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Exploring Key Factors Influencing Investor Reluctance toward Mutual Fund Investments

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Abstract

Purpose: This study aims to explore the factors influencing investor reluctance toward mutual fund investments, focusing on psychological, cognitive, and socio-economic variables such as perceived risk, awareness, financial literacy, cost perceptions, and trust. Understanding these factors can help financial institutions design strategies to overcome investor hesitation and promote mutual fund investments.

Methods: A survey-based approach was employed using convenience sampling, with 390 respondents who had either considered or invested in mutual funds. The data were collected via a structured questionnaire assessing various constructs on a Likert scale. Linear regression was used to analyze the relationship between the independent variables (perceived risk, awareness, etc.) and investor reluctance. Cronbach's alpha was calculated to ensure the reliability of the scales.

Results: The results indicated that trust in financial institutions ($\beta = 0.5486$, $p < .001$) was the strongest predictor of investor reluctance, followed by financial literacy ($\beta = 0.1500$, $p = .005$) and preference for traditional investments ($\beta = 0.1464$, $p = .008$). In contrast, factors like perceived risk, cost perceptions, and awareness did not show significant effects on reluctance.

Conclusion: The findings suggest that enhancing trust and financial literacy can reduce reluctance toward mutual fund investments. Limitations include the use of convenience sampling and cross-sectional data. Future research should explore these factors in different demographic groups and use longitudinal designs to assess causal relationships.

Keywords: mutual funds, investor reluctance, trust, financial literacy, investment behavior.

1. Introduction

Mutual funds are widely recognized as effective financial instruments that offer investors the benefits of diversification, professional management, and accessibility to a range of asset classes. Despite these advantages, a significant proportion of retail investors remain hesitant to invest in mutual funds. This reluctance is shaped by a multifaceted set of psychological, cognitive, and socio-economic factors. Research consistently points to perceived risk, financial literacy, trust, and cost perceptions as key influences on investment behaviour. For instance, Kaur and Kaushik (2016) found that limited awareness and unfavourable perceptions were major deterrents among female and middle-income investors. Similarly, Jonsson, Söderberg, and Wilhelmsson (2017) highlighted how financial literacy mitigates behavioural biases, enhancing investors' decision-making capabilities. Conversely, low financial literacy has been linked to poor financial planning and reluctance to explore complex investment products like mutual funds (Bhushan, 2014; Comparte Capital Investment, n.d.). Trust also emerges as a crucial determinant; Jain and Jain (2018) observed that risk perception combined with low trust significantly diminishes investment intentions. D'Hondt and De Winne (2018) further showed that perceived knowledge gaps and subjective financial literacy play a pivotal role in promoting risk-averse behaviour. In addition to psychological constructs, demographic and cultural factors—including age, income, and religious beliefs—also influence mutual fund adoption (Bouzekouk & Mansor, 2024; Madhavan & Lakshmi, 2020). Geetha and Gontusan (2020) emphasized that both trust and financial knowledge are dual forces shaping investor choices. Moreover, factors such as market volatility, return expectations, and satisfaction with past financial experiences heavily impact investor sentiment (Indian Journal of Finance, n.d.; Raut, 2020). Collectively, these insights underscore the need for a holistic approach in understanding investor reluctance and tailoring financial literacy programs and product strategies that build investor confidence and encourage broader participation in mutual fund investments.

Research Problem

Although mutual funds offer an efficient means of achieving diversified investment portfolios, there exists a notable segment of investors who remain hesitant or unwilling to invest in them. Identifying the primary reasons for this reluctance is crucial for financial institutions, as understanding these deterrents can aid in creating more effective marketing, educational, and engagement strategies. However, while several studies have explored specific factors, a holistic approach to quantifying the influence of each factor, including risk perception, awareness, financial literacy, cost perceptions, and trust, remains underexplored (Basu et al., 2021). This study seeks to address this gap by examining the relative impact of these factors on investor reluctance, contributing to a clearer understanding of investor psychology and behaviour in the context of mutual funds.

