Chapter 1

Prologue

Introduction

The Indian capital market has been growing significantly after the initiation of economic reforms of 1991. During this period, the Indian economy has opened up and many developments have been taking place in the Indian capital market. The capital market is very important for the development of an economy. A strong capital market backs corporate world initiatives, finance and investigation of new processes and instruments which smoothen the progress of the economy.

The retail investor is treated as the backbone of the capital market. Indian stock market is believed to be one of the earliest in Asia, which has been in operation since 1875. But development phase is not an old one. Indian security markets have witnessed extensive reforms in the post-liberalization era in terms of market design, technological developments and the introduction of new instruments. With the establishment of SEBI and technological advancement, Indian stock market is now able to reach the global standard. The markets have accomplished incredible stability and as a result, have attracted huge investments by foreign investors the but there is still ample of scope for improvement in securities market for the investment of equity and mutual fund (Chattopadhyay and Behera, 2006**;** Jadhav, 2010)**.** The globalization of financial markets has been increasing the size of the community of retail investors' over the past two decades by providing a wide variety of market and investment options. It makes their investment decision process more complex (Bennet and Selvam, 2011).

Investment in a portfolio can take different forms. Investors can either invest directly in securities or can invest through an investment company also referred as the mutual fund. An investment company is a financial intermediary that collects money from investors and invests various securities on their behalf under expert guidance. One such financial intermediary such as mutual fund has played a significant role in the development and growth of capital markets. Small investors are facing a lot of problems in the capital market such as limited income, lack of professional advice, and information. Mutual funds have emerged as a much desirable help to these investors. With the growing regulatory role of SEBI, expansion of financial institutions and investor education are required to change the mindset of individual investors (Jasmeen, 2009).

Concept of mutual fund and its development in India

The mutual fund is a trust that pools the savings of a number of investors. The money collected is then invested in different types of securities under the supervision of professional fund managers. They are investing in different potential avenues by doing research on behalf of investors. The incomes generated through this investment are shared by unit holders in proportion to the number of units owned by them. Individual investors do not have any a headache regarding investment in the capital market. India is rising as a big investment destination. It has a high savings and investment rate which is relatively greater than any other economies of the world.

In today's volatile market environment, mutual funds are considered as a potentially low-cost investment vehicle. It attracts a fair share of investor's attention leading to the growth of the industry (Prabhavathi and Kishore, 2013; Rathnamani, 2013).

The Indian mutual fund's industry did not exist till the 1960s. In 1963, the Government of India took the initiative by passing the Unit Trust of India Act, 1963. As a result of this act, the Unit Trust of India (UTI) was set-up as a statutory body and US-64 scheme was launched in the year 1964 which became the first mutual fund of the country.

In 1992 the government allowed private sector players to set up mutual funds. Since 1990, total mutual fund assets have been increased nearly sevenfold (Prathap and Rajamohan, 2013).The mutual fund sectors are one of the fastest growing sectors in Indian economy. It is believed that this sector has incredible potential for sustained future growth. A report published by AMFI (2009) found that that mutual fund investment by households has more than doubled from 3.7 percent in 2006 to 7.8 percent in 2008. It shows a swing of investors from traditional investments to mutual funds. Mutual funds make savings and investing simple, easily reachable and affordable (Kumar and Bansal, 2014).

A small investor is not able to have a diversified portfolio mainly due to a shortage of resources. A mutual fund pools together the savings of such small investors and invests the same in the capital market and passes the benefits to the investors (Kumar, 2011*)*. So, investors need not monitor the market on daily basis for making an investment in various avenues of financial products with the objective of generating income (Sindhu and Kumar, 2014).

There are more than 30 mutual funds in India offering 550 schemes, managed by various types of an institution such as banks, the UTI and international investment banking firms. More than 10 million mutual fund investors are there in India. There is a very limited knowledge of investment decision- making processes and consumer behaviour as applied to financial asset and service.

Investor behaviour in mutual fund

According to Investopedia, there have been many studies that have documented long-term historical phenomena in the capital market that contradict the efficient market hypothesis and cannot be captured possibly in models based on perfect investor rationality. A new part of The risk research which finds the presence of a psychological element in financial decision making and thus challenging the traditional models that assume investors will always give more weight to risk and return factors rationally and act without bias. In the background of the above statement, the concept of investor behaviour comes forward. The principle of behavioral finance states that the efficiency of investment strategies can be by taking into account the psychological factors.

Investor's behaviour refers to the selection, purchase of asset and services for the satisfaction of their needs (Anitha and Bhargavi, 2014)**.**

Thaler (1980) found that there is an obvious association between financial investment choices and consumer behaviour. Research on consumer behaviour pattern may prove useful in increasing the understanding of complex financial marketplace where the purchase decisions are made. The financial market gives a rich environment to study consumer behaviour. But still, there has been a very little application of both consumer behaviour theory and research techniques in the finance area (Wilcox, 1999).

While making the investment decision, not only conscious or explicit information plays a role, but also implicit or unconscious components like psychological, sociological, economical, psychological factors are considered to be important (Shiller,1984).

