and margin trading, 50.9% have discount brokers, 40.6% invest in two to three initial public offerings, and 30.2% invest in the equity market two to five times a month.

Factors determining challenges faced by the retail investors
This section identifies the factors that influence the challenges faced by retail investors in the Chennai region. To gauge the factors influencing the challenges faced by retail investors, a total of twenty-one components were used. A factor analysis using the principal component approach with varimax rotation was used to categorize the variables into distinct components. The viewpoints of investors who engaged in retail investing served as the foundation for this study. The sample size is sufficient for this study, as indicated by the equally significant chi-square

value of 314.259 from Bartlett's test of sphericity (p=.000). The sample size appears to be appropriate for this investigation based on the KMO measure of 0.821. An example of the Eigen values corresponding to the detected factors is shown in Table I.

Table 1: Eigen values for challenges faced by the retail investors

Factor	Eigen Value	Variance explored (in %)	Cumulative Variance explored (in %)
1	10.319	30.483	30.483
2	1.926	12.644	43.127
3	1.644	10.639	53.766
4	1.223	8.235	62.001
5	1.098	6.432	68.433

By examining the connections between the items (challenges), twenty-one variables have been reduced to five components. In this case, twenty-one items have been reduced to five variables that essentially capture the majority of the original data. The five retrieved factors together explain 68.433% of the total variation, according to the cumulative percentage column. The five elements and their corresponding components that retail investors encounter are shown in Table 2.

Table 2: Factor loadings for challenges faced by the retail investors

Factor	Components	Factor loading
Factor 1: Technical factor	I find sometimes application not working properly	0.827
	I get Bugs/Error while trading/ Investing	0.743
	I have OTP problem/ Captcha issue not receiving within the set timeframe of app	0.689
	When I need to sell some stock immediately often Server Problem occurs	0.618
	I find sometimes difficult to understand the usage of stock broking Application or website	0.595
Factor 2: Knowledge factor	Insufficient awareness or understanding regarding digital financial services	0.737
	Incapable of comprehending the financial terminology associated with diverse digital financial products	0.646
Factor 3: Emotional factor	I am aware but Lack confidence to Invest or Trade in different avenues of the Securities market	0.799
	Emotional with regard to Investment (not selling even after earning huge profit, still holding the stock not selling it)	0.747
	I am confused with regard to Money Management (whether I should be a long-term investor or short-term investor or risk taker or risk averse)	0.656
	I have fear of making loss so sometimes I blindly follow others if their trades are profitable	0.619
	I have the fear of making mistake while initiating Trade or Investment on own online	0.558
Factor 4: Modern digital challenges factor	I find there is Overload of Information everywhere on TV, newspaper, social media apps like WhatsApp, Fb, Instagram, 'X'	0.777
	Due to growth of technology news spread so fast that market has become Over-reactive resulting sudden fall or rise in stock market	0.745
	I easily get influenced by social media & Influencer to invest in securities market	0.663
	I find too many free as well as paid seminar/ workshop makes me confused and influences me to spend money	0.574
	I find there is increase in Online fraud, random phone calls inviting to invest through random WhatsApp or telegram group	0.529

Factor 5: Other external factor	I find Market trend is difficult to follow	0.814
	I find National and Global news having huge impact on securities market affecting my investment	0.706
	I find Political issues of country also to challenging factor while investing	0.649
	I find the War/Geographical situation have huge impact on global market which in turn disturbs Indian securities market	0.585

From Table 2 it is inferred that "Factor 1" is a combination of five variables such as "I find sometimes application not working properly", "I get Bugs/Error while trading/ Investing", "I have OTP problem/ Captcha issue not receiving within the set timeframe of app", "When I need to sell some stock immediately often Server Problem occurs" and "I find sometimes difficult to understand the usage of stock broking Application or website" which is named as "Technical factor".

"Factor 2" is a combination of two variables such as "Insufficient awareness or understanding regarding digital financial services" and "Incapable of comprehending the financial terminology associated with diverse digital financial products" which is named as "Knowledge factor".

"Factor 3" is a combination of five variables such as "I am aware but Lack confidence to Invest or Trade in different avenues of the Securities market", "Emotional with regard to Investment (not selling even after earning huge profit , still holding the stock not selling it)", "I am confused with regard to Money Management (whether I should be a long term investor or short term investor or risk taker or risk averse)", "I have fear of making loss so sometimes I blindly follow others if their trades are profitable" and "I have the fear of making mistake while initiating Trade or Investment on own online" which is named as "Emotional factor".

"Factor 4" is a combination of five variables such as "I find there is Overload of Information everywhere on TV, newspaper, social media apps like WhatsApp, Fb, Instagram , 'X'", "Due to growth of technology news spread so fast that market has become "I easily get influenced by Social media & Influencer to invest in securities market", "I find too many free as well as paid seminar/ workshop makes me confused and influences me to spend money" and "I find there is increase in Online fraud, random phone calls inviting to invest through random WhatsApp or telegram group" which is named as "Modern digital challenges factor".

"Factor 5" is a combination of four variables such as "I find Market trend is difficult to follow", "I find National and Global news having huge impact on securities market affecting my investment", "I find Political issues of country also to challenging factor while investing", and "I find the War/Geographical situation have huge impact on global market which in turn disturbs Indian securities market" which is named as "Other external factor".

Technical factor, Knowledge factor, Emotional factor, Modern digital challenges factor and Other external factor are the factors that influence the challenges faced by the retail investors.

Retail investors often face several main issues, including apps that do not always function properly, a lack of knowledge or understanding of digital financial services, insufficient confidence to invest or trade in various securities markets, an overwhelming amount of information from TV, newspapers, and social media platforms like "X," Facebook, Instagram, and WhatsApp, and challenges in following market trends.

Conclusion
The intersection of digital advancements and financial knowledge has transformed retail investment by enhancing market accessibility and prioritizing investor needs. Although digital tools provide investors with valuable data and analytics, a solid understanding of financial principles is essential for making informed decisions. The challenges faced by retail investors are influenced by various factors, including technical aspects, knowledge levels, emotional considerations, modern digital challenges, and other external elements. The findings indicate that the applications occasionally malfunction, and there is a notable lack of awareness or comprehension concerning digital financial services. Additionally, many individuals exhibit a lack of confidence in investing or trading across various sectors of the securities market. The overwhelming amount of information available on television, newspapers, and social media platforms such as WhatsApp, Facebook, Instagram, and X complicates the ability to track market trends, frequently presenting significant challenges for retail investors. Future investigations should explore region-specific and demographic-based analyses to offer a thorough understanding of the interplay between

digitalization and financial literacy across various investor profiles. It is essential for those in positions of authority and financial organizations to focus on educational programs that address literacy disparities and guarantee fair access to the advantages of technological progress. The findings provide practical recommendations for decision-makers and financial organizations to cultivate a well-rounded environment that encourages digital inclusion alongside financial literacy.

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