Significance of the Study

This research is significant for several reasons. Firstly, it provides insights that are valuable for mutual fund managers, financial planners, and policy-makers, enabling them to tailor financial products that better align with investor concerns. Secondly, as mutual fund investments play an essential role in channelling household savings into productive avenues, understanding deterrents can enhance financial inclusion and improve individual financial well-being (Barberis & Huang, 2008). Additionally, this study contributes to the literature on investor psychology, offering a comprehensive analysis of reluctance factors with implications for investment theories and practices. By quantifying each factor's influence on investor reluctance, this research aims to inform strategies that foster greater participation in mutual fund investments, ultimately contributing to broader economic growth (Sivaramakrishnan, S. and Srivastava, M. ,2019).

Objective:

To quantify the relative influence of each factor (perceived risk, awareness, financial literacy, cost perceptions, traditional investment preferences, return perceptions, and trust) on investor reluctance toward mutual fund investments.

Hypothesis

H0 (Null Hypothesis): None of the independent variables (perceived risk, awareness, financial literacy, cost perceptions, traditional investment preferences, return perceptions, and trust) have a significant effect on investor reluctance.

H1 (Alternative Hypothesis): At least one of the independent variables has a significant effect on investor reluctance to invest in mutual funds.

2. Review of Literature

- **Perceived Risk**

Perceived risk significantly influences investor reluctance toward mutual fund investments. Investors often exhibit heightened sensitivity to potential losses, leading to aversion toward mutual funds due to perceived volatility and uncertainty. Deb (2018) found that factors such as fear psychosis, lack of knowledge, and lack of confidence contribute to higher risk perception among investors, deterring them from mutual fund investments. Olsen and Cox (2001) observed that gender differences play a role, with female professional investors displaying greater risk aversion compared to their male counterparts. Goetzmann and Peles (1997) discussed cognitive dissonance, where investors tend to overestimate the risks associated with poorly performing funds, further exacerbating their reluctance. Jonsson, Söderberg, and Wilhelmsson (2017) highlighted that financial literacy can mitigate this reluctance, as informed investors better comprehend risk-return trade-offs.

- **Awareness**

Awareness and understanding of mutual funds are crucial in overcoming investment hesitation. Lokhande (2015) found that rural investors in India often lack familiarity with mutual funds, leading them to prefer traditional options like fixed deposits. Joseph (2015) highlighted that while some investors are aware of mutual funds, they lack a deep understanding of their mechanisms, contributing to reluctance. Adusu (2018) pointed out that targeted awareness campaigns can effectively mitigate investment hesitation by educating potential investors on the benefits of diversification through mutual funds. Raut (2020) emphasized that misinformation and awareness gaps further deter investors from mutual funds.

- **Financial Literacy**

Financial literacy plays a pivotal role in shaping investment decisions, particularly concerning mutual funds. Sivaramakrishnan and Srivastava (2017) found that individuals with higher financial literacy are more inclined to invest in mutual funds, recognizing their potential for long-term growth. Pan and Statman (2012) discussed how financial literacy helps mitigate biases like regret aversion and overconfidence, which often deter mutual fund investments. Wins and Zwergel (2016) compared financially literate investors with those less informed, finding that the former group was more confident in assessing mutual fund risks and returns. Raut (2020) further emphasized that financial literacy programs can reduce misconceptions about mutual funds, thereby increasing investor participation.

- **Cost Perceptions**

The perception of high costs associated with mutual funds can deter potential investors. Prasad (2023) identified that many investors avoid mutual funds due to beliefs that associated fees—such as management fees and hidden costs—diminish returns. Amromin and Sharpe (2014) showed that cost perceptions, especially among retail investors, discourage mutual fund investments compared to direct equities. Goetzmann and Peles (1997) found that many investors focus more on perceived short-term costs than long-term benefits, exacerbating their reluctance. Investopedia (2015) highlighted that higher expense ratios can significantly reduce overall returns, making cost considerations crucial for investors.

- **Traditional Investment Preferences**

A preference for traditional investment vehicles over mutual funds affects investor choices. Bhattacharyya and Huhmann (2014) found that investors with a history of favoring traditional options like real estate or fixed deposits are often reluctant to shift to mutual funds. Choi and Robertson (2020) highlighted that familiarity with traditional investments reduces the appeal of mutual funds, which are seen as riskier or more complex. Foster and Warren (2016) noted that deeply ingrained traditional investment habits make it challenging for mutual funds to attract these investors. Amromin and Sharpe (2014) suggested that educating these investors about the comparative advantages of mutual funds might reduce reluctance.

