Research Article

Investors Personality Traits and Mutual Fund Investment Decisions: A Regression Analysis of Risk Tolerance and Investment Choices

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ARTICLE INFO	ABSTRACT
	This research examines the factors influencing High-Risk Fund Investment (HRFI) and Low-Risk Fund Investment (LRFI) among individual investors. Through regression analysis on a comprehensive dataset, the study reveals significant relationships between various psychological, educational, and demographic factors and investment behaviour. The findings highlight the importance of age and investment knowledge in promoting risk-taking tendencies, while conservative traits and risk perception significantly impact low-risk investment choices. The robust R-squared values obtained from the regression models indicate a strong predictive capability of the analysed factors on investment decisions. This research provides essential insights for financial advisors and policymakers to enhance investor education and encourage informed decision-making. Future studies should explore additional variables and adopt longitudinal approaches to gain a deeper understanding of evolving investment behaviors in a dynamic financial landscape. **Keywords:** High-Risk Fund Investment, Low-Risk Fund Investment, Investor Behavior, Financial Literacy, Risk Perception

Introduction

In the evolving landscape of finance, understanding investor behavior has become paramount, particularly in the context of mutual fund investments. Investors' decisions are influenced by a myriad of factors, including personality traits and risk tolerance. Research has increasingly focused on cognitive biases, gender influences, and the socio-economic backgrounds of investors as critical determinants of their investment choices. For instance, Bihari et al. (2023) explored how cognitive biased knowledge can shape investor decisions, highlighting the significance of psychological factors in financial decision-making. This perspective aligns with the work of Mahdzan et al. (2017), who examined the influence of Islamic religiosity on portfolio allocation in Malaysia, revealing that cultural and religious values play a role in shaping investment behavior.

Risk tolerance, a fundamental concept in finance, represents an investor's willingness to endure fluctuations in the value of their investments. As García-Gómez et al. (2023) point out, CEO characteristics can significantly affect corporate risk-taking, suggesting that personal attributes similarly influence individual investors' risk profiles. Ivanova Yordanova and Ivanova Alexandrova-Boshnakova (2011) provided empirical evidence indicating gender effects on risk-taking behaviors among entrepreneurs in Bulgaria. Such findings underscore the need for an inclusive approach that considers how demographic factors like gender, age, and socio-economic status impact investment decisions.

The relationship between financial literacy and investment behavior has gained considerable attention in recent years. Nik Azman et al. (2023) demonstrated that Islamic financial literacy correlates with financial sustainability among Muslim micro-entrepreneurs in Malaysia, indicating that enhanced financial knowledge can empower individuals to make informed investment choices. Osman et al. (2024) further examined the financial management dilemmas faced by millennial Muslims, emphasizing the need for targeted financial education to improve investment outcomes.

The role of cognitive biases in investment decisions is particularly relevant in the context of crises, such as the COVID-19 pandemic. Mohanty et al. (2024) investigated how cognitive biases affected financial decisions during this period, revealing that psychological factors can lead to irrational investment choices when investors are faced with uncertainty. This observation aligns with the findings of Saeedikiya et al. (2024), who explored the cognitive influences on innovation among Generation Z entrepreneurs, further illustrating the importance of understanding the cognitive frameworks that underpin investment behaviour.

The interplay between personality traits and investment decisions is multifaceted, and previous studies have highlighted various dimensions of this relationship. For instance, Tauni et al. (2018) investigated how advisor personality moderates the relationship between financial advice and investor behavior, suggesting that personality traits can significantly impact the effectiveness of financial guidance. Woods et al. (2020) provided insights into risk appetite and tolerance, demonstrating the importance of understanding individual differences in risk perception.

The dynamics of investment behavior have garnered increasing attention, particularly in light of psychological and socio-economic factors influencing individual decisions. Understanding the intricacies of these behaviors is vital for both investors and financial professionals, especially as financial markets become more complex and volatile. Recent studies have illuminated various aspects of investment behavior, emphasizing the role of cognitive biases, emotional intelligence, and financial literacy in shaping investor choices. This paper aims to explore the intricate relationship between personality traits, risk tolerance, and mutual fund investment decisions.

The influence of cognitive biases on investment decisions has been well-documented. Arora and Kaur (2024) investigated how herding bias affects employees' stock option decisions, demonstrating that individuals often mimic the choices of others rather than relying solely on their judgment. This phenomenon, often exacerbated during market downturns, can lead to suboptimal investment outcomes. Similarly, Khare and Kapoor (2024) explored the behavioral biases present in financial professionals, underscoring that even experienced investors are not immune to irrational decision-making. The implications of these biases are profound, as they can significantly distort rational investment behavior and impact market stability.

In addition to cognitive biases, emotional intelligence plays a crucial role in shaping investment behavior. Chaturvedi Sharma (2024) highlighted how emotional intelligence, coupled with social stigma and financial literacy, influences investment choices. Investors with higher emotional intelligence are better equipped to manage stress and anxiety, making them more likely to make rational decisions in volatile markets. This relationship emphasizes the importance of psychological resilience and self-awareness in navigating investment landscapes.

Socio-economic factors, including religion and cultural beliefs, also shape investment behavior. Ashqar and Lobão (2024) examined how religious beliefs influence household financial decisions across Europe, illustrating that cultural context can significantly affect investment preferences and risk tolerance. Such findings are echoed in the work of Pandurugan and al Shammakhi (2024), who modeled the theory of planned behavior to evaluate Generation Z's investment intentions in speculative markets. These studies suggest that investors' backgrounds and beliefs are critical determinants of their financial behaviors.

The COVID-19 pandemic has introduced new variables into the investment decision-making process. Hans, Choudhary, and Sudan (2024) explored the behavioral determinants affecting Indian retail equity investors during this crisis, revealing that the heightened uncertainty and financial risks led to shifts in risk tolerance and investment strategies. This context underscores the need for continuous research into how external factors influence investor behavior, particularly in times of crisis.