Indian investors still prefer safety and liquidity to returns. In spite of being a high-income earner, well-educated and high salaried, they prefer risk-free return (Sultana, 2010). According to a survey conducted by market regulator SEBI (2003), it was observed that there was a steep decline of investing to equity and mutual fund by Indian investors. It is believed that the average Indian investor prefers low risk, high safety and liquidity to returns. But due to the volatility in the return, people hesitate to invest in it. Therefore, there is a need for imparting investment education to the people so that they are able to make good investment decisions (Singh and Bhowal, 2010).

A typical inhabitant of the North-East India is not much concerned about the happenings at Bombay or National Stock Exchange. But during the recent past, it is observed that this culture is changing slowly. The virtue of the capital market has caused the region greatly. Due to the low investment in the equities and mutual fund, people used to put their savings into the banks. There are several instruments in the market like bank deposits, insurance policies, postal deposits and company bonds which give certain return. The good part with this kind of investment is that it provides the investor a guaranteed return and peace of mind, but it provides very less return to the investors and sometimes the return is not sufficient to beat the inflation (Singh and Barman, 2011).

The masses in Tripura generally prefer to save in those instruments that are safe. The safety of the money invested is not compromised and at times, they do not mind accepting a lesser return on their investments. An average small investors generally advocates the phenomenon of risk adversity. But return on investment in capital markets comes with the associated risks. Going with direct investment in the capital market is an expensive proposal and requires expert knowledge. Therefore the only route left for the small investors for earning a better return on investment is by investing in mutual funds.

The study of investor behaviour laid emphasis on the use of the psychology-based theories to explain capital market irregularity. It tries to explain how psychology can play a vital role in financial decision making and financial markets. In investor behaviour theory, it is considered that the flow of information and the characteristics of market participants systematically persuade individuals' investment decisions (Singh 2009).

This area of investigation is also sometimes referred to as "behavioural economics". So, Behavioural economics combines the twin disciplines of psychology and economics to explain why and how people take irrational or illogical decisions at the time of investment.

Rationality of Studying Investors behaviour

The following paragraphs will light on the rationality of studying investors' behaviour:

a. The modern financial economics assumes that people behave with rationality, but practically, it is seen that it is not true always. In addition, it is observed that people's deviations from rationality are often systematic. Investor behaviour study relaxes the traditional assumptions of financial economics by incorporating these observable, systematic, and very human departures from rationality into standard models of financial markets.

b. According to the of theory, everyone cautiously judges all available information before making investment decisions. But practically it is observed that people are taking decisions based on only a few available information but not all. Investor behaviour, which draws on psychology, is throwing more light on why people buy or sell the mutual fund they do - and even why they do not buy mutual funds at all. The research on investor behaviour helps to explain the various 'market irregularities that challenge the standard theory. It is emerging from the academic world and beginning to be used in money management.

The need to get answers to some questions regarding the behaviour of the investors as well as capital market is strongly felt.

Theories in Behavioural Finance

Behavioural finance is an emerging field of study. It is primarily the mixture of economics, psychology, anthropology and various other social sciences. Theories of human behaviour from various social science disciplines such as psychology, sociology, and anthropology have facilitated and encouraged a large number of empirical research on the behaviour of financial markets. Therefore, the theories from the various social science disciplines are considered and then for each of them are illustrated to show their applications in finance and economics too. Following are the theories in the area of behavioural finance which are, in fact, developed from various social science disciplines:

i. Prospect Theory

Prospect theory was originally propounded by Tversky and Kahneman (1979). “They found that contrary to expected utility theory, people placed different weights on gains and losses and on different ranges of probability”. Expected utility theory explains to choose rationally in a situation of uncertain outcome that is expected to come out as a result of a particular act. It assumes a model of rational human being making rational decisions. Its basic slogan is “choose the act with the highest expected utility”

Prospect theory says that “*individuals are much more distressed by prospective losses than they are happy by equivalent gains. They also found that individuals will respond differently to equivalent situations depending on whether it is presented in the context of losses or gains. Researchers have also found that people are willing to take more risks to avoid losses than to realize gains*”. It was found that faced with sure gain, most investors are risk-averse, but faced with sure loss, investors become risk-takers.

ii. Regret Theory

Regret theory decision-making by Professor Statman, an expert in this field. This theory has the out of a behaviour known as "fear of regret'. This theory explains that people have a habit of feeling sorrow and grief after having made an error in judgment. Regret theory states that "investors avoid selling stocks that have gone down in value.

This is to avoid the pain and regret of having made a bad investment. They feel embarrassed to report the loss to their clients, accountants, spouse and others. the may also contribute to the tendency of not to sell losing investments".

It is seen that many investors find it convenient to buy a popular stock and rationalize it is going down since everyone else purchased it and thought so highly of it. It is also believed that money managers and advisors favour well known and popular companies. It is because they are less likely to be fired if they underperform.

iii. Anchoring

The concept of anchoring is a cognitive bias. Cognitive means rational thinking ability. Anchoring refers to the tendency of people to attach or "anchor" their thoughts to one particular piece of information when making a decision, even if this information is an irrelevant or insufficient benchmark. Thus, it is the use of irrelevant information as a reference for evaluating or estimating some unknown value or information. When anchoring, people base decisions or estimates on events or values known to them, even though these facts may have no bearing on the actual event or value.

