



Research Paper

# Investor Apprehension and Reinvestment Intention in Mutual Funds: An Empirical Study of Retail Investors in Kerala

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## Abstract

Fear, uncertainty and hesitation, or to put it another way, investor apprehension has become one of the prevailing psychological predictors of investment in market-related financial instruments like mutual funds. Although the Indian mutual fund industry has greatly grown as both a result of regulatory reforms and digital innovation and investor awareness campaigns, there is still an uneven reinvestment by the retail investors. This variation is indicative of the possibility that emotional and mental barriers can have a greater effect on the behavior of investors than objective financial data by itself. This paper is an empirical study of the role that investor apprehension plays in perceived investment performance and reinvestment intention in retail mutual fund investors in Kerala. A structured questionnaire was used to collect primary data on 100 investors and analysis of primary data was performed based on descriptive statistics, correlation and regression analysis. The use of graphical representation was used to develop interpretation and to ensure the use of empirical findings. The findings indicate that the fear of investors has a great and negative impact on perceived performance of investment and reinvestment intention. The research enhances the literature on behavioral finance by separating the role of investor apprehension as an independent variable and it has significant implications to the asset management firms, investment advisors as well as policymakers that would encourage the long-term retail investment in mutual funds.

**Keywords:** Investor apprehension, behavioral finance, mutual funds, reinvestment intention, retail investors, Kerala

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## I. Introduction

Mutual fund business is very important in terms of mobilizing the savings of the households and investing them in the capital markets, hence, sustaining the growth and financial stability of the economy. The industry has been experiencing a fast growth in the last ten years in India because of the regulatory moves, enhanced transparency, technological progress, and financial inclusion. Mutual funds are being actively sold as appropriate investment tools to the retail investor due to their ability to provide diversification, high level of professional management, low costs and liquidity.

Though these are positive issues, the long-term engagement of retail investors, more so in the area of reinvestment and commitment is a challenge. The volatility in the market, the continuous changes in the Net Asset Values, more of the media attention to the movements in the market tend to create an emotional response in the investor and thus the investor tends to withdraw or terminate the investment prematurely. Such actions go against the long-term investment horizon that is usually suggested with an investment in mutual funds.

The traditional theory of finance presupposes that investors are rational, efficient in processing information, and make investment choices grounded only on objective judgments regarding risk and returns.

Nevertheless, investment behaviour in reality often does not conform to these assumptions. Behavioral finance offers a different concept by acknowledging that psychological and emotional aspects affect investors and influence perception, judgment, and behavior when faced with uncertainty.

Among them, the concern of investors holds the place of pride. Investor apprehension is a mental state of having a fear about losing money, about the instability of the market, about the uncertainty over future returns and reluctance to invest further. In contrast to objective risk, apprehension is subjective and emotionally motivated and usually lasts even in cases where the fundamentals of investments are good.

Kerala has a very interesting and pertinent perspective to the study of the fear of investors. It has been characterized by a high general literacy rate, access to information and the growing involvement in the financial markets. Nonetheless, mutual fund investment trends in Kerala demonstrate shy nature especially the decisions made on reinvestment. The given paradox demonstrates the necessity to investigate psychological variables beyond awareness or access. The current study is, therefore, based on the hypothesis that the perceived investment performance with respect to reinvestment intention is affected by the apprehension of investors, among retail mutual fund investors in Kerala.

## **II. Review of Literature**

It has been shown that investors do not always act in a fully rational way as illustrated in the body of literature in behavioral finance. Rather, decision-making is affected by feelings, shortcuts, and cognitive biases especially in circumstances of uncertainty and risk. Fear and anxiety are determined as potent emotional reactions and they greatly influence financial behavior resulting to avoidance of risk as well as slack decision making and premature withdrawal of investments.

The fear of investors is a unique emotional reaction to the perceived uncertainty in the financial markets. It involves fear of loss, anxiety due to unpredictable market trends and uneasiness caused by expenses of not controlling the result of investment. Mutual fund investments involve the fear in the short term volatility, product information complexity, inconsistency of returns, and previous bad experience in investments.

A number of empirical studies indicate that anxious investors will assess performance of investment in the negative way. The prospect theory is a behavioral theory that argues that investors tend to be more receptive to loss than gain, which results in an asymmetry in the valuation of performance. Consequently, even when long-term opportunities are good, temporary market declines will tend to be viewed as losses even when long-term opportunities are good.

Reinvestment behavior also has serious consequences based on investor apprehension. Reinvestment intention is the disposition of an investor to invest again, invest more or keep systematic plans of investment. Their nervous system tends to be preoccupied with the emotional comfort and capital protection rather than with long-term development, leading to a low level of reinvestment or a total exit of the market-related instruments.

Although previous studies have studied different behavioral biases, including overconfidence, herding and loss aversion, scarce empirical studies have isolated investor apprehension as an independent variable that affects reinvestment behavior in the Indian mutual fund setting. Furthermore, there are few studies area specific. This paper fills these gaps by concentrating solely on the investor concern and investigates its impacts in socio-economic environment of Kerala.

## **III. Conceptual Framework and Hypotheses**

The study conceptual framework is based on behavioral financial theory that emotional reactions also determine cognitive appraisal and behavioral intention. The fear of investors is likely to skew the manner in which investors will view the outcome of investment and later affect their readiness to invest further.

Investor apprehension in the proposed framework will have a direct impact on the perceived investment performance, as the perceived investment performance is influenced by how investors perceive market fluctuations, returns and volatility. This warped perception in turn affects the intention on reinvestment. Heightened apprehension would be a deterrent to investment exposure, which is not necessarily a poor performance but simply a heightened apprehension.