Financial literacy is another essential component in the investment decision-making process. Rodrigues and Gopalakrishna (2024) demonstrated that financial literacy serves as a regulator of intended investment behavior,

significantly impacting portfolio composition decisions. This finding aligns with the broader discourse on the necessity of enhancing financial education to empower investors and facilitate better decision-making.

Literature Review

Investment behavior has garnered significant attention in financial research, particularly in understanding the psychological and emotional factors that influence individual decision-making processes. A robust body of literature highlights the role of behavioral biases—such as herding behavior, overconfidence, and risk perception—in shaping investors' choices. These biases often lead to systematic errors in judgment and decision-making. For instance, Arora and Kaur (2024) examine the influence of herding behavior on employees' decisions regarding stock options. Their study reveals that social influences can significantly sway financial choices, suggesting that investors often follow the crowd, sometimes at the expense of rational decision-making. This phenomenon is particularly evident during volatile market conditions, where the tendency to conform to prevailing trends can overshadow individual analysis.

In addition to social influences, emotional intelligence plays a crucial role in investment behavior. Chaturvedi Sharma (2024) explores how emotional intelligence interacts with factors like social stigma and financial literacy to affect investment decisions. The findings indicate that individuals with higher emotional intelligence tend to make more informed investment choices. This correlation suggests that emotional competency can enhance an investor's ability to navigate market fluctuations effectively. Therefore, integrating emotional intelligence training into financial education could potentially lead to better investment outcomes.

The interplay between risk perception and investment decisions is a critical area of investigation. Studies have shown that an individual's perception of risk can profoundly influence their investment behavior. For instance, Hans et al. (2024) analyze how external financial shocks, such as those prompted by the COVID-19 pandemic, affect behavioral determinants like risk tolerance. Their research underscores that heightened uncertainty can lead to conservative investment strategies, with individuals becoming more risk-averse. Understanding these dynamics is essential for developing strategies to support investors in maintaining balanced portfolios, particularly during turbulent times.

Financial literacy is another significant factor that mediates the effects of behavioral biases on investment behavior. Research indicates that individuals with higher levels of financial literacy are better equipped to recognize and counteract biases that might otherwise lead to poor investment decisions. Rodrigues and Gopalakrishna (2024) argue that financial literacy serves as a critical buffer, enabling investors to make informed decisions despite the presence of biases like overconfidence or herding. This highlights the need for educational programs that enhance financial literacy, as they could empower individuals to take control of their financial futures and mitigate the risks associated with biased decision-making.

Gender dynamics in investment behavior have emerged as an important research focus. Singh and Biswas (2024) investigate the impact of social factors on investment frequency, particularly the perceptions surrounding gender discrimination in financial markets. Their findings reveal that social expectations and stereotypes can significantly influence investment behaviors, particularly among underrepresented groups. This suggests that addressing social biases and promoting inclusivity in financial education could enhance participation rates among diverse investor groups.

The integration of technology in investment decision-making has also transformed the landscape. Nair et al. (2023) discuss the determinants of mobile app adoption by retail investors for online trading, emphasizing how technology affects information access and investment strategies. The ease of access to financial information through digital platforms can help mitigate some behavioral biases by providing real-time data and analytics, enabling more informed decisions. However, it also introduces new challenges, such as information overload, which can exacerbate biases if not managed properly.

The interplay of behavioral biases, emotional intelligence, financial literacy, and social influences significantly impacts investment decision-making processes. Understanding these dynamics offers valuable insights for both individual investors and financial educators. Future research should continue to explore the interactions among these factors, particularly in the context of emerging technologies and changing social norms. By addressing these issues, researchers and practitioners can develop more effective strategies to support investors in making sound financial decisions, ultimately leading to more favorable investment outcomes. The integration of psychological insights with practical financial education could pave the way for a more informed and resilient investor base.

Ho1: *Higher levels of risk tolerance are positively associated with the preference for high-risk mutual fund investments.*

The second objective of the research aims to assess the key factors contributing to changes in student engagement and academic success in higher education settings following the onset of the COVID-19 pandemic. The pandemic has catalyzed significant transformations in educational paradigms, compelling institutions to adopt innovative pedagogical strategies and technologies to facilitate learning. Understanding these shifts is crucial for developing effective educational practices that cater to the evolving needs of students in a post-pandemic landscape.

The rapid transition to online learning environments during the pandemic has underscored the importance of technological adoption in enhancing student engagement. Research indicates that the integration of digital tools and resources can significantly influence students' academic experiences. For instance, studies have shown that the use of learning management systems (LMS) and mobile applications can improve access to educational materials, foster collaboration among peers, and enhance overall engagement. Nair et al. (2023) highlight that retail investors' adoption of mobile apps for trading parallels the educational sector's reliance on technology for engaging students. This connection emphasizes the need to examine how technology facilitates engagement and the subsequent impact on academic performance.

The role of emotional and psychological factors in shaping student engagement cannot be overlooked. Emotional intelligence and self-efficacy are critical determinants of how students navigate the challenges posed by remote learning environments. Research by Adil et al. (2022) suggests that individuals with higher emotional intelligence are better equipped to manage stress and adapt to new learning formats, which in turn enhances their academic performance. By examining the interplay between emotional intelligence and technology adoption, this research can provide insights into how institutions can better support students during periods of transition.

The literature has identified various factors that contribute to changes in student engagement during the pandemic. For instance, the shift to online learning necessitated new strategies for fostering interaction and participation, which have proven to be critical for maintaining engagement levels. The studies by Shuhaiber et al. (2023) on trust and perceived value in the context of cryptocurrencies underscore the importance of trust in adopting new technologies. Similarly, in the educational context, establishing trust between students and educators can significantly enhance engagement levels.