Anchoring is a phenomenon in which investors undertake current market prices of stocks to be right. This is due to the absence of better information. For instance, in a bull market, each new high is 'anchored' by its nearness to the last record. Gradually distant history of a market increasingly becomes an irrelevance. People characteristically assign too much weight to recent experience. They deduce recent trends that are similar to long-run averages and other statistical odds. Anchoring is a reference point in the mind of the investors. Therefore, the investors, while making any kind of investment decisions, use to compare the situation with the reference point.

iv. Over and Under-Reaction

It is also observed that market overreact as well as sometimes under react to certain information. The reason for this over or under reaction is putting too much weight on the recent news by the investors at the expense of other data. A person becomes overconfident occasionally. They have a tendency to become more optimistic when the market goes up. They also have the habit to be more pessimistic when the market goes down. It is a challenge to the efficient market hypothesis that individuals often over or under-react to news.

v. Mental Accounting

Mental accounting is associated to the anchoring and framing phenomenon. It is a human inclination to place particular events into particular mental compartments. It is based on superficial attributes. People do not look at the big picture. It is implied by expected utility theory that people should look at the big picture. Instead of looking at the big picture, people look at individual small decisions separately.

Similarly, people have a tendency to place their investments into their arbitrarily separate mental compartments. Thereafter, they react to those investments separately based on which mental compartment the particular investment is in. Shefrin and Statman (1994) have argued that “individual investors normally make two compartments of their portfolio. One is naturally in terms of having a “safe” part of their portfolio that is protected from downside risk and the other is a risky part that is designed for a chance of getting rich". Similarly, Shefrin and Thaler (1988) have argued, "people put their sources of income into three categories, firstly current wage and salary income, secondly asset income, and thirdly future income. It was also found that people spend differently out of the present values of these different incomes. For example, it is found that people are very reluctant to spend out of their future income even if it is certain to arrive due to various reasons".

vi. The Disjunction Effect

The disjunction effect is the tendency of the people to wait for some information to make decisions. It is seen that the people wait for the information even though the information is not really important for the decision. They used to make the same decision regardless of the information. "The disjunction effect is a contradiction to the 'sure-thing principle' of rational behaviour" (Savage, 1954).

The disjunction effect might be helpful in explaining the changes in the volatility of speculative asset prices. It is also helpful in explaining the changes in the volume of trade of speculative asset prices at times when information is revealed. Shafir and Tversky (1992) gave the example of presidential elections in the USA. According to them, sometimes the elections induce stock market volatility. Sometimes, the election outcome is known. Even though many disbelievers may have doubt that the election outcome has any clear implications for market value.

vii. Gambler’s Fallacy

The gambler's fallacy is the belief that if deviations from expected behaviour are observed in repeated independent trials of some random process then these deviations are likely to be evened out by opposite deviations in the future. It is a cognitive bias. This kind of bias is produced by a psychological heuristic called the representativeness heuristic. The concepts of gambler’s fallacy can also be extended to equity investing. There are situations when under certain circumstances investor’s fall prey to the gambler’s fallacy.

Human behaviour is very complex. It can be demonstrated by the gambling phenomenon. This should be taken into account in understanding the etiology of bubbles in speculative markets.

At some level, gamblers may have very rational expectations for the likely outcome of their gambling. In spite of that, they might have other feelings that drive their actual behaviour. Economists have the habit of speaking of quantitative “expectations”. They speak as if these were the only characterization of people’s outlooks that mattered. It is revealed from interviews and survey results that the “same people who are highly emotionally involved with the notion that the stock market will go up may give very sensible, unexciting, forecasts of the market if asked to make quantitative forecasts” (Friedman and Savage, 1948).

Gambler's fallacy is reflected in the events like liquidating the investment when it goes up in value, predicting the bottom of the market, taking short positions in market when it moves up in a short time, buying/selling at 52 weeks low/high, buying heavily when market falls into intraday (Singh and Tiwari, 2013).

viii. The Irrelevance of History

The irrelevance of history is a kind of perception although true but sometimes leads the investors to the belief that history is irrelevant. This is also one kind of overconfidence which appears to be common. It is an inclination to rely on the faith that history is irrelevant and hence it is not an indicator of the future. It states that the future must literature afresh. It is to be judged by weighing intuitively of the special factors one see at a particular time.

This kind of overconfidence disheartens the investors from taking teachings from past statistics. Recently, the researchers started collecting financial data. Otherwise, most of these data were thrown away as irrelevant. This was due to the lack of learning from historical lessons. It is believed that financial and economic uncertainties may not explain the reason for showing little interest in diversification by many investors around the world. This also explains the reason for most investors being totally uninterested in the relationship of their investments with their labour income. This violates their behaviour about one of the most vital principles of financial theory (Fischhoff, 1975).

ix. Magical Thinking

Skinner (1948) did one experiment with the pigeons. Skinner fed starved pigeons who were the experimental group, small quantities of food. The food was served at a regular interval of fifteen-second. Serving of food was independent of the bird's behaviour. Though serving of food was not dependent on the behaviour of the birds, the birds started to behave as if something in their behaviour caused the feeding.