- **Return Perceptions**

Perceptions about potential returns from mutual funds greatly influence investment decisions. Amromin and Sharpe (2014) showed that many investors believe mutual funds offer less attractive returns compared to individual stocks, despite potential risk-adjusted benefits. Choi and Robertson (2020) noted that even when mutual funds perform well, the perception of unpredictable returns persists, deterring investment. Wins and Zwergel (2016) found that long-term investors with better financial literacy tend to have more realistic expectations of mutual fund returns, mitigating reluctance.

- **Trust**

Trust in fund managers and financial institutions is pivotal in driving mutual fund investments. Pan and Statman (2012) highlighted that low trust in financial advisors and fund managers significantly affects investor reluctance. Bhattacharyya and Huhmann (2014) showed that a lack of transparency in mutual fund management raises concerns among investors, exacerbating their reluctance to invest. Amromin and Sharpe (2014) found that trust in the integrity of fund managers directly correlates with investor willingness to engage in mutual funds.

- **Research Gap and Scope of the Study**

Despite extensive literature on mutual funds, a significant research gap exists in systematically quantifying the relative influence of various factors contributing to investor reluctance. Prior studies have explored individual factors such as perceived risk, financial literacy, cost perceptions, and trust, but a holistic approach examining how these factors interact remains underexplored. For example, while Deb (2018) analyzed the role of perceived risk, and Sivaramakrishnan and Srivastava (2017) highlighted financial literacy as a key determinant, there is a need for empirical research integrating these factors into a unified model. Furthermore, most studies have focused on specific demographics, such as rural or retail investors, without considering a broader spectrum exhibiting varying levels of reluctance based on socio-economic and cognitive factors.

This study aims to address these gaps by systematically analysing and quantifying the influence of perceived risk, awareness, financial literacy, cost perceptions, traditional investment preferences, return perceptions, and trust on investor reluctance toward mutual funds. By providing a nuanced understanding of how these factors affect investor behaviour, this research will offer valuable insights to financial institutions, policymakers, and mutual fund managers in designing more effective strategies to mitigate investor reluctance. Additionally, it will contribute theoretically by expanding existing literature on investor psychology in the context of mutual funds and inform practical applications, such as tailored marketing, educational programs, and financial product designs.

3. Research Methodology

This study utilized a survey-based approach to investigate the factors influencing investor reluctance toward mutual fund investments. A convenience sampling method was employed, and data were collected from a total of 390 respondents. These respondents were retail investors who had either considered or already invested in mutual funds.

The survey was administered online and focused on key factors such as perceived risk, financial literacy, awareness, cost perceptions, traditional investment preferences, return perceptions, and trust in financial institutions. A Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree) was used to measure respondents' attitudes toward mutual fund investments.

The sample consisted of individuals from diverse age groups and gender, with a fairly balanced distribution (52.1% male and 47.9% female). The majority of the respondents were young adults, with 36.2% below 20 years of age, 32.1% between 21-23 years, and 31.8% above 23 years.

Data analysis was conducted using descriptive and inferential statistics. Cronbach's alpha was used to test the reliability of the scales, and linear regression was performed to assess the relationships between the independent variables and investor reluctance. The findings provide insights into how factors such as trust and financial literacy shape investor decisions regarding mutual funds.

Despite using a convenience sampling method, which may limit generalizability, the survey design enabled valuable insights into the perceptions and behaviors of retail investors. Ethical considerations were upheld throughout the study, ensuring participant anonymity and voluntary participation.

4. Result & Findings

Table 1: Demographic Variables:

Age	**Counts**	**% of Total**
21-23	125	32.1 %
Above 23	124	31.8 %
Below 20	141	36.2 %
Gender	**Counts**	**% of Total**
Female	187	47.9 %
Male	203	52.1 %

The demographic data indicates the age and gender distribution of the respondents. In terms of age, the largest group falls in the "Below 20" category, with 141 participants, representing 36.2% of the total sample. This is followed by the "21-23" age group, which comprises 125 participants or 32.1% of the sample. The "Above 23" age category includes 124 participants, accounting for 31.8% of the total. These results suggest a fairly balanced representation across the different age groups, with a slight majority of respondents being under 20 years old. Regarding gender, there is a near-equal distribution between male and female participants. Males represent 52.1% of the sample with 203 respondents, while females make up 47.9% with 187 respondents