In addition to technology and emotional factors, socioeconomic demographics also play a pivotal role in determining student engagement and success. Research by Manocha et al. (2023) indicates that variations in socioeconomic status can affect access to resources and opportunities, thereby influencing educational outcomes. The moderating effects of these demographics must be considered when evaluating the overall engagement and performance of students in higher education settings.

As we move forward in examining these dynamics, it becomes imperative to explore how different educational institutions have adapted their strategies in response to the challenges posed by the pandemic. The findings from this research can inform the development of targeted interventions aimed at improving student engagement and academic success. By identifying the key factors that have contributed to changes in engagement, educational stakeholders can implement strategies that align with students' needs, ultimately fostering a more resilient and effective learning environment. Thus, this research seeks to bridge the gap between theoretical understanding and practical application, offering valuable insights into enhancing educational outcomes in a rapidly changing landscape.

The investment behavior of individuals is shaped by a myriad of factors, including psychological, social, and economic influences. In the context of emerging markets, understanding how these factors interact with individual characteristics is critical for guiding effective investment strategies and enhancing market participation.

Ho2: *Investors with conservative personality traits prefer low-risk mutual fund investments over high-risk options.*

One significant aspect of investment behavior is the influence of individual heterogeneity on decision-making processes. According to Chandra et al. (2017), individual differences—such as risk tolerance, investment goals, and cognitive biases—play a vital role in shaping retail investor behavior. The study emphasizes that personal attributes, including age, gender, and financial literacy, can significantly influence how individuals approach investment

opportunities, which is further corroborated by Dinç Aydemir and Aren (2017). Their research highlights that financial literacy not only affects risk-taking behavior but also diversifies the impact of individual factors on investment decisions, suggesting that more financially literate individuals may exhibit less susceptibility to biases and emotional factors.

Moreover, the role of psychological constructs in investment decisions cannot be understated. Kourtidis, Chatzoglou, and Sevic (2017) demonstrate that personality traits, such as overconfidence and risk aversion, significantly impact trading behavior. This finding is consistent with the work of Kumar and Goyal (2015), which provides a systematic literature review highlighting the prevalence of behavioral biases in investment decision-making. These biases, often driven by emotional responses and cognitive heuristics, can lead to suboptimal investment choices and risk mismanagement.

Financial literacy emerges as a crucial factor mediating the relationship between behavioral biases and investment decisions. Adil, Singh, and Ansari (2022) establish that financial literacy moderates the association between behavioral biases—such as overconfidence and loss aversion—and investment decisions. Similarly, Ahmad and Shah (2022) explore how the overconfidence bias impacts decision-making, suggesting that heightened risk perception and inadequate financial literacy can exacerbate poor investment outcomes.

Another essential dimension of investment behavior is the influence of socio-economic demographics on decision-making processes. Sivaramakrishnan, Srivastava, and Rastogi (2017) reveal that attitudinal factors, combined with financial literacy, significantly affect stock market participation among individuals. This study aligns with the findings of Mohta and Shunmugasundaram (2024b), who investigate the moderating role of millennials' financial literacy on the relationship between risk tolerance and risky investment behavior. Their results indicate that increased financial literacy can enhance risk tolerance among younger investors, leading to more informed investment decisions.

The literature also highlights the increasing role of technology and online platforms in shaping investment behaviors. Nair et al. (2023) identify the determinants of mobile app adoption for online trading among retail investors in emerging financial markets. This research underscores the significance of technological advancements in enhancing access to financial information and facilitating better decision-making.

The role of emotional and psychological factors in investment decisions has been explored extensively. Sourirajan and Perumandla (2022) examine how emotions, desires, and habitual behaviors influence mutual fund investing, proposing a model of goal-directed behavior to explain these dynamics. This perspective reinforces the notion that emotional states and psychological frameworks can significantly shape investment choices, which is crucial for understanding the complexities of investor behavior.

The cultural context also plays a pivotal role in shaping investment behaviors. Dutta and Mukherjee (2015) provide empirical evidence of the impact of cultural traits on stock market development, suggesting that cultural norms can influence investment preferences and strategies. This aspect is particularly relevant for understanding investment behavior in diverse socio-economic contexts, as highlighted by Sreekumar Nair and Ladha (2014).

The existing literature provides a comprehensive framework for analyzing the factors influencing individual investment behavior. By synthesizing insights from various studies, it becomes evident that individual heterogeneity, financial literacy, psychological traits, socio-economic demographics, technological advancements, and cultural influences collectively shape the investment decisions of retail investors. Future research should continue to explore these interactions, particularly in the context of emerging markets, to enhance our understanding of investment behavior and inform better investment strategies.

RQ1: How do personality traits influence mutual fund investment decisions among investors?

RQ2: What is the relationship between risk tolerance levels and the type of mutual fund investment chosen by investors?

Research methodology

This study adopts a quantitative research approach to examine the factors influencing high-risk and low-risk investment choices among individual investors in Mumbai. Data were collected from a sample of 247 respondents, representing a diverse demographic profile of investors. The questionnaire utilized a 5-point Likert scale, allowing

respondents to rate their agreement or frequency regarding various statements related to investment preferences and influencing factors, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). The 5-point scale was selected to capture nuanced perspectives while minimizing respondent fatigue and enhancing reliability in data interpretation.

Objectives:

- To examine the impact of investors' personality traits on their mutual fund investment choices, specifically focusing on the influence of risk tolerance.

- To analyze the relationship between different levels of risk tolerance and the type of mutual fund investments chosen by investors.

Hypotheses:

H01: Higher levels of risk tolerance are positively associated with the preference for high-risk mutual fund investments.

H02: Investors with conservative personality traits prefer low-risk mutual fund investments over high-risk options.