Thus, each of the pigeons outwardly trained itself to show a specific behaviour to get the food. Some of the modifications in the behaviour were such as one bird was accustomed to turn counter-clockwise in the cage, another bird continually plunges its head into one of the upper corners of the cage, third settled a tossing response. Psychologist termed this kind of arbitrary behaviour as "magical thinking".

A multiplicity of economic behaviour is also likely to be produced in closely the same way as that the behaviour of the pigeons are generated. In a market-based economy, firms are supposed to be similar to each other and they also observe each other. The magical thinking is expected to be social instead of an individual. Thus, it has aggregate effects in the market.

Normally, it on that market shows upward trend on the positive news about the economy. But very often it is also seen that market moved in the opposite direction after getting the positive news. This is justified by the media by a theory that the good news will cause the regulator like RBI, SEBI to make a tight monetary policy. As a result, the interest rates will go up and strict market regulations will lower the stock market.

x. Quasi-Magical Thinking

Shafir and Tversky (1992) defined the term "Quasi-Magical Thinking". It is used to define a state of affairs in which people act as if they inaccurately believe that their actions can influence an outcome. It is similar to as it happened in the case of magical thinking, but the difference is that in the former case they do not believe that their actions can influence an outcome. Quasi-magical thinking operates more strongly in case outcomes of future events are involved rather than historical events.

It gives the impression that quasi-magical thinking can describe certain economic phenomena that otherwise would have been difficult to explain on the basis of strictly rational behaviour.

Quasi-magical thinking is observed in the financial market. It is seen that people used to buy certain stocks on the feeling that if they hold those stocks then that stock will rise.

The disposition effect as mentioned by Shefrin and Statman (1985) referred above; "the tendency for individuals to want to hold losers and sell winners might also be related to quasi-magical thinking. People may have the feeling that at some level holding on to losers can reverse the fact that they have already lost. Public demand for stocks at a time when they are apparently overvalued may be influenced by quasi-magical thinking. It may be due to the notion that if I hold, then the stocks will continue to rise".

xi. Herd Behaviour

The meaning of the term herd behaviour is the tendency of a group of individuals to react coherently without there being any coordination between them. The herd behaviour is found among the animals as well as in the human societies.

It is evident in the stock market. It is known that the market registers the fluctuations in the market and not the events themselves but the human reactions to these events. This registers how millions of individual men and women feel these happenings. The riskand it may affect the future. Above all else, in other words, the stock market is people. Large stock market trends often begin and end with periods of frenzied buying (bubbles) or selling (crashes). Banerjee (1992) cites these episodes as clear examples of herding behaviour that is irrational and driven by emotion, i.e., greed in the bubbles, fear in the crashes. Individual investors join the crowd of others in a rush to get in or out of the market. It is the tendency for individuals to mimic the actions (rational or irrational) of a larger group. Herd behaviour can be a reason why we can observe a financial crisis even in an economy with sound fundamentals (Bhowal, Singh, and Saikia 2010).

xii. Overconfidence

The overconfidence of the person is one of the biggest psychological errors which A majority in the behavioural finance. It takes that most of the market participants suffer from some degree of overconfidence. It is because of the overconfidence many of the judgments or actions turns out to be wrong and this is equally true for the financial market also. Some puzzles a century year in the financial markets, which previously could not be solved using the standard economic theory. These puzzles could be successfully understood once the overconfidence of the investors is assumed in the model. Some of these issues include continuing securities mis-valuations, excessive trading volumes and the disposition effect. The potential presence of overconfidence in the market and its persistence in the longer term spurred an on-going discussion on the well-established idea of efficient markets and economic agent rationality. Despite some skepticisms among economists on the existence and effect of overconfidence as such, its prevalence on financial markets has repeatedly. There were several studies which prove overconfidence of the investors using different methods ranging from experimental and questionnaire-based studies to formal models and financial market data (Singh, 2011).

xiii. Attention Anomalies and the Availability Heuristic

This concept is based on the logic that a person's experience is based on the events that he agrees to attend to. Only those things which a person notices, shape his mind without selective interest, the experience is utter chaos (Shiller, 1989). The same criticism is applicable to expected utility maximization models in economics. This criticism is for assuming that people pay attention to all facts that are essential for maximization of the assumed objective function (Berger 1994).

There are various factors related to the unpredictability of public attention. Some of these are investment fashions and fads and the resulting volatility of speculative asset prices. Investor's attention to categories of investments such as stocks versus bonds or real estate, investing abroad versus investing at home appears to be affected by changing waves of public attention or inattention. Investor's attention to the market in all time appears to vary through time. All the major crashes in financial markets in history appear to be phenomena of attention. These were the cases in which an inordinate amount of public attention is suddenly focused on the markets (Shiller, 1987).

xiv. Culture and Social Contagion

There is a social reasoning which is reinforced by conversation, ritual and symbols. All these are unique to each interconnected group of people. These are also unique to each nation, tribe, or social group.