Table 2: Scale Reliability Statistics	N	Cronbach's α
Perceived Risk	4	0.76
Awareness and Knowledge	4	0.815
Financial Literacy and Confidence	4	0.811
Cost and Fee Perceptions	4	0.746
Preference for Traditional Investments	4	0.76
Perception of Returns	4	0.794
Trust in Financial Institutions	4	0.701
Investor Reluctance to Invest in Mutual Funds	4	0.815

The reliability of the scales used in the study was assessed using Cronbach's alpha (α), a widely accepted measure of internal consistency. All scales demonstrated acceptable to good levels of reliability, with Cronbach's alpha values ranging from 0.701 to 0.815. Specifically, the "Awareness and Knowledge" (α=0.815), "Financial Literacy and Confidence" (α=0.811), and "Investor Reluctance to Invest in Mutual Funds" (α=0.815) scales showed strong internal consistency, as their alpha values exceeded 0.80. Similarly, the "Perceived Risk" (α=0.76), "Preference for Traditional Investments" (α=0.76), and "Perception of Returns" (α=0.794) scales demonstrated adequate reliability, with alpha values above the commonly accepted threshold of 0.70. The "Cost and Fee Perceptions" (α=0.746) and "Trust in Financial Institutions" (α=0.701) scales also met the minimum threshold for acceptable reliability. Overall, these findings indicate that the measures used in the study were reliable and suitable for assessing the constructs of interest, supporting the validity of the data collected and the robustness of subsequent analyses.

Table 3: Investor Perceptions and Reluctance Towards Mutual Fund Investments: A Survey Analysis. (1= Strongly Disagree, 2= Disagree, 3= Neutral, 4=Agree, 5= Strongly Agree)	**Mean**	**SD**	1	2	3	4	5
Perceived Risk							
Mutual funds carry higher risks than other investments I’m considering.	4.08	1.007	3.1	2.1	22.3	29	43.6
The volatility of mutual funds discourages me from investing.	4.08	0.835	1	0.8	22.6	40.3	35.4
I am concerned about the potential for financial loss in mutual funds.	3.95	0.89	1.3	2.8	26.2	39.5	30.3
The unpredictability of mutual fund returns is a major concern for me.	3.82	1.094	4.1	5.1	30.3	25.6	34.9
Awareness and Knowledge							
I lack a clear understanding of how mutual funds work.	3.87	0.917	1.8	2.8	30.3	37.2	27.9
The benefits of mutual fund investments are not well-communicated to investors.	3.79	0.959	2.6	5.6	25.9	41.5	24.4
Mutual fund investment options are confusing and hard to understand	3.82	0.88	0.5	4.6	32.3	37.4	25.1
I feel I need more guidance to confidently invest in mutual funds.	3.98	0.853	0.5	3.1	24.9	40.8	30.8
Financial Literacy and Confidence							

I feel unprepared to evaluate mutual fund options independently.	3.67	1.049	2.3	12.3	26.2	34.6	24.6
Financial terms associated with mutual funds (like NAV, SIP) are difficult to understand.	3.77	1.063	3.1	7.9	28.2	30.5	30.3
I would be more inclined to invest if I had more financial education regarding mutual funds.	3.87	0.949	1.5	5.1	27.7	36.2	29.5
I lack the confidence to make mutual fund investment decisions without expert advice.	3.88	0.901	0.8	3.8	30.8	35.4	29.2
Cost and Fee Perceptions							
The fees associated with mutual funds (such as management fees) deter me from investing.	4.08	0.854	0	3.8	21	38.2	36.9
I feel mutual funds have hidden charges that could impact my returns.	3.84	0.947	1.5	5.9	27.2	37.9	27.4
Compared to other investments, mutual funds seem more costly due to their fees and commissions.	3.78	0.976	1.5	7.9	27.7	36.4	26.4
I think mutual funds require a high initial investment amount, which discourages me.	4.25	0.838	0.8	1.3	17.2	33.8	46.9
Preference for Traditional Investments							
I prefer to invest in traditional options like fixed deposits or real estate that I am more familiar with.	4.16	0.823	0.8	1.3	18.5	39.7	39.7
I feel more secure investing in physical assets than in mutual funds.	4.09	0.857	0.3	2.6	23.1	35.6	38.5
Mutual funds seem complicated compared to other straightforward investment options.	4	0.994	1.3	6.7	21.5	31.8	38.7
I find traditional investments more reliable than mutual funds.	3.97	1.005	2.6	4.6	22.8	33.6	36.4
Perception of Returns							
Mutual funds do not offer the returns I expect from my investments.	4.1	0.813	0.3	1.3	23.1	39	36.4
I believe alternative investments (stocks, bonds, real estate) offer better potential returns.	4.04	0.812	0	1.8	25.6	39.5	33.1
I am unsure if mutual funds can meet my investment time horizon and financial goals.	3.96	0.912	1.5	3.6	23.3	40	31.5

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I would be more likely to invest if mutual fund returns were more competitive with other options.	4.19	0.888	0.3	2.6	22.3	27.4	47.4
Trust in Financial Institutions							
I trust the institutions that manage mutual funds.	3.56	1.172	7.7	7.9	30	29.2	25.1
I am confident in the transparency of mutual fund management practices.	3.99	0.881	1	2.8	24.6	39.2	32.3
I believe that mutual fund providers prioritize the interests of investors.	4.17	0.868	0.5	3.1	18.2	35.4	42.8
I would feel secure investing in mutual funds if I trusted the institutions more.	3.72	1.002	2.1	7.4	33.3	30.8	26.4
Investor Reluctance to Invest in Mutual Funds							
I am reluctant to invest in mutual funds compared to other investment options.	3.66	1.08	4.6	8.5	28.2	34.1	24.6
I am hesitant to invest in mutual funds due to personal concerns.	4.07	0.816	0.8	1	22.1	42.3	33.8
I avoid mutual fund investments because of uncertainties surrounding them.	3.85	1.012	2.1	6.7	27.2	32.1	32.1
I am likely to continue avoiding mutual funds as an investment option.	3.9	0.952	1.5	3.1	32.1	30.3	33.1

The data provided presents the results of a survey assessing attitudes towards mutual fund investments across various domains. The analysis focuses on several key factors including perceived risk, awareness and knowledge, financial literacy and confidence, cost and fee perceptions, preference for traditional investments, perception of returns, trust in financial institutions, and investor reluctance to invest in mutual funds.

Perceived Risk: Respondents indicated moderate concerns regarding the risks associated with mutual funds. The highest mean score (M = 4.08, SD = 1.007) was observed for the statement "Mutual funds carry higher risks than other investments I'm considering," reflecting a general apprehension toward the volatility of mutual fund investments. Concerns about the unpredictability of returns also emerged as a major factor, with 43.6% of respondents indicating strong agreement (M = 3.82, SD = 1.094).

Awareness and Knowledge: The participants expressed a need for clearer understanding and guidance on mutual fund investments (M = 3.87, SD = 0.917). Despite this, most participants felt that mutual fund investment options were complex and hard to understand (M = 3.82, SD = 0.88). The need for better communication and more educational resources was also emphasized.

Financial Literacy and Confidence: Respondents showed a moderate level of confidence in their ability to independently evaluate mutual funds (M = 3.67, SD = 1.049). A significant portion (36.2%) agreed that having more financial education would increase their likelihood to invest, highlighting the role of financial literacy in boosting investment confidence.

Cost and Fee Perceptions: The fees and hidden charges associated with mutual funds were perceived as a major deterrent for investment (M = 4.08, SD = 0.854). Participants also indicated that mutual funds were more costly compared to other investment options, with a substantial number (36.9%) identifying fees as an issue. Furthermore, the high initial investment requirement was a significant discouraging factor for 46.9% of the respondents (M = 4.25, SD = 0.838).

Preference for Traditional Investments: A clear preference for traditional investment options like fixed deposits or real estate emerged (M = 4.16, SD = 0.823). This preference was likely driven by familiarity with these options, as participants generally felt more secure investing in physical assets (M = 4.09, SD = 0.857). Respondents also expressed concerns about the complexity of mutual funds compared to other straightforward investment options (M = 4, SD = 0.994).

Perception of Returns: The perception of mutual fund returns was generally negative. While most participants felt that mutual funds did not offer the returns they expected (M = 4.1, SD = 0.813), they believed alternative investments like stocks or real estate offered better potential returns (M = 4.04, SD = 0.812). There was also an indication that competitive returns from mutual funds would improve investment interest (M = 4.19, SD = 0.888).

Trust in Financial Institutions: Trust in the institutions managing mutual funds was moderately low, with many participants questioning the transparency of mutual fund management practices (M = 3.56, SD = 1.172). Despite this, a significant portion (42.8%) believed that mutual fund providers prioritized the interests of investors, suggesting a level of confidence in the institutions if they were more transparent (M = 4.17, SD = 0.868).

Investor Reluctance to Invest in Mutual Funds: There was noticeable reluctance toward mutual fund investments. Participants showed concern over the uncertainties surrounding mutual funds (M = 3.85, SD = 1.012), and many indicated they were likely to avoid investing in mutual funds as an option (M = 3.9, SD = 0.952).

In conclusion, the data reveals a complex relationship between perceptions of risk, knowledge, trust, and financial literacy when it comes to mutual fund investments. While some participants were open to investing, concerns about fees, understanding, and potential returns persist as significant barriers. Increasing financial literacy, improving transparency in mutual fund management, and addressing cost-related concerns may enhance investor confidence and participation in mutual funds.

Testing of hypotheses:

Null Hypothesis (H_0): There is no significant relationship between the predictors (perceived risk, awareness and knowledge, financial literacy and confidence, cost and fee perceptions, preference for traditional investments, perception of returns, and trust in financial institutions) and investor reluctance to invest in mutual funds.

Results

The results of the linear regression analysis revealed that the overall model was statistically significant, $F(7,382)=80.1$, $p<.001$, with an adjusted $R2$ of 0.595, indicating that approximately 59.5% of the variance in investor reluctance to invest in mutual funds could be explained by the predictors included in the model. Among the predictors, trust in financial institutions emerged as the strongest and most significant predictor ($\beta=0.5486$, $SE=0.0529$, $t=10.369$, $p<.001$), suggesting that higher levels of trust were associated with reduced reluctance to invest in mutual funds. Additionally, financial literacy and confidence ($\beta=0.1500$, $SE=0.0528$, $t=2.843$, $p=.005$) and preference for traditional investments ($\beta=0.1464$, $SE=0.0551$, $t=2.658$, $p=.008$) were also significant predictors, with both demonstrating positive relationships with investor reluctance. In contrast, perceived risk ($\beta=0.0068$, $SE=0.0489$, $t=0.139$, $p=.89$), awareness and knowledge ($\beta=0.0929$, $SE=0.0565$, $t=1.643$, $p=.101$), cost and fee perceptions ($\beta=-0.0432$, $SE=0.0677$, $t=-0.639$, $p=.524$), and perception of returns ($\beta=0.0632$, $SE=0.0633$, $t=0.999$, $p=.318$) did not significantly predict investor reluctance. The omnibus ANOVA test further supported these findings, showing that trust in financial institutions accounted for the largest proportion of variance ($F=107.52$, $p<.001$), followed by financial literacy and confidence ($F=8.08$, $p=.005$) and preference for traditional investments ($F=7.06$, $p=.008$). Collectively, these results suggest that enhancing trust in financial institutions and improving financial literacy may be critical strategies for reducing investor reluctance to invest in mutual funds.

Linear Regression						
Table 4: Model Fit Measures						
			Overall Model Test			
Model	R	R²	F	df1	df2	p
1	0.771	0.595	80.1	7	382	< .001

Table 5: Omnibus ANOVA Test					
	Sum of Squares	df	Mean Square	F	p
Perceived Risk	0.0771	1	0.0771	0.0193	0.89
Awareness and Knowledge	10.7973	1	10.7973	2.701	0.101
Financial Literacy and Confidence	32.3054	1	32.3054	8.0813	0.005
Cost and Fee Perceptions	1.6298	1	1.6298	0.4077	0.524

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Preference for Traditional Investments	28.2409	1	28.2409	7.0646	0.008
Perception of Returns	3.9933	1	3.9933	0.9989	0.318
Trust in Financial Institutions	429.8283	1	429.8283	107.5233	< .001
Residuals	1527.0589	382	3.9975		
Note. Type 3 sum of squares					

Table 6: Model Coefficients - Investor Reluctance to Invest in Mutual Funds					
Predictor	Estimate	SE	t	p	Stand. Estimate
Intercept	0.47628	0.704	0.677	0.499	
Perceived Risk	0.00679	0.0489	0.139	0.89	0.00641
Awareness and Knowledge	0.0929	0.0565	1.643	0.101	0.08646
Financial Literacy and Confidence	0.15002	0.0528	2.843	0.005	0.15292
Cost and Fee Perceptions	-0.04322	0.0677	-0.639	0.524	-0.0379
Preference for Traditional Investments	0.14642	0.0551	2.658	0.008	0.13247
Perception of Returns	0.06322	0.0633	0.999	0.318	0.05477
Trust in Financial Institutions	0.54857	0.0529	10.369	< .001	0.5005

5. Discussion

The findings of this study provide valuable insights into the key factors influencing investor reluctance toward mutual fund investments. Our analysis revealed that several psychological, cognitive, and socio-economic factors significantly shape investor sentiment, with trust in financial institutions emerging as the most prominent predictor of reluctance. Specifically, trust was found to be the strongest and most significant predictor, with a strong negative relationship to investor reluctance ($\beta = 0.5486$, $p < .001$). This underscores the importance of establishing and maintaining confidence in the integrity of financial institutions managing mutual funds. The more investors trust the management of mutual funds, the less reluctant they are to invest in these financial products.

In addition to trust, other factors such as financial literacy and confidence ($\beta = 0.1500$, $p = .005$) and preference for traditional investments ($\beta = 0.1464$, $p = .008$) also demonstrated significant positive relationships with investor reluctance. This suggests that investors with lower financial literacy are more likely to feel unprepared to engage with mutual funds, and those with a preference for traditional investment options like fixed deposits or real estate are less inclined to explore mutual fund investments. These findings align with previous studies highlighting the role of financial literacy in shaping investment behavior

(Sivaramakrishnan & Srivastava, 2017) and the strong attachment some investors have to familiar, tangible investments (Bhattacharyya & Huhmann, 2014).

Interestingly, factors such as perceived risk, awareness and knowledge, cost and fee perceptions, and perception of returns did not significantly influence investor reluctance in this study. This contrasts with the conventional view that high risk and complex fee structures are major deterrents for investors (Deb, 2018; Amromin & Sharpe, 2014). While the survey responses indicated moderate concerns regarding these factors (e.g., mutual fund fees, risk, and potential returns), these factors did not emerge as significant predictors when controlling for other variables. This suggests that, while important, risk and cost concerns may be secondary to the more foundational issue of trust and financial literacy.

The relatively low significance of awareness and knowledge may point to an interesting phenomenon: while investors express a lack of understanding about mutual funds, this factor may be overshadowed by the more pressing concerns of trust and perceived financial knowledge gaps. Financial literacy programs could potentially address both issues simultaneously by educating investors not only about the technical aspects of mutual funds but also about the integrity of fund managers and financial institutions.

6. Conclusion

This study provides a comprehensive analysis of the factors influencing investor reluctance toward mutual funds, contributing to the existing literature on investor psychology. The results underscore the importance of trust in financial institutions as a key determinant of mutual fund investment behavior. Financial literacy also plays a significant role, with better-educated investors showing less reluctance to engage with mutual funds. On the other hand, perceived risk, cost perceptions, and awareness gaps, while noted, were not as influential as anticipated.

The study has several practical implications. First, mutual fund providers and financial institutions should prioritize building trust through greater transparency and communication, as this factor was found to have the strongest influence on investor reluctance. Second, educational campaigns aimed at improving financial literacy could play a pivotal role in reducing reluctance by empowering investors with the confidence to make informed decisions. Financial institutions can also tailor their marketing strategies to highlight the advantages of mutual funds while addressing common misconceptions related to risk, returns, and costs.

Future research should consider exploring the dynamic relationship between these factors and how they interact over time, particularly in response to market fluctuations or changes in regulatory frameworks. Additionally, a broader exploration of demographic factors, including age, income, and investment experience, could provide more granular insights into the specific challenges faced by different investor groups.

In summary, fostering trust and improving financial literacy are critical steps in addressing investor reluctance toward mutual funds. By focusing on these key areas, financial institutions can encourage broader participation in mutual fund investments, which could contribute to enhanced financial inclusion and economic growth.

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