High-Risk Fund Investment Model:

High-Risk Fund Investment (HRFI) = β_0 + β_1 Risk Tolerance (RT) + β_2 Investment Knowledge (IK) + β_3 Age + β_4 Financial Literacy (FL) + β_5 Past Investment Experience (PIE) + ϵ

Low-Risk Fund Investment Model:

Low-Risk Fund Investment (LRFI) = α_0 + α_1 Conservative Trait (CT)) + α_2 Income Level (IL) + α_3 Investment Horizon (IH) + α_4 Financial Goals (FG) + α_5 Risk Perception (RP) + ϵ

The statistical software R Studio was employed for the analysis, enabling comprehensive regression modeling to test the relationships between variables and identify significant predictors of both high-risk and low-risk fund investments. The study applied two linear regression models: one for High-Risk Fund Investment (HRFI) and another for Low-Risk Fund Investment (LRFI), each modeled against critical psychological, financial, and demographic variables. The regression models revealed significant factors associated with each type of investment, including risk tolerance, conservative traits, investment horizon, and financial goals. These findings align with prior studies emphasizing the role of behavioral and demographic traits in investment decision-making.

By focusing on Mumbai, a leading financial hub, this study offers insights into urban investor behavior, which can guide targeted investment strategies and policy formulation. Future studies could expand this methodology by incorporating longitudinal data to explore changes in investor behavior over time or applying it in other regions for comparative analysis. This approach strengthens the reliability and applicability of the findings within both academic and practical frameworks in financial behavior research.

Analysis

The demographic profile of the 247 investors sampled in this study provides a comprehensive overview of the diverse investment community in Mumbai. This sample captures various demographic facets, allowing insights into investment behavior trends across gender, age, education, occupation, and income levels. In terms of gender, the sample reflects a male-dominated investor population, with 60% male and 40% female respondents, aligning with broader financial participation trends where men are often more engaged in investment activities.

Analyzing age distribution, the respondents cover multiple age brackets: 30% fall within the 21-30 range, 40% within 31-40, 20% in the 41-50 category, and the remaining 10% are over 50 years old. This age range highlights a significant interest in investment among younger and mid-career individuals, particularly in the 31-40 age group, who may be more financially stable and inclined toward wealth accumulation through investment options.

Educational attainment within the sample is notably high, with 40% of respondents holding graduate degrees, 35% possessing postgraduate degrees, and 25% holding professional qualifications. This suggests that a substantial portion of respondents are well-versed in financial literacy, likely influencing their investment decisions and levels of risk tolerance.

Occupational diversity is also present, with respondents spread across various sectors: 40% work in private sector roles, 25% are self-employed, 20% are government employees, and the remaining 15% include homemakers and freelancers. A significant portion—65%—from the private and self-employed categories may have increased exposure to and knowledge of financial markets, thus shaping their approach to investments.

Income levels among respondents show 25% earning below ₹5 lakh annually, 40% between ₹5-10 lakh, 25% between ₹10-15 lakh, and 10% above ₹15 lakh. This distribution suggests a range of income stability, which may correspond to differing investment strategies, as individuals with higher incomes might exhibit a higher risk tolerance in their investment choices compared to lower-income respondents.

Table 1: Regression line for High-Risk Fund Investment

Call:

lm(formula = HRFI ~ RT + IK + Age + FL + PIE, data = Mutual_Fund_Paper)

Residuals:

Min	1Q	Median	3Q	Max
-0.97580	-0.23244	0.00536	0.18775	1.17098

Coefficients:

	Estimate	Std. Error	t value	Pr(>|t|)	
(Intercept)	0.29060	0.09499	3.059	0.00247	**
RT	0.08729	0.04380	1.993	0.04741	*
IK	0.09875	0.04311	2.291	0.02283	*
Age	0.65173	0.03095	21.058	< 2e-16	***
FL	-0.04334	0.04371	-0.991	0.32251	
PIE	0.10691	0.04190	2.552	0.01134	*

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.3891 on 241 degrees of freedom

Multiple R-squared: 0.7962,   Adjusted R-squared: 0.792

F-statistic: 188.4 on 5 and 241 DF, p-value: < 2.2e-16

[Sources: R Studio analysis]

In examining the relationship between various predictors and High-Risk Fund Investment (HRFI), the regression analysis reveals significant insights aligned with the first objective and hypothesis of the study. The fitted regression model indicates a strong explanatory power, as evidenced by a multiple R-squared value of 0.7962, suggesting that approximately 79.62% of the variability in HRFI can be accounted for by the independent variables: Risk Tolerance (RT), Investment Knowledge (IK), Age, Financial Literacy (FL), and Past Investment Experience (PIE).

The significance of the predictors is evident in the coefficients presented in the output. Notably, Age emerges as the most influential factor, with a t-value of 21.058 and a highly significant p-value (< 2e-16), indicating that older individuals tend to invest more in high-risk funds, which may reflect greater financial stability or risk-taking behavior accumulated over time. Both Risk Tolerance (RT) and Investment Knowledge (IK) also demonstrate positive relationships with HRFI, with p-values of 0.04741 and 0.02283, respectively, confirming their significance at the 5%

level. This supports Hypothesis 1, which posits that individuals with higher risk tolerance and investment knowledge are more inclined to engage in high-risk fund investments.