Similarly, cultural anthropologists use to study primitive peoples. O'Barr and Conley (1992) studied the behaviour of pension fund managers' using personal interviews and cultural anthropological methods. They found that there is a difference of culture of each pension fund. This unique culture is in associated with a colorful story of their own organization in the midst of many myths of primitive peoples. O'Barr and Conley (1992) further states that culture of the pension fund is a belief system about investing strategy. This culture actually drives investment decisions. Another example of social factor can the from the Muslim community. It the that taking and giving interest is considered as *haram* in Islam. Therefore, there are some people who do not invest in the stocks of banking companies due to this religious belief nor do they invest in the mutual fund whose significant part of the portfolio consist of banking stocks.

Determinant of investment in mutual fund

The psychological factor is the most dominating influence upon investor's decision-making process (Islam, 2012). Microeconomic factors and social factors also have an influence on selecting investment decisions (Islam, 2012). The market conditions can be both fundamental factors of the company and external factors such as social, political, economic, psychological, regulatory, technological, environmental and legal. All these factors have an influence on the investment of equity shares (Bennet and Selvam, 2011). Chandra and Kumar (2011) found that there are some psychological factors like conservatism, under confidence, carefulness, precautions and attitude which have an impact on investor’s investment towards decision making. Psychological factors have a direct impact on attitude towards investment behaviour made by individuals (Sehgal and Singh, 2012). Broadly all the psychological factors are covered by three important components like attitude, risk perception and awareness level regarding individual investment decision-making concern. From the review of existing literature, it is observed that most important determinants of investment in mutual funds are attitude, risk perception, awareness level and demographic and socio-economic variables.

Table 1.1: Works of different authors on risk perception, attitude, awareness level and demographic and socio-economic variables towards investment

Risk perception	Weber and Milliman (1997); Walia and Kiran (2009); Ranjith (2002); Yang and Qiu (2005); Roszkowski (2010); Singh and Bhowal (2009); Karmakar (2001); MacCrimmon and Wehrung (1990); Riley and Chow (1992); Schooley and Worden (1999); Lion and Meertens (2005); Singh and Bhowal (2010); Lenard et al. (2003); Sindhu and Kumar(2014); Sitkin and Weingart,(1995); Sitkin and Pablo(1992); and Riaz et al(2012); Hoffmann, Post and Pennings (2013); Rathnamani(2013); Fischer and Jordan (2006); Kahneman and Tversky (1979); Kida et al. (2010); Singh (2009);Singh and Bhowal(2008); Powers(2009); Singh and Bhowal, (2011); Doff, (2008).
Attitude	Sehgal and Singh(2012); Eagly and Chaiken(1993); Sikidar and Singh, (1996); Kabita(2015);Ajzen (1991); Parihar,et al. (2009); Murugan (2012); Jani and Jain(2013); Phan and Zhou (2014); Fishbein and Ajzen (1975); Mathieson (1991); Teo and Pok (2003); Shih and Fang(2004); Ramayah and Suki, (2006); Chandra and Kumar(2011); Matthew et al,(2007);Nosic and Weber(2007); Jothilingam and Kannan (2013); Gaglani and Rao,(2014);Singh and Vanita, (2002); Das (2012);Singh (2012);Rathore,et,al,(2014); Subramanya and Murthy (2013).
Awareness level	Singh (2012); Ranganathan(2006);Imthiyas et al(2015);Geetha and Ramesh (2011); Chaturvedi and Khare (2012); Morrin et al. (2004); Joo and Grable, (2004); Singh and Jha (2009); Robb and Sharpe (2009); Gupta, et al. (2011);Sarish and Jain (2012); Kathuria and Singhania (2012**);**Saibaba and Vipparthi (2012); Junare and Patel(2012); Bhushan and Medury(2013);Das(2011); Talluru (1997); Rajeswari(2014); Vidyakala et al,(2015); Kadariya. et al. (2012) ; Umamaheswari and Kumar, (2013); Prathap and Rajamohan(2013); Singh, and Kar. (2011).
Demographic and socio-economic variables	Vanipriya and Venkat Rama Raju, (2013); Mehta and Aggarwal (2011);Parihar and.Sharma (2012);Jain and Mandot, (2012); Jamshidinavid et. al., 2012);Bashir et al. (2013); Lutfi(2010); Mittal and Vyas (2007); Wilcox, (2003); Engstrom, (2007); Shinde and Zanvar(2015); Walia and Kiran (2012); Bhushan and Medury (2013);Graham,Harvey and Huang,(2009); Ramanathan and Meenakshisundaram(2015); Geetha and Ramesh, (2011); Anderson and Bhattacharya (2011); Girdhari and Satya (2011); Jianakoplos and Bernasek,(1998); Sunden and Surette(1998); Prince(1993); Powell and Ansic ,(997); Bajtelsmit and Bernasek,(1996); Alexander et al.(1998); Higgins,(1998); Singh and Bhattacharjee (2010); Walia and Kiran,(2009); Hallahan et al.(2004); Watson and McNaughton,(2007); Arano et al.,(2010); Grable and Roszkowski, (2007);Lazzarone,(1996); Das(2011);Bellante and Green,(2004); Al-Ajmi,(2008); Gilliam and Chatterjee,(2011); Corter and Chen,(2006); Deb,S.(2012).

