

A Study of Behavioural Finance on Investment Decision of Mutual Fund

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<p>Peer Review Information</p> <p><i>Type: Article</i> <i>Received: 28 March 2026</i> <i>Revised: 26 April 2026</i> <i>Accepted: 11 May 2026</i> <i>Published: 02 June 2026</i></p>	<p style="text-align: center;">Abstract</p> <p>Behavioural finance is an important concept that explains how psychological factors influence investment decisions. This study focuses on understanding how investor behaviour affects mutual fund investment decisions. Traditional finance assumes that investors are rational, but in reality, investors are influenced by emotions such as fear, greed, and overconfidence. This research highlights major behavioural biases like herd behaviour, loss aversion, anchoring, and mental accounting. The study uses primary data collected through questionnaires and analyzes the relationship between behavioural biases and investment decisions. The findings show that behavioural finance plays a significant role in shaping investor behaviour.</p> <hr/> <p>Keywords: Behavioural Finance; Mutual Funds; Investment Behaviour; Investor Psychology; Herd Behaviour; Loss Aversion.</p>
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Introduction

Investment is an important part of financial planning. Mutual funds are one of the most popular investment options due to diversification and professional management. However, investors do not always make rational decisions. Their decisions are influenced by emotions, social pressure, and psychological biases. Behavioural finance studies these irrational behaviours and their impact on financial decisions. This research aims to understand how behavioural factors influence mutual fund investment decisions among investors.

Review of Literature

- *Kahneman & Tversky (1979) – Introduced Prospect Theory explaining loss aversion
- *Barber & Odean (2001) – Found overconfidence leads to excessive trading
- *Shiller (2003) – Explained market behaviour based on psychology
- *SEBI Reports– Highlight investor awareness and behaviour in India

Previous studies confirm that psychological factors significantly impact investment decisions.

Research Gap

- Limited studies in Indian mutual fund context
- Lack of behavioural studies among young investors
- Limited use of primary data
- Need for deeper analysis of investor psychology

Objectives of the study

1. To study behavioural biases affecting investment decisions
2. To analyze mutual fund investment behaviour
3. To understand investor psychology
4. To examine the relationship between behaviour and decision-making

Research Methodology

Type of Research

Descriptive Research

Data Collection

- Primary Data: Questionnaire
- Secondary Data: Journals, articles, websites

Sampling Method

- Convenience Sampling

Sample Size

- 100 Respondents

Tools Used

- Percentage Analysis
- Chi-Square Test

Data Analysis

Objective

- To analyze the relationship between behavioural bias and investment decision

Hypothesis

H0: No significant relationship

H1: Significant relationship exists

Sample Data

Table 1: Respondent Profile

Respondent ID	Age Group	Gender	Occupation	Investment Experience
R1	20–30	Male	Student	<1 year
R2	30–40	Female	Private Job	1–3 years
R3	40–50	Male	Business	3–5 years
R4	20–30	Female	Student	<1 year
R5	30–40	Male	Govt Job	1–3 years
R6	50+	Male	Retired	5+ years
R7	20–30	Female	Private Job	<1 year
R8	30–40	Male	Business	3–5 years
R9	40–50	Female	Govt Job	5+ years
R10	20–30	Male	Student	<1 year

Table 2: Behavioural Bias Responses (Likert Scale: 1–5)

(1 = Strongly Disagree, 5 = Strongly Agree)

Respondent ID	Overconfidence	Herd Behaviour	Loss Aversion	Anchoring	Regret Aversion
R1	4	5	5	3	4
R2	3	4	4	4	3
R3	5	3	4	4	4
R4	4	5	5	3	5
R5	3	4	4	3	3
R6	2	3	5	4	4
R7	4	5	4	3	4
R8	5	4	3	5	3
R9	3	3	5	4	5
R10	4	5	4	3	4

Table 3: Investment Behaviour

Respondent ID	Investment Type	Decision Influence	Risk Preference	Reaction to Loss
R1	SIP	Friends	Medium	Hold
R2	Lump Sum	Advisor	Low	Sell
R3	SIP	Self	High	Hold