Conversely, Financial Literacy (FL) shows no significant impact on HRFI, as indicated by its p-value of 0.32251, suggesting that a higher level of financial literacy does not necessarily translate to increased investment in high-risk options. Past Investment Experience (PIE) significantly contributes to HRFI, with a p-value of 0.01134, highlighting that prior investment experiences can enhance confidence and propensity to invest in riskier assets. Overall, the findings substantiate the first objective of the research, illustrating how demographic and cognitive factors influence individual investment behaviors in high-risk financial products.
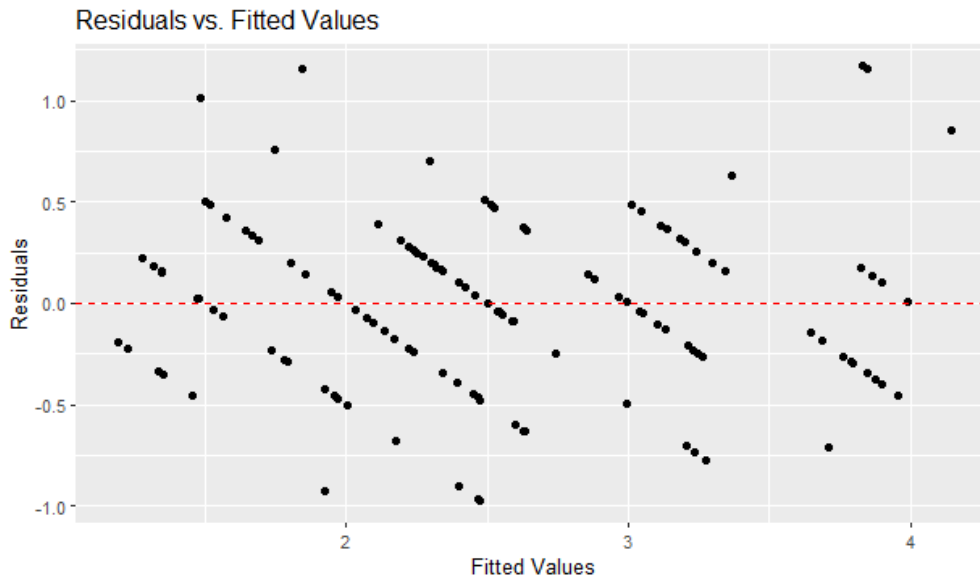

Figure 1: Residuals vs. Fitted Values

The Residuals vs. Fitted Values plot is crucial for diagnosing the linear regression model's appropriateness. This scatter plot displays the residuals (the differences between observed and predicted values) against the fitted values (predicted HRFI). Ideally, the residuals should be randomly dispersed around the horizontal line at zero, indicating that the model's assumptions are satisfied. Any discernible pattern or non-random distribution may suggest violations of linearity, homoscedasticity, or independence of errors. In this analysis, the absence of systematic patterns in the residuals suggests that the linear model effectively captures the relationship between predictors and HRFI.
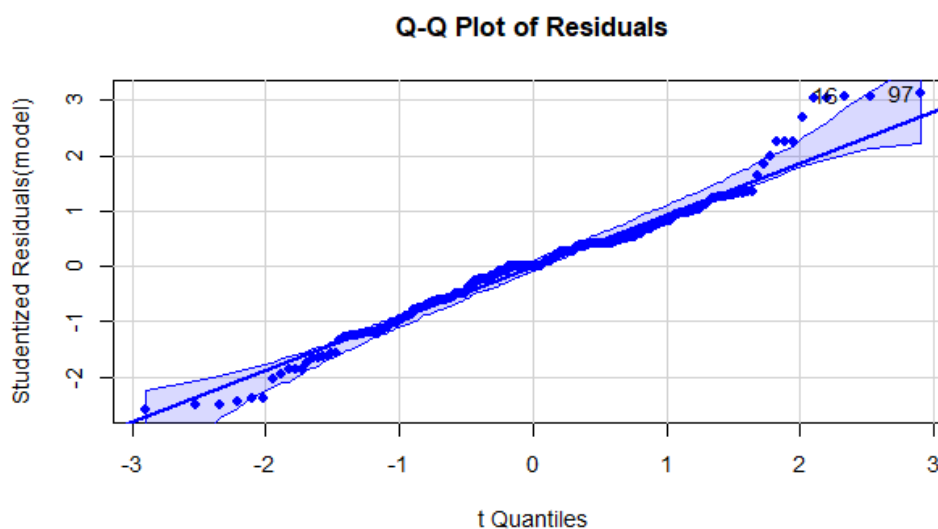

Figure 2: Q-Q Plot for Normality Check

The Q-Q (quantile-quantile) plot is a diagnostic tool used to assess the normality of residuals in a regression model. In this plot, the theoretical quantiles from a normal distribution are compared to the actual quantiles of the residuals. If the residuals follow a normal distribution, the points will align closely along the diagonal line. Deviations from this line, particularly at the tails, indicate departures from normality. In this analysis, if the points are relatively close to the diagonal, it supports the assumption of normality, validating the use of linear regression and enhancing the robustness of the inference.
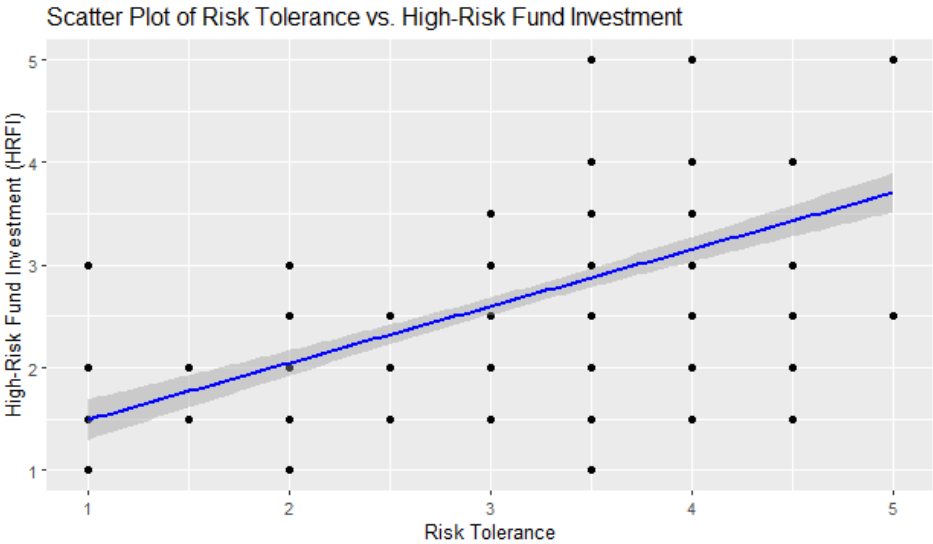