The conceptual model presupposes the direct correlation of investor apprehension and reinvestment intention and indirect linkage through perceived investment performance. This model highlights the two-fold aspect of apprehension to shape the process of evaluation and action.

Based on this theoretical reasoning, the following hypotheses are proposed:

- **H1:** Investor apprehension has a significant negative effect on perceived investment performance.
- **H2:** Investor apprehension has a significant negative effect on reinvestment intention

## **IV. Research Methodology**

### **4.1 Research Design**

The research design undertaken is descriptive and explanatory research design with a cross-sectional survey design. This design will be appropriate to investigate psychological constructs and their behavioral effects at a given time. It enables establishing correlations among variables without having to interfere with the environment of the research.

### **4.2 Sample and Data Collection**

The main data obtained was 100 retail mutual fund investors in selected Kerala districts. Multistage sampling method was used to represent the regions and cover investors possessing various demographic and investment profile. The sample size was composed of respondents who have different experiences and income as well as exposure to mutual fund products.

Since it was an exploratory research, and the study was based on one behavioral construct, a sample size of 100 was methodologically suitable to conduct regression-based analysis. A structured questionnaire was employed in the collection of data that was done via personal interaction and through online channels.

### **4.3 Measurement of Variables**

To determine investor apprehension, five Likert-scale items that reflected fear of capital loss, anxiety about market volatility, uncertainty about future returns, lack of confidence in market recovery and reluctance to continue investing were used to measure investor apprehension. Perceived investment performance was measured by the use of items that measure satisfaction with returns, consistent performance and investment objectives. Reinvestment intention was captured on items that captured willingness to invest again, increase the level of investment as well as advice others to invest in mutual funds.

Everything has been rated on a five-point Likert scale with strongly disagree and strongly agree being the extremities.

### **4.4 Data Analysis**

To measure the general degree of investor apprehension, descriptive statistics were applied. Pearson correlation test was used to test the strength and direction of the relationships between variables. The proposed hypotheses were tested using simple linear regression. The statistical findings were graphically reinforced with the help of bar charts and scatter plots to make them easier to understand.

## **V. Results and Discussion**

The descriptive analysis indicates that the investor apprehension obtains a moderate to high mean value (Mean = 3.62, SD = 0.71), which proves that fear and uncertainty are still observed to be dominant among the retail investors in mutual funds. This result indicates that the level of emotional discomfort remains even with the level of knowledge and financial information. Comparatively, the perceived performance in terms of investment (Mean = 3.18, SD = 0.68) and reinvestment intention (Mean = 3.05, SD = 0.74) are moderate, and indicate skeptical investor attitude.

The visual proof of the prevalence of investor apprehension over perceived performance and reinvestment intention is made by the bar chart of the comparison of mean scores. This graphical data reinforces the descriptive results and stresses the issue of apprehension as a primary psychological issue impacting investor attitudes.

Correlation analysis shows that there is a statistically significant negative correlation between the apprehension of investors and the perceived performance of the investment ( $r = -0.46$ ,  $p$  value = 0.01). This is an indication that the greater the apprehension the more pessimistic the judgment of the outcomes of the investment. The same negative correlation can be identified with the investor apprehension and the intention to reinvest ( $r = 0.53$ ,  $p < 0.01$ ) suggesting that fear and uncertainty are important factors that decrease the desire to invest again.

These relationships are also supported by regression analysis. Investor apprehension has a large and negative impact on the perceived investment performance (21% of the variance,  $F(1, 98) = 10.85$ ,  $p < 0.01$ ). This was found in agreement with behavioral theories that focus on loss aversion and emotional bias in performance appraisals. Investor apprehension also has a more negative impact on the reinvestment intention ( $\beta = -0.53$ ,  $p = 0.01$ ) with a value of 28 percentage variance.

The visual depiction of the relationship of investor apprehension and reinvestment intention portrayed in the scatter plot has a downward trend which supports the regression findings. On the whole, the results prove that investor apprehension influences both cognitive analysis and behavioral intention as well, which indicates the significance of emotional aspects influencing mutual fund investment choice.

## **VI. Implications of the Study**

### **6.1 Managerial Implications**

Financial advisors and asset management companies should be aware of the investor apprehension as a significant impediment to investment sustainability. Fear-reduction and investor confidence can be achieved through proactive communication, setting realistic expectations, simplified reporting, and constant interaction in the turbulent market periods. Individual advisory strategies can also help to reduce fear among the risky groups of investors.

### **6.2 Policy Implications**

Regulatory agencies and policymakers ought to come up with investor education programs that focus on the emotional and psychological aspects of investment behavior. Behavioral nudges, simplified disclosures, and confidence-building programs could contribute to investor resilience and increase both long-term investments in mutual funds.

### **6.3 Academic Implications**

The study isolates the postulation of investor apprehension as a separate construct and has a contribution in the literature on behavioral finance and has offered region-specific empirical data in the Kerala region. It provides new possibilities of researching more into emotional determinants of investment behavior in the emerging markets.

## **VII. Future Research Limitations and Scope.**

There are some limitations associated with the study. The sample is small and geographically encompassing Kerala and thus could be limiting the generalizability. Causal inference is limited by the cross-sectional design. Future studies can use longitudinal designs, sample sizes, and more diverse samples or relate the interaction of investor apprehension with other behavioral constructs, including trust, financial literacy, or risk tolerance.

## **VIII. Conclusion**

This research paper reveals that investor apprehension is a major psychological antecedent of the perceived performance of investment and reinvestment intention in retail mutual fund investors in Kerala. The investment behaviour is still being influenced by emotional reactions to uncertainty and volatility, regardless of their heightened awareness and availability. The mitigation of investor fear by undertaking specific behavioral, managerial, and policy changes is crucial to attaining long term involvement and long term wealth generation via mutual funds.

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