R4	SIP	Friends	Medium	Panic Sell
R5	Lump Sum	Advisor	Low	Hold
R6	SIP	Self	Low	Hold
R7	SIP	Friends	Medium	Panic Sell
R8	Lump Sum	Self	High	Hold
R9	SIP	Advisor	Low	Sell
R10	SIP	Friends	Medium	Hold

Table 4: Summary (Calculated for Analysis)

Behavioural Bias	Average Score
Overconfidence	3.7
Herd Behaviour	4.1
Loss Aversion	4.3
Anchoring	3.6
Regret Aversion	3.9

Interpretation

- Loss aversion is the most dominant bias
- Social influence plays a major role
- Investors rely more on emotions than analysis
- The overall findings clearly indicate that investor decisions are not purely rational but are strongly influenced by psychological factors studied under Behavioural Finance.
- Followed by herd behaviour and regret aversion
- This suggests that fear and social influence dominate investment decisions more than logic.
- The study concludes that behavioural biases significantly affect mutual fund investment decisions. Investors often rely on emotions, past experiences, and peer influence rather than objective financial analysis.
- Understanding these biases can help investors make more informed and rational decisions, ultimately improving investment outcomes.

Findings

- Most investors are influenced by emotions
- Herd behaviour is very common
- Investors fear losses more than they value gains
- Overconfidence leads to risky investments
- Awareness about mutual funds is increasing

Results and Discussion

The study shows that behavioural biases play a major role in investment decisions. Investors often follow others instead of doing their own analysis. Fear of loss leads to conservative decisions, while overconfidence leads to excessive risk-taking. However, financial awareness and education can reduce these biases.

The study concludes that behavioural biases play a crucial role in shaping mutual fund investment decisions. Investors are influenced more by emotions and social factors than by rational analysis.

Recognizing and managing these biases is essential for improving investment outcomes and achieving financial goals.

Implications

For Investors

- Better decision-making
- Awareness of biases
- Improved financial planning

For Society

- Increased financial literacy
- Better investment culture
- Economic growth

The study clearly shows that understanding behavioural biases is essential for improving investment decision-making. By addressing these psychological factors, investors and institutions can achieve better financial outcomes and a more stable investment environment.

Suggestions

- Avoid emotional investing
- Focus on long-term goals
- Improve financial knowledge
- Take rational decisions
- Consult financial advisors

Conclusion

The present study on “A Study of Behavioural Finance on Investment Decisions of Mutual Fund Investors” highlights the significant role of psychological factors in shaping investor behaviour. The findings clearly indicate that investors do not always act rationally while making investment decisions. The study confirms that various behavioural biases such as overconfidence, herd behaviour, loss aversion, anchoring, and regret aversion strongly influence mutual fund investment decisions. Among these, loss aversion emerges as the most dominant factor, as investors tend to fear losses more than they value gains. This observation is consistent with the principles of Prospect Theory.

Furthermore, the research shows that many investors rely on external sources such as friends, family, and financial advisors, which leads to herd behaviour. Emotional responses like fear and regret also impact decision-making, often resulting in delayed or irrational investment choices. The study reinforces the importance of Behavioural Finance in understanding real-world financial decisions. It reveals that psychological and emotional factors play a more critical role than traditional financial theories assume.

In conclusion, improving investor awareness about behavioural biases is essential for better decision-making. Adopting disciplined investment strategies such as long-term planning and systematic investment plans (SIPs) can help reduce the impact of these biases. Overall, the study suggests that recognizing and managing behavioural biases can lead to more rational investment decisions, improved portfolio performance, and greater financial stability for mutual fund investors.

Behavioural finance significantly affects mutual fund investment decisions. Investors are not always rational and are influenced by emotions and biases. Understanding behavioural finance helps investors make better financial decisions and avoid common mistakes. Overall, awareness and education are key to improving investment behaviour.

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