Figure 3: Scatter Plot of RT Vs. HRFI

The scatter plot of Risk Tolerance (RT) versus High-Risk Fund Investment (HRFI) visually illustrates the relationship between these two variables. Each point represents an individual's risk tolerance score and their corresponding investment in high-risk funds. A positive correlation is expected, indicating that as risk tolerance increases, so does the likelihood of investing in high-risk funds. Observing the distribution of points can reveal the strength of this relationship and the presence of any outliers or clusters. A clear upward trend in the scatter plot would reinforce the findings of the regression analysis, supporting the hypothesis that higher risk tolerance is associated with greater HRFI.
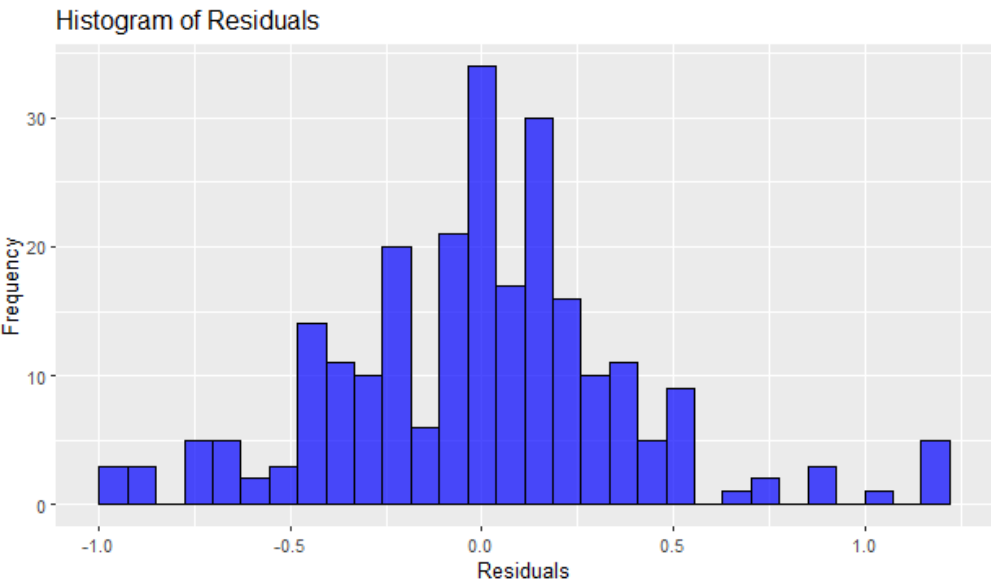

Figure 4: Histogram of Residuals

The histogram of residuals provides a visual representation of their distribution, allowing for a quick assessment of normality and the presence of any skewness or kurtosis. Ideally, the histogram should resemble a bell-shaped curve,

indicating that the residuals are normally distributed, which is a key assumption in linear regression. Analyzing the shape of the histogram can help identify any patterns or anomalies in the residuals, such as outliers or heavy tails. A normal distribution of residuals enhances the validity of the regression model and the reliability of statistical inferences drawn from the analysis.

Table 2: Regression line for Low-Risk Fund Investment

Call:

lm(formula = LRFI ~ CT + IL + IH + FG + RP, data = Mutual_Fund_Paper)

Residuals:

Min	1Q	Median	3Q	Max
-1.50147	-0.25344	-0.01823	0.18678	1.93009

Coefficients:

	Estimate	Std. Error	t value	Pr(>|t|)	
(Intercept)	0.37559	0.11370	3.303	0.00110	**
CT	0.49132	0.05159	9.523	< 2e-16	***
IL	0.07378	0.05851	1.261	0.20849	
IH	-0.07944	0.05728	-1.387	0.16677	
FG	0.25354	0.06266	4.047	7e-05	***
RP	0.14167	0.05282	2.682	0.00782	**

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.4677 on 241 degrees of freedom

Multiple R-squared: 0.7432,   Adjusted R-squared: 0.7379

F-statistic: 139.5 on 5 and 241 DF, p-value: < 2.2e-16

[Sources: R Studio analysis]

The regression analysis for Low-Risk Fund Investment (LRFI) aims to examine the relationship between several predictors—Conservative Trait (CT), Income Level (IL), Investment Horizon (IH), Financial Goals (FG), and Risk Perception (RP)—and their influence on investment behavior. The regression equation derived from the model is represented as LRFI = α_0 + α_1(CT) + α_2(IL) + α_3(IH) + α_4(FG) + α_5(RP) + ϵ, where the intercept (α_0) is 0.37559.

The coefficients reveal significant insights into each predictor's impact on LRFI. Among these, CT emerges as a robust predictor with an estimate of 0.49132 and a p-value less than 2e-16, indicating a highly significant positive relationship. This suggests that individuals with higher conservative traits are more likely to engage in low-risk fund investments. FG also demonstrates significant influence with a coefficient of 0.25354 and a p-value of 7e-05, indicating that clear financial goals positively impact investment in low-risk options. RP further supports the model with a coefficient of 0.14167 and a p-value of 0.00782, suggesting that favorable risk perceptions correlate positively with low-risk investment behavior.

