



A Study on Investment Behavior and Risk Perception of Individual Investors

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Abstract – Investment behavior and risk perception play a crucial role in shaping the financial decisions of individual investors. This study aims to examine the investment behavior of individual investors and analyze the factors influencing their perception of investment risk. The research explores how demographic variables such as age, gender, education, income, and investment experience affect investment preferences and risk tolerance. A descriptive research design was adopted, and primary data were collected through a structured questionnaire administered to individual investors. Secondary data were obtained from journals, books, research articles, and financial reports to support the study. The findings indicate that most investors prefer investment avenues that offer a balance between risk and return, with safety of capital and expected returns being the primary factors influencing investment decisions. The study also reveals that financial literacy and investment experience significantly impact investors' willingness to undertake risk. Furthermore, market volatility, economic conditions, and personal financial goals were found to influence investment choices. Investors with greater financial knowledge tend to diversify their portfolios and make more informed investment decisions than those with limited financial awareness. The study concludes that understanding investors' risk perception is essential for developing effective investment strategies and improving financial decision-making. The findings provide valuable insights for financial institutions, investment advisors, policymakers, and individual investors in designing investment products and financial education programs that align with investors' risk profiles and financial objectives.

Keywords – Investment Behavior, Risk Perception, Individual Investors, Financial Literacy, Risk Tolerance, Investment Decisions, Portfolio Diversification.

I. INTRODUCTION

Investment is an essential component of personal financial planning, enabling individuals to achieve long-term financial security, wealth creation, and future financial goals. In today's dynamic financial environment, individual investors have access to a wide range of investment avenues such as stocks, mutual funds, bonds, fixed deposits, gold, real estate, and other financial instruments. Selecting an appropriate investment option depends on several factors, including financial objectives, expected returns, liquidity needs, and, most importantly, the investor's perception of risk.

Investment behavior refers to the manner in which individuals make decisions regarding the allocation of their financial resources among different investment alternatives.

These decisions are influenced by various demographic, economic, psychological, and social factors. Risk perception, on the other hand, is the subjective assessment of the uncertainty and potential financial loss associated with an investment. Since every investment carries a certain level of risk, understanding how investors perceive and respond to risk is crucial in explaining their investment choices.

In recent years, increasing financial awareness, technological advancements, and easy access to online trading platforms have encouraged more individuals to participate in financial markets. However, market volatility, inflation, changing economic conditions, and global

financial uncertainties have made investment decisions more complex. As a result, investors often exhibit different levels of risk tolerance based on factors such as age, income, education, occupation, investment experience, and financial literacy.

The purpose of this study is to examine the investment behavior and risk perception of individual investors and to identify the factors that influence their investment decisions. The study also seeks to understand the relationship between demographic characteristics and investors' willingness to undertake financial risk. By analyzing investors' preferences and attitudes toward different investment avenues, the research provides valuable insights into how individuals make investment decisions under varying levels of risk.

The findings of this study will be useful for financial institutions, investment advisors, policymakers, and researchers in understanding investor behavior and designing financial products and investment strategies that align with the needs and risk profiles of individual investors. Furthermore, the study contributes to the existing body of knowledge on behavioral finance by highlighting the importance of risk perception in shaping investment decisions.

II. REVIEW OF LITERATURE

Review of literature forms the foundation of any research by examining past studies, theories, and findings related to investment behavior and risk perception. Traditional finance



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assumes investors are rational and risk-averse, as per Markowitz’s Portfolio Theory, 1952 and Capital Asset Pricing Model. However, Behavioral Finance emerged in the 1970s challenging this, showing that psychology and emotions heavily influence decisions. This chapter reviews Indian and global studies on investor behavior, risk perception, demographic influences, and behavioral biases.

- **Behavioral Finance Dominance:** Individual investor decisions are rarely purely rational; they are significantly influenced by psychological, emotional, and cognitive biases rather than just fundamental analysis.
- **The Disposition Effect:** Investors tend to sell winning investments too early to lock in gains but hold onto losing investments too long, hoping for a recovery.
- **Herding Behavior:** Individuals often follow the crowd, buying into popular stocks or trends, partly due to a lack of independent information or lack of confidence.
- **Overconfidence Bias:** Investors often overestimate their ability to pick winning stocks and underestimate risk, leading to excessive trading.
- **Familiarity and Proximity:** Individuals often invest in companies close to them or those they are familiar with (e.g., employers), leading to under-diversified portfolios.
- **Media Influence:** Attention-based buying is common; news coverage heavily influences the buying decisions of retail investors.
- **Income & Age Impact:** Investment behavior is strongly moderated by age and income; younger investors often show greater risk tolerance, while older individuals prefer stability.

Objectives

1. To identify the preferred investment avenues of individual investors.
2. To examine risk perception and risk tolerance level of investors.
3. To analyze impact of demographic factors like age, income, and education on investment decisions.
4. To study behavioral biases such as herd behavior, overconfidence, and loss aversion.
5. To assess financial literacy and awareness about risk-return trade-off.

III. RESEARCH METHODOLOGY

1. Research Design

The study adopts a descriptive research design to examine the investment behavior and risk perception of individual investors. This design is suitable for identifying investment patterns, understanding investors' attitudes toward risk, and analyzing the relationship between demographic factors and investment decisions.

2. Data Collection

The study is based on both primary and secondary data.

- **Primary Data:** Collected through a structured questionnaire distributed to individual investors. The

questionnaire includes questions related to demographic details, investment preferences, risk tolerance, and factors influencing investment decisions.

- **Secondary Data:** Collected from books, research journals, published articles, financial reports, government publications, and reliable online sources to support the theoretical framework and literature review.

3. Sample Size and Sampling Technique

A sample of 100 individual investors was selected for the study.

The convenience sampling technique was used to collect responses from investors who were readily accessible and willing to participate. This non-probability sampling method was chosen due to its ease of data collection and time efficiency.

4. Data Analysis Tools

The collected data were analyzed using appropriate statistical tools to interpret the findings. The following tools were used:

- **Percentage Analysis:** To present the distribution of respondents based on demographic characteristics and investment preferences.
- **Frequency Distribution:** To summarize responses for different variables.
- **Mean and Standard Deviation:** To measure the average response and variability in risk perception.
- **Chi-Square Test:** To examine the association between demographic variables and investment behavior.
- **Tables and Graphs:** To present the data in a clear and understandable manner.
- **Microsoft Excel and SPSS (Statistical Package for the Social Sciences):** Used for data entry, analysis, and graphical presentation of results.

The analysis of the collected data helped identify the major factors influencing investment behavior and the level of risk perception among individual investors.

Note: If your college has specified a different sample size (e.g., 50, 120, 150, or 200 respondents) or requires a different sampling technique (such as simple random sampling or stratified sampling), you should modify those details according

Data Analysis and Interpretation

Q8: Which investment avenue forms the largest part of your portfolio?

Investment Avenue – chi-square calculation

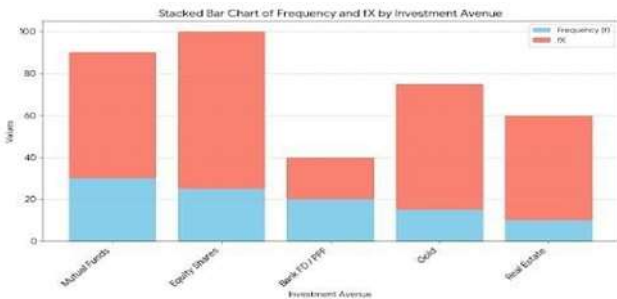
Step 1: Observed Frequencies (O)

Q8: Investment Avenue – chi- square calculation	Q8: Investment Avenue – chi- square calculation	Q8: Investment Avenue – chi- square calculation	Q8: Investment Avenue – chi- square calculation
Step 1: Observed	Step 1: Observed	Step 1: Observed	Step 1: Observed Frequencies (O)



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Frequency (O)	Frequency (O)	Frequency (O)	Frequency (O)
Q8: Investment Avenue – chi-square calculation	Q8: Investment Avenue – chi-square calculation	Q8: Investment Avenue – chi-square calculation	Q8: Investment Avenue – chi-square calculation
Step 1: Observed Frequency (O)	Step 1: Observed Frequency (O)	Step 1: Observed Frequency (O)	Step 1: Observed Frequency (O)
Q8: Investment Avenue – chi-square calculation	Q8: Investment Avenue – chi-square calculation	Q8: Investment Avenue – chi-square calculation	Q8: Investment Avenue – chi-square calculation



Interpretation

There is a significant difference between the observed and expected preferences for investment avenues. This indicates that respondents do not equally prefer all investment options. Mutual funds and equity shares are relatively more preferred, while real estate and gold are less preferred among respondents.

Findings of the Study

1. Most individual investors prefer low to moderate-risk investment options such as fixed deposits, mutual funds, gold, and insurance over high-risk investments like stocks and cryptocurrencies.
2. Risk perception varies with age, income, education, and investment experience. Younger and experienced investors are generally more willing to take risks than older investors.
3. Safety of capital and expected returns are the two most important factors influencing investment decisions.
4. Financial literacy has a significant impact on investment behavior. Investors with better financial knowledge tend to diversify their portfolios and make more informed decisions.
5. Many investors rely on family members, friends, financial advisors, and online platforms for investment-related information before making decisions.
6. Market fluctuations and economic uncertainty increase investors' risk perception, causing many individuals to prefer safer investment alternatives.

7. Most respondents have a medium level of risk tolerance, indicating a preference for investments that offer balanced risk and return.
8. Investors who regularly monitor market trends and financial news are more confident in making investment decisions.
9. The study found that diversification is a common strategy adopted by investors to reduce investment risk.
10. Overall, the study concludes that investment behavior is strongly influenced by perceived risk, financial awareness, personal financial goals, and demographic factors.

IV. CONCLUSION

The study on 100 investors reveals that age, gender, income, and financial literacy significantly influence investment behavior and risk perception. Young and male investors show higher risk appetite and prefer mutual funds and equity for wealth creation. Older and female investors are conservative, favoring FDs and gold for capital safety. Risk perception is subjective and inversely related to financial literacy. Behavioral biases like herding and loss aversion strongly impact decisions. Final Inference: Investment decisions are driven by both rational factors and psychological biases. Higher financial literacy leads to better risk assessment and diversified portfolios. Key Suggestion: Investor education programs are needed to improve financial literacy, reduce biases, and encourage informed risk-taking for long-term wealth creation

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