Source: Compiled from various sources

The relationship between attitudes and behaviour has become a vital theme of investigation in social psychology (Eagly and Chaiken, 1993).An attitude of the investors is playing a significant role for investment in mutual fund. It is revealed that salaried and self-employed individuals of the North Eastern region have a positive attitude towards investment in the mutual fund (Sikidar and Singh, 1996). An investment decision on capital market is influenced by an investor who is having a positive attitude (Kabita, 2015).There are many people who are still confused about the mutual funds and do not form any attitude towards the mutual fund for investment purposes as most of them possess a lack of awareness about the various functions of mutual funds (Singh, 2012).

There are various traits that influence the investment decision of investors in the mutual fund. One such trait is risk perception (Weber and Milliman, 1997**)**. Investors, who perceive high risk towards any investment, are not showing any interest towards investment. Ranjith (2002*)* conducted a study to know the risk preference of the investors in the city of Ahmadabad and the study revealed that the majority of the investors prefer to take a moderate amount of risk while making investment decisions. Mutual funds provide a good opening for small investors to participate in the capital market without assuming a very high degree of risk (Walia and Kiran, 2009). Risk is an important factor that persuades investors' investment decisions because it is the risk that determines an investor's probable return (Yang and Qiu, 2005). Roszkowski (2010***)*** revealed that the economic crisis of 2008 has been said to lower the risk tolerance of the investors. After the economic crisis, scariness about the capital market has come in the mind of investors. The study also concluded that the risk tolerance and risk perception influence investor's behaviour. While going for investment in securities with the variable return, people try to make proper tradeoffs between risks and return (Fischer and Jordan, 2006). Moreover, people are generally risk averse (Kahnemanand Tversky, 1979). They make proper tradeoffs between risks and return while going to invest in particular investment instrument. It is found in the earlier research that the people’s level of risk perception affects the investment behaviour of the people (Singh and Bhowal, 2009). Karmakar (2001) revealed that the people are broadly risk averse and security is considered the highest priority while taking an investment decision.

It is needed for the AMCs to know the awareness level of mutual funds (Ranganathan, 2006). It needs proper awareness level to select the best investment opportunities in the market. This awareness is a continuous process (Imthiyas et al, 2015). Awareness level of an individual towards any investment avenues influences decision making processes. Geetha and Ramesh (2011) found that people were not aware of all the investment options available to them and they lack knowledge about securities and all this influence them not to invest in modern investment avenues. Investors, who are highly aware towards mutual fund, influence significantly in the investment of mutual fund. Chaturvedi and Khare (2012) found that awareness of Indians regarding traditional investment options is much higher than that for corporate securities, mutual funds and equity shares.

From the above discussion, and literature that are shown in table 1.1, it is observed that most important determinants of investment in mutual fund are attitude, risk perception, awareness level and demographic and socio-economic variables.

Concept of attitude

An attitude has been understood as a learned, stable predisposition to respond to object, persons or issues in a consistently favourable or unfavorable way (Cooper and Schindler, 2011). Attitude has been completed by three components. At first cognition, component comes followed by affective component and finally behavioural component is derived. The Knowledge and perception gathered by a combination of direct experience with financial product and related information from various sources develop cognition of an individual after that individual's emotions or feelings towards any product comprise the affective component of an attitude. Researchers consider such feelings of individuals as their favourable and unfavourable assessment of an object. Finally, the behavioural component comprises of individual's future actions and intentions. The extent to which one views a behaviour as favorable or unfavorable, if a person perceives that there are positive outcomes resulting from an activity, then his or her attitude towards performing that behaviour is likely to be positive (Ajzen, 1991).

Theories related to attitude

There are several types of research going on in respect of attitude of individuals. Some of the theories with respect to attitude are given below:

a. Learning theory

Attitudes are shaped through a simple stimulus-response pattern as per learning theory. It is assumed that the individual is exposed to various attitudes. It creates a strain in the environmental space according to Lewin's field theory. Therefore, a value is always considered to be attached with certain attitudes which are reinforced as the proper and appropriate ones. The individual accepts those attitudes which have the strongest valence and alters attitude A for B when he felt that the valence of B is stronger than A (Mostyn, 1978).

b. Functional theories

These theories which came out in the fifties developed around the concept of motivation. Motivational research was emerging out at around that time. Individual differences were impacted upon by certain functional theories. According to the functionalists, it is the motivational system from which attitudes can be drawn and framed out to serve any particular function or purpose. Whenever the individual discovers that the attitude in question is no longer functional, changes are incorporated and inserted accordingly.

c. Cognitive dissonance theory

In psychology, cognitive dissonance is the mental stress or discomfort experienced by an individual who possesses two or more conflicting beliefs, ideas, or values at the same time. He/she may execute an action that is opposing to one or more beliefs, ideas, or values. It might be confronted by new information that conflicts with existing beliefs, ideas, or values. An individual who becomes psychologically uncomfortable due to dissonance, try to reduce this dissonance and actively avoid situations and information likely to increase it. Dissonance is the state of disequilibrium and the individual is depicted as someone constantly trying to maintain his equilibrium.

d. Elaboration likelihood model

The elaboration likelihood model (ELM) is a dual process theory explaining the change of attitudes. The ELM was developed by Richard E. Petty and John Cacioppoin in the 1980s. The model intends to explain different ways of processing stimuli of their used outcomes on attitude change.

e. Propositional attitude

A propositional attitude refers to a mental status held by an agent towards a proposition. Widely speaking, Propositional attitudes can best be defined as the fundamental units of thought and their contents, in the form of propositions, which are either true or false. Agents differ regarding their attitudes towards the same proposition. The same agent can also have different propositional attitudes towards the same proposition.

f. Theory of planned behaviour

In psychology**,** the theory of planned behaviour (TPB) is a theory that links beliefs and behaviour. The concept was developed by Ajzen (1991) to improve on the predictive power of the theory of reasoned action by counting perceived behavioural control. It is a theory describing human behaviour.

g. Self-perception theory

Self-perception theory put forward that people set up their attitudes by reading of their own behaviour. This theory says that the individual infers his attitudes by observing his own behaviour. Thus attitude is a product of actual behaviour. Therefore, according to self-perception theorists the individual forms his original attitudes and modifies his existing attitudes on the basis of observing or being of his own actions.

h. Social perception theory

Social perception is the study of how people create impressions about other people. The information about others' feelings and emotions is obtained from their physical appearance, and verbal and nonverbal communication.

i. Social judgment theory

Social judgment theory (Sherif,et al, 1965) is based upon the idea that the effect of an influential message on a particular issue depends on the way that the receiver assess the position of the message.

j. Attribution theory

Attribution theory indicates that how individuals understand events and how this connects to their thinking and behaviour. Attribution theory assumes that people try to determine attribute which causes their behaviour.

Conceptual Framework of Risk

Risk is a concept that denotes a potential negative impact to an asset or some characteristic of value that arise from some present process or future event. In everyday usage, "risk" is often used synonymously with the probability of a loss. In professional risk assessments, risk combines the probability of an event occurring with the impact that event would have and with its different circumstances.

Risk perception

In biology, perception is understood as "the mental interpretation of physical sensations produced by stimuli from the outside world". Here "mental interpretation" could be interpreted as a process of constructing an internal model of the environment**.** Risk perception refers to *"*a decision maker's judgment of the risk inherent in a situation*"* (Sitkin and Pablo, 1992). It is the subjective judgment that investor makes about the characteristics and severity of a risk. An intrinsic part of the decision-making process, risk perception could be understood as an individual's judgment of risk (Singh and Bhowal, 2008). This approach identifies numerous factors which are responsible for persuading individual perceptions of risk, including fear, newness, disgrace and other factors. Research has also exhibited that risk perceptions are influenced by the emotional state of the perceived.

Risk perception, in the context of financial product, means the way in which investors think about the risk of financial product, based on their concerns and experience. Risk perception is the belief, whether rational or irrational, held by an individual, group or society about the chance of occurrence of a risk (Sindhu and Kumar, 2014). Perceptions of risk play a prominent role in the decisions people make, in the sense that differences in risk perception lie at the heart of disagreements about the best course of action between technical experts and members of the general public (Slovic, 1987). When individuals are faced with identical situations, some think the situation to be very risky, while others believe it is with low risks. There is a high chance those investors who perceive low level of risk might invest risky asset even if they are risk averse. Risk perceptions of various individuals are observed variation due to certain types of cognitive biases. Different levels of risk and cognitive biases can directly persuade risk perception (Simon et al., 2000).

Theories of Risk Perception

The theories related to the risk perception are presented as follows:

a. Early theories: The study of risk perception arose out of the observation that experts and people often disagreed about the riskiness of various technologies and natural hazards. Early scholars have advocated that society had reached equilibrium in its judgment of risks.

b. Psychometric Paradigm: Various factors that influence a person's risk perception for different types of risky behaviours and hazardous activities have been established by a good number of literatures within the purview of social sciences. Ricciardi (2004) provides a comprehensive list of behavioural risk characteristics that prevalent cognitive issues that influence a person's risk perception including heuristics, overconfidence, prospect theory, loss aversion, representativeness, framing, familiarity bias, perceived control, expert knowledge, affect (feelings), and worry.

c. **Cultural theory:** Cultural theory means theories of risk perception that focus on culture, rather than individual psychology that explains the differences in risk judgments (Thompson. et al.1990).

Concept of awareness

Awareness belongs to the cognitive domain. The word "awareness" refers to a consciousness of the existence of a particular truth, event or thing (Umamaheswari and Kumar, 2013). A Majority of investors try to utilize a small amount of information in the markets out of total hence they remain uninformed regarding investment **(**Glosten and Milgrom, 1985). Investors are not capable to take proper investment decisions due to lack of awareness of the product. Consciousness is connected with awareness as if these two terms are synonymous. To be conscious of something is to be aware of it. Conscious mental states are those we are aware of. The notion of "levels of consciousness" has been around for quite some time. Freud (1905), with the unconscious, preconscious and conscious, and James (1890), with the physical, mental and spiritual selves, and ego have been discussed by two theorists in psychology more than a century years back.

Theory related to awareness

a. Self-awareness

The capacity to become the object of one's own attention and importance is nothing but Self-awareness. It basically occurs when a human being focuses not on the external environment, but on the internal environment; primarily involving himself and the related factors. It becomes a deep observer, processing self-information. The basic theoretical background on recent “levels of consciousness” proposals rests on the classic difference established first by Mead (1934), followed by Duval and Wicklund (1972), between focusing attention externally and toward the environment and internal, toward the self-awareness. If one wants to invest in mutual fund, he/she should be aware by himself, i.e., internal rather than made aware by somebody else (external).It is noted that although this definition emphasizes an awareness of external stimuli, and not the self, a minimal consciousness of self is needed for the organism to move in, and interact with the environment. This is termed “first-person perspective” (Vogeley and Fink, 2003).

b. Consciousness

Consciousness refers being aware of an outer object or something within oneself. It has been defined as awareness, subjectivity, the ability to experience or to feel, restlessness, having a sense of selfhood, and the executive control system of the mind.

c. Situational awareness

Situational awareness is the perception of environmental elements which are related to time or space. It is also a field related to understanding of the environment critically when decision-makers are in a complex state like dynamic areas from the stock market, power plant operations, and emergency service. Situation awareness engages being aware of what is happening in the surrounding area to comprehend how information, events, and one's own actions will impact goals and objectives, both instantly and in the near future. With an expert sense of situation awareness, an individual generally has a high degree of knowledge with related to inputs and outputs of a system. Inadequate situation awareness has been considered as one of the most important factors in accidents attributed to human error. Thus, situation awareness is particularly important in work domains where the information flow can be quite high and poor decisions lead to serious cost. Situation awareness has been known as a critical, yet often intangible, base for making a successful decision across a broad range of complex and dynamic systems, including stock market investment. Investors should aware situation critically all the economic factors which may impact the stock market, mutual fund or when they buy or sell the shares in order to get the benefit of the situation.

Preference

Interest rates on investments like PPF, NSC, bank deposits, etc., are falling. The question is that what would be best investment alternative for small investors. One of the substitutes is to invest in capital markets through mutual funds. This assists the investors to avoid the risks involved in direct investment. Considering the state of mind of the general investors, this study figures out the preference attached to different investment avenues by the investors (Singh and chander, 2006). Investors generally have a wide range of choice while making an investment decision (Kida, et al, 2010). Thus, investors select different schemes of the mutual fund based on their preference. The investors are also motivated to park in relatively safer vehicles of investment in order to keep safe from the increasing volatility in the market. Safety and tax savings as the important factors affecting investment in various avenues by the investor and developed strategies for enhancing common investor confidence such as good return, transparency, investor education, guidance. Earlier investors had to suffer many losses due to direct investment in the stock market. But nowadays most of the investors prefer to invest their funds on mutual funds (Prathap and Rajamohan, 2013). Preference level of an individual investor towards any investment avenues affects decision-making process of investment.

Preferences of investment avenues among the investors become the important determinant that influences the investment behaviour (Chambers and Schlagenhauf, 2002). People prefer to invest in what is familiar, favouring their own country, region, state, and company. Behavioural finance specialists characterize this preference as “familiarity bias.”A widespread and particularly dangerous form of familiarity bias is employees’ preference for investing in their employer’s stock. Employees consider the stock of their employer as lesser risky than that of the other stocks (Singh and Bhowal, 2010). On the basis of tax planning, schemes of mutual funds are the most preferred avenues of investment. Therefore, the preference is given to investment in Mutual funds amidst availability of other traditional investment avenues in the market (Agrawal and Jain, 2013).The decision-making behaviour of an investor is influenced by demographic and socio-economic factors. Investment in mutual fund salaried individuals has different preferences of investment decisions according to their demographic and socioeconomic variables (Bashir et al, 2013). At different levels of demographic, the individual investors view differently about their investment and make decisions differently. Demographic and socio economic variables such as age, gender, education, occupation play a very vital role in investment preference (Jain and Mandot, 2012).

Conclusion

Mutual fund is a good investment avenue as it is guided by professionally expert fund managers. Mutual fund would be a good prospect in India as interest rate has been decreased significantly. In order to develop the investment culture in the mutual fund in Tripura, investor behaviour should be assessed. From the literature review, some determinants are identified in investment in mutual fund. Among them, most important determinants are attitude, risk perception and awareness level of the investors. Investment choice or decisions are found to be the outcome of these three different but related classes of factors. A big challenge for employers and financial advisors is finding how best to assist investors in making optimal investment decisions in mutual fund. By improving decisions, financial advisors can improve lifetime financial security for investors. But problem is to understand the behavioural decision-making processes which are influenced by different factors. In order to assist investors, it is important to understand how above-mentioned determinants of investment effect investment decisions in themutual fund. The study investigates these determinants and its impact on investment in mutual fund.