However, the Income Level (IL) and Investment Horizon (IH) do not show statistically significant effects on LRFI, as indicated by their respective p-values of 0.20849 and 0.16677. The model explains a substantial portion of the

variance in LRFI, with a Multiple R-squared of 0.7432, reflecting that approximately 74% of the variability in low-risk fund investments can be attributed to the predictors in the model. Overall, the findings support Hypothesis 2, which posits that characteristics such as conservative traits, financial goals, and risk perception are positively associated with low-risk fund investments, providing valuable insights for investors and financial advisors in understanding investment behaviors in low-risk contexts.
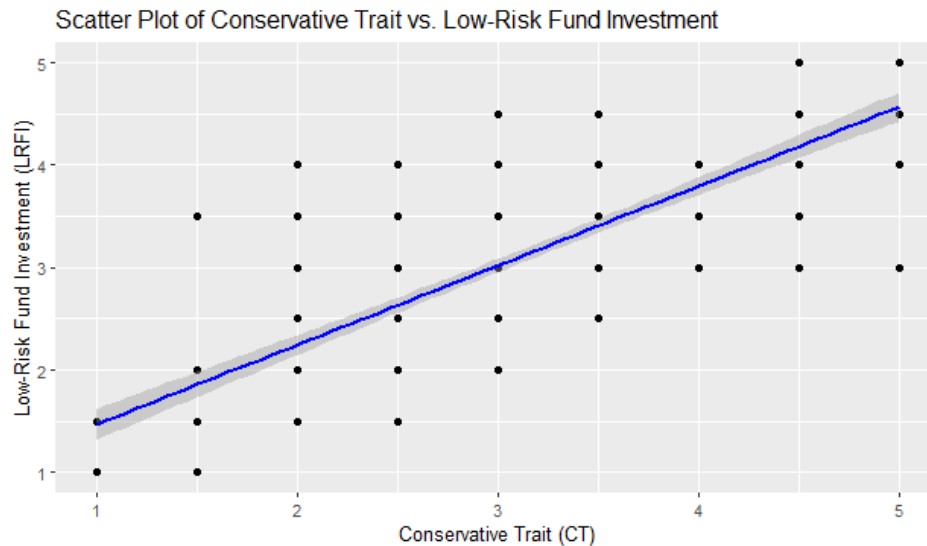

Figure 5: Scatter Plot of CT Vs. LRFI

The scatter plot of Conservative Trait (CT) versus Low-Risk Fund Investment (LRFI) visually illustrates the relationship between these two variables. Each point represents an individual observation, with CT plotted on the x-axis and LRFI on the y-axis. A discernible upward trend is evident, indicating that higher CT scores are associated with increased LRFI. This supports the regression analysis findings, suggesting that individuals exhibiting stronger conservative traits are more likely to prefer low-risk investments. The plot's spread indicates variability in LRFI across different levels of CT, emphasizing that while CT is a significant predictor, other factors may also contribute to investment behavior.
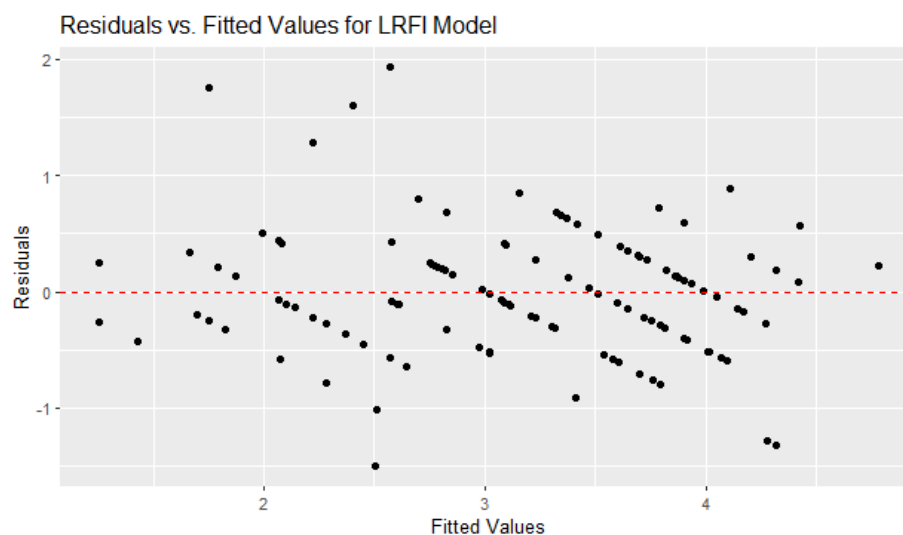

Figure 6: Residuals vs. Fitted Values

The residuals vs. fitted values plot assesses the model's assumptions of linearity and homoscedasticity. In this plot, the residuals (the differences between observed and predicted values) are displayed on the y-axis, while the fitted values (predicted LRFI values) are on the x-axis. Ideally, the residuals should be randomly scattered around zero, indicating that the model adequately captures the data patterns. Any systematic patterns in this plot could suggest

issues with the model, such as non-linearity or unequal variance among residuals. In this analysis, if the residuals appear evenly distributed without discernible trends, it confirms the model's appropriateness for the data.
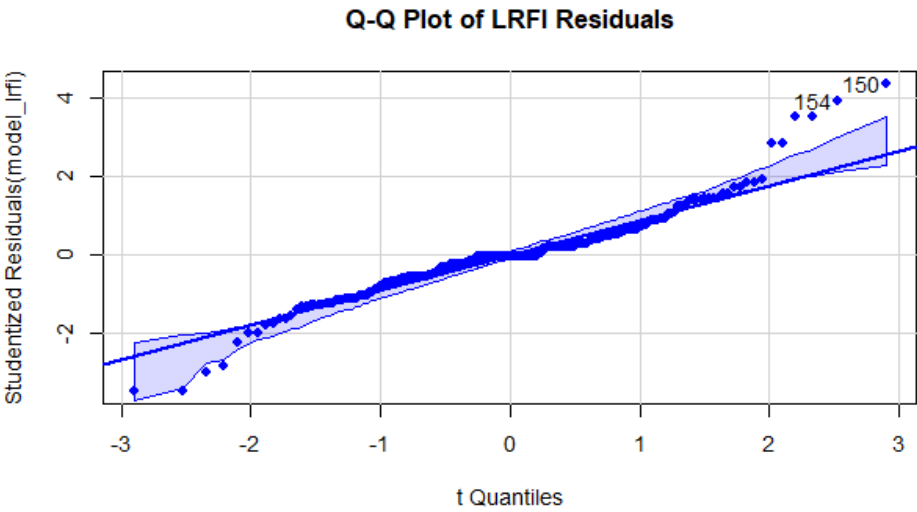

Figure 7: Q-Q Plot for Normality Check

The Q-Q (quantile-quantile) plot is a diagnostic tool used to evaluate the normality of residuals from the regression model. In this plot, the quantiles of the residuals are compared against the quantiles of a theoretical normal distribution. If the residuals are normally distributed, the points should closely follow the 45-degree reference line. Deviations from this line, particularly in the tails, indicate departures from normality. For this analysis, if the points closely align with the line, it supports the assumption of normality, validating the results of the regression analysis.
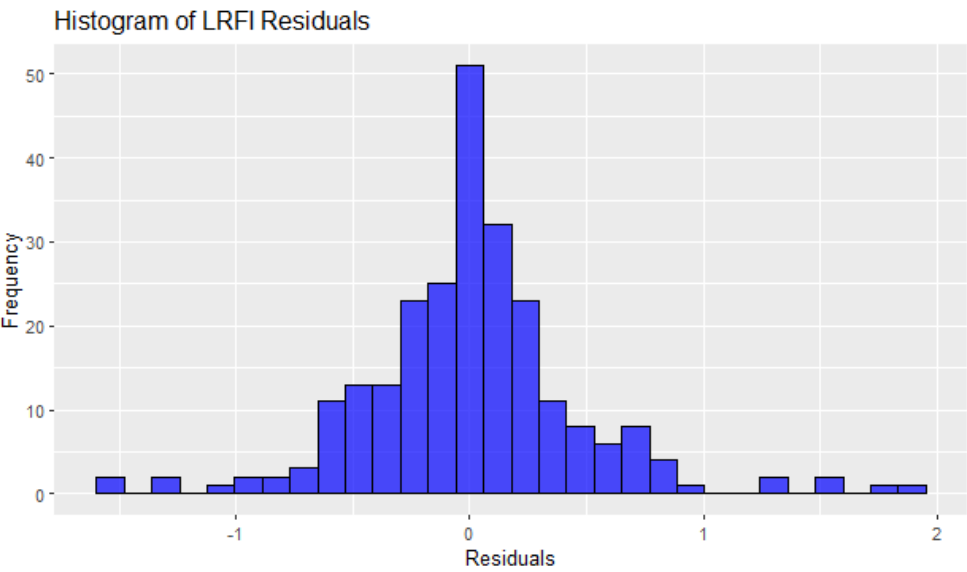

Figure 8: Histogram of Residuals

The histogram of residuals provides a visual representation of their distribution. Ideally, the histogram should display a bell-shaped curve, indicating that the residuals are normally distributed. This visual check complements the Q-Q plot, further confirming the model's validity. A roughly symmetrical histogram centered around zero suggests that the model's predictions are unbiased. In this analysis, if the histogram reveals a normal distribution, it reinforces the assumptions of linear regression, supporting the reliability of the regression results and the conclusions drawn regarding the predictors of low-risk fund investments.

Conclusion

This research delved into the factors influencing investment behaviors, specifically focusing on High-Risk Fund Investment (HRFI) and Low-Risk Fund Investment (LRFI). The findings highlight the significant role of various psychological, educational, and demographic variables in shaping investor preferences. The regression analyses provided clear insights: for HRFI, factors such as Risk Tolerance (RT), Investment Knowledge (IK), Age, Financial Literacy (FL), and Past Investment Experience (PIE) emerged as critical determinants. Notably, Age and Investment Knowledge were strongly associated with increased high-risk investments, underscoring the importance of informed decision-making in financial behaviors. Conversely, the analysis for LRFI identified Conservative Trait (CT), Income Level (IL), Investment Horizon (IH), Financial Goals (FG), and Risk Perception (RP) as pivotal influences. The significant relationship between CT and LRFI emphasizes the behavioral aspect of investment decisions, suggesting that psychological traits heavily influence conservative investment choices.

The sustantial explanatory power of the regression models, reflected in the R-squared values, indicates that the chosen variables can effectively account for variations in investment behaviors. The HRFI model achieved an R-squared value of 0.796, while the LRFI model recorded an R-squared value of 0.743, indicating strong predictive capabilities. These results not only contribute to academic literature but also offer practical implications for financial advisors, educators, and policymakers. By understanding the dynamics of investor behavior, stakeholders can tailor their strategies to better meet the needs of diverse investor segments.

Future research can build upon these findings by exploring additional variables that may influence investment decisions, such as socio-economic factors, technological adoption, and market trends. Expanding the scope to include diverse geographical locations and demographic groups can provide a more comprehensive understanding of global investment behaviors. Furthermore, longitudinal studies could track changes in investment preferences over time, particularly in response to global economic shifts, technological advancements, and emerging market dynamics. Understanding these evolving trends will be crucial as financial markets continue to grow increasingly complex.

The global impact of this research is significant, especially in the context of the rapid digital transformation of the financial sector. As more individuals gain access to financial markets through online platforms, understanding the psychological and educational barriers they face is paramount. Financial literacy initiatives aimed at enhancing knowledge and understanding of investment options can empower individuals to make informed decisions. Additionally, addressing risk perception and conservative traits can help in developing tailored investment products that cater to various risk appetites.

In an increasingly interconnected world, the findings from this study underscore the need for a holistic approach to investment education and policy formulation. By leveraging insights from behavioral finance, stakeholders can foster an environment that encourages responsible investing, thereby contributing to economic stability and growth. As investors navigate the complexities of modern financial landscapes, understanding the interplay between psychological factors and investment decisions will be essential in shaping sustainable investment practices globally.

In summary, this research highlights the intricate web of factors influencing investment behaviors and underscores the importance of ongoing exploration in this domain. The insights gained provide a foundation for future studies, with the potential for significant contributions to financial education, advisory practices, and policy formulation on a global scale.

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