

A Study on Risk Profiling and Asset Allocation Strategies among Individual Investors in Chennai City

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Abstract

This study examines the risk profiling and asset allocation strategies of individual investors in Chennai City. In the present investment environment, individual investors are exposed to a wide range of financial instruments, which has increased the complexity of investment decision-making. Understanding investors' risk tolerance and how it influences their asset allocation decisions is essential for achieving optimal returns and long-term financial goals. However, many investors make investment choices without adequately assessing their risk profile, which may lead to inappropriate asset allocation and dissatisfaction with investment outcomes. The study adopts a quantitative research design and is based on primary data collected through a structured questionnaire. The sample consists of 100 individual investors residing in Chennai City; selected using a non-probability convenient sampling technique. Risk profiling is assessed through variables such as willingness to take risk, comfort with market fluctuations, preference for stable returns, and portfolio review behaviour. Asset allocation strategies are examined by analysing investors' preferences towards equity, fixed income instruments, and traditional investment avenues such as gold and bank deposits. Demographic factors such as age, income, education, and occupation are also considered to understand their influence on investment behaviour. The collected data are analysed using descriptive statistics and inferential techniques such as Chi-square test, t-test, ANOVA, correlation. The findings are expected to reveal a significant relationship between investors' risk profiles and their asset allocation strategies, with a majority of investors falling under the moderate risk category. These findings highlight the importance of proper risk assessment and diversification in investment decision-making. The study contributes to existing literature by offering empirical insights into investment risk management and provides practical implications for individual investors, financial advisors, and policymakers in promoting informed and risk-aligned investment practices.

Keywords: Risk Profiling, Asset Allocation, Individual Investors, Investment Behaviour

1. Introduction

Investment behaviour has become a crucial aspect of personal financial management in today's dynamic economic environment. With the availability of a wide range of financial instruments, individual investors are now required to make informed decisions regarding where and how to invest their money. These decisions are largely influenced by an investor's risk tolerance, financial goals, and awareness of different investment avenues. At a broader level, the collective investment behaviour of individuals contributes significantly to capital formation, market development and overall economic growth.

Risk profiling and asset allocation are two deeply interconnected concepts that together form the backbone of sound personal financial planning. Risk profiling helps in understanding an investor's willingness and ability to take risks, while asset allocation determines how investments are distributed across different financial instruments to balance risk and return. Investment decisions are not based solely on income levels; they are also shaped by psychological attitudes, financial knowledge, social influences, and economic conditions. Some investors may prefer stable and low-risk investments, while others may be willing to take higher risks in pursuit of greater returns.

Individual investors today differ significantly from earlier generations in their approach to investment and financial planning. Modern investors, especially in urban areas, demonstrate a more diversified and dynamic approach toward financial decision-making. They are more educated, financially aware, and have easier access to market information through digital platforms. Chennai City, being one of the major metropolitan cities in India, represents a diverse group of investors with varying income levels, educational backgrounds, and financial objectives. The city's growing middle-class population and expanding financial awareness make it an ideal setting to study how individuals approach investment decisions.

1.1 Need for the Study

In recent years, individual participation in financial markets has increased significantly. However, despite this growth, there is a lack of focused research examining how investors assess risk and allocate their investments at a regional level. Most existing studies concentrate on broader national trends, often overlooking the fact that investment behaviour is strongly influenced by local economic conditions, cultural background, