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DETERMINANTS OF MUTUAL FUND INVESTMENT DECISIONS AMONG YOUNG INVESTORS IN INDIA

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ABSTRACT

Mutual funds have become a mainstream savings vehicle for Indian households, and young investors entering the market through systematic investment plans (SIPs) and digital platforms are an important part of this growth. This research paper examines the determinants of mutual fund investment decisions among young investors in India by considering financial literacy, risk perception, behavioural biases and the influence of digital platforms and peers. The study is based on secondary information obtained from academic literature, Association of Mutual Funds in India (AMFI) data and published research on young and millennial investors. Existing evidence indicates that the industry is expanding rapidly: assets under management reached a record ₹65.74 lakh crore in March 2025, folios rose 32% to 23.45 crore in FY2025, and SIP assets stood at ₹13.35 trillion, or 20.31% of industry assets (AMFI, 2025, as reported by Business Standard, 2025). Research on 923 Indian millennials found that herding and prospect-theory effects act as antecedents to the heuristics used in equity and mutual fund decisions, with the effect of herding larger for mutual funds than for equities (Goyal, Gupta, & Yadav, 2021). The study argues that regulators, fund houses and financial educators need to look beyond growth in folios and SIP inflows and examine how knowledge, risk perception and behavioural influences shape the decisions of first-time young investors.

KEYWORDS

Mutual Funds, Young Investors, Investment Decisions, Financial Literacy, Risk Perception, Herding, SIP, India.

INTRODUCTION

Mutual funds have become an important approach through which Indian households invest, offering professional management, diversification and the ability to start with small, regular contributions through SIPs. According to the Association of Mutual Funds in India (AMFI), industry assets under management stood at a record ₹65.74 lakh crore in March 2025, up 23.11% from ₹53.40 lakh crore a year earlier, and the number of

folios rose 32% to 23.45 crore in FY2025, of which equity schemes account for about 70% (AMFI, 2025, as reported by Business Standard, 2025). SIP assets stood at ₹13.35 trillion, 20.31% of industry assets. By November 2025 industry assets had risen to about ₹81 lakh crore, SIP inflows had touched a record ₹29,529 crore in October 2025, and the investor base had reached 5.84 crore (Outlook Money, 2025).

Young investors are central to this expansion. India has the highest working-age population in the world, which is driving savings and investment in financial products (NISM, 2025), and falling deposit rates, rising incomes and the aspirations of a young population have drawn investors towards mutual funds (Outlook Money, 2025). Young investors' decisions about whether to invest in mutual funds, which scheme to choose and how long to stay invested are influenced by several factors, including financial knowledge, perceived risk, expected return, peer behaviour and the digital platforms through which they invest. Their consequences, however, depend on the quality of information and the investor's capability to judge it.

REVIEW OF LITERATURE

1. **Goyal, Gupta, and Yadav (2021)** surveyed 923 millennials in India to test how heuristics are formed, modelling herding and prospect theory as antecedents to heuristics for two products, equity and mutual funds. The findings supported the role of herding and prospect theory as antecedents to heuristics, although to varying degrees, and the effect of herding on heuristics was likely to be smaller for equity investments than for mutual fund investments.

2. **Gupta and Goyal (2024)** examined herding behaviour among millennial investors who follow influencers for investment decisions and reported findings that challenge the common gender stereotype about herding. The study is relevant because it shows that social influence on young investors operates through online influencers as well as through peers.

3. **Bhatia (2023)** studied Indian millennials' financial literacy and its relationship with financial instruments and fintech. The study contributes to understanding how knowledge of finance relates to the choice of investment products and to the use of digital financial platforms among younger investors.

4. **Lusardi and Mitchell (2014)** reviewed theory and evidence on the economics of financial literacy and concluded that financial literacy is an important determinant of financial decision-making, with individuals who are more financially literate more likely to plan, save and participate in financial markets, and that low literacy is widespread and unevenly distributed across the population.

5. **Kahneman and Tversky (1979)** proposed prospect theory, showing that people evaluate outcomes as gains and losses relative to a reference point, weigh losses more heavily than equivalent gains and treat probabilities in a non-linear way. The theory is widely used to explain why investors' choices among funds depart from standard expectations of rational risk-return trade-offs.

STATEMENT OF THE PROBLEM

Mutual fund participation among young Indian investors is growing rapidly, yet growth in folios and SIP inflows does not show why young investors choose funds, how they select them or whether their decisions are well informed. Fund houses, regulators and financial educators face difficulty in understanding how financial literacy, risk perception, behavioural biases and digital influence shape the decisions of investors who are new to markets and often rely on online sources. Existing research has concentrated on industry growth, on equity-market behaviour and on investors in general, while comparatively little evidence addresses the determinants of mutual fund decisions specifically among young Indian investors. There is, therefore, a need to examine the determinants of mutual fund investment decisions among young investors in India.

SIGNIFICANCE OF THE STUDY

The study is significant because it explains how knowledge, risk perception and behavioural factors contribute to the mutual fund decisions of young Indian investors. It can help SEBI, AMFI and fund houses design investor-education and product-disclosure measures, assist digital investment platforms in building more responsible decision-support features, and support researchers in understanding the evolving relationship between young investors' characteristics and their investment choices.

SCOPE OF THE STUDY

The study covers mutual fund investment decisions among young investors in India, particularly millennials and Generation Z, with attention to financial literacy, risk perception, return expectations, behavioural biases such as herding, and the influence of digital platforms and peers. It uses secondary information and published evidence from academic and institutional sources.

OBJECTIVE OF THE STUDY

To examine the determinants of mutual fund investment decisions among young investors in India.

RESEARCH METHODOLOGY

The study adopted a descriptive research design based on secondary data collected from academic studies, AMFI and industry reports, research publications and credible investment sources.

1. GROWTH OF MUTUAL FUND PARTICIPATION AND THE RISE OF THE YOUNG SIP INVESTOR

Participation in mutual funds has increased sharply. AMFI's 2025 annual report records industry assets of ₹65.74 trillion in March 2025, folio growth of 32% to 23.45 crore in FY2025, and SIP assets of ₹13.35 trillion, 24.59% higher than a year earlier (AMFI, 2025, as reported by Business Standard, 2025). In 2025 the industry added about 58 lakh investors, taking the total investor base to 5.84 crore by November, and the ratio of mutual fund assets to bank deposits had risen from 12.6% in 2015 to over 33% in 2025, as mutual fund assets grew more than sevenfold against a roughly threefold rise in bank deposits (Outlook Money, 2025).

SIPs are the main route by which young investors enter. Industry commentary describes SIPs as increasingly becoming the default investment route across income groups, especially among younger investors, and equity schemes have recorded uninterrupted monthly net inflows since March 2021 (Outlook Business, 2025). AMFI's annual report also notes that younger investors tend to follow more aggressive investment strategies while older investors prioritise risk management through diversification (Business Standard, 2025). These aggregates show that young investors are an important and growing group, but they cannot show why individuals choose particular funds or whether their choices are informed.

2. FINANCIAL LITERACY, RISK PERCEPTION, AND RETURN EXPECTATIONS

Financial literacy is the most consistently cited determinant of investment participation and choice. Lusardi and Mitchell (2014) conclude that more financially literate individuals are better able to plan, save and participate in financial markets, and that low literacy is common. For mutual funds, literacy matters at each stage: understanding what a fund is, distinguishing between categories such as equity, debt and hybrid funds, interpreting net asset value and expense ratios, and keeping a SIP going during market volatility. Bhatia (2023) examined this relationship among Indian millennials in the context of financial instruments and fintech use, which indicates that literacy is also linked to which products and platforms younger investors use.

Risk perception and return expectations shape which funds young investors select. Because mutual funds are widely marketed as a diversified and comparatively lower-risk way of participating in equities, they appeal to investors who want exposure without selecting individual stocks. At the same time, the evidence that younger investors follow more aggressive strategies (Business Standard, 2025) suggests that many young investors accept higher equity exposure, which makes accurate understanding of risk particularly important. Where knowledge is limited, return expectations formed in rising markets may be unrealistic, and the first period of market volatility may lead to premature redemptions.

3. BEHAVIOURAL FACTORS: HERDING, HEURISTICS, AND PROSPECT THEORY

Behavioural finance explains why decisions may depart from the rational weighing of risk and return. Kahneman and Tversky (1979) showed that people evaluate outcomes relative to reference points and are more sensitive to losses than to equivalent gains, which can lead investors to redeem after falls or to hold losing funds for too long. Goyal et al. (2021), in a survey of 923 Indian millennials, found that herding and prospect-theory effects act as antecedents to the heuristics used in investment decisions, and that the impact of herding on heuristics was likely to be larger for mutual funds than for equity.

This finding is important for young investors: for a product that many first-time investors find hard to evaluate, other investors' choices are a strong guide. Gupta and Goyal (2024) extend the picture by looking at herding among millennials who follow influencers, which shows that social influence now operates through online personalities as well as through friends and family. For young mutual fund investors, herding may therefore take the form of buying recently popular categories, following new fund offers or imitating influencers' recommendations, rather than evaluating funds against personal goals and risk tolerance.

4. DIGITAL PLATFORMS, SOCIAL INFLUENCE, AND THE RESEARCH GAP

Digital platforms have lowered the barriers to mutual fund investing, allowing paperless onboarding, small SIP amounts and easy switching, and they also shape what young investors see and how they decide. Industry observers link the rise of SIPs among younger investors to the growth of investment apps (Outlook Business, 2025), and the same platforms deliver rankings, new fund offers and social content that act as decision cues. The interface through which a young investor meets mutual funds therefore forms part of the decision environment.

While the growth of the industry and the general determinants of financial decisions are well documented, evidence specific to young Indian mutual fund investors is limited. Many studies treat young investors as a part of the general investor population, examine equity trading rather than mutual funds, or draw on small samples from individual cities. Few distinguish between students, early-career professionals and different levels of investment experience, and little evidence tests how platform design and online influencers affect scheme choice and persistence. The literature reviewed here therefore indicates that although the scale of mutual fund participation and the broad influence of literacy and behavioural factors are established, systematic evidence on the determinants of mutual fund decisions among young Indian investors remains limited. This is the central gap that the present study seeks to address through its stated objective.

CONCLUSION

Mutual funds have become central to household investing in India, with industry assets of ₹65.74 lakh crore in March 2025, 23.45 crore folios and ₹13.35 trillion in SIP assets (AMFI, 2025, as reported by Business Standard, 2025). The study indicates that young investors' decisions are shaped by financial literacy, risk perception and return expectations, and also by behavioural influences such as herding and loss sensitivity, which are likely to be stronger for mutual funds than for equities (Goyal et al., 2021; Lusardi & Mitchell, 2014). Indian evidence suggests that digital platforms and influencers form a part of the decision environment, but systematic research specific to young mutual fund investors is still limited. Regulators, fund houses and financial educators should therefore look beyond folio counts and SIP inflows to understand how well informed young investors' decisions are, particularly as first-time investors enter in large numbers. Continuous monitoring and context-specific research remain essential for ensuring that the rapid growth of mutual fund participation among young Indians translates into informed, rather than merely popular, investment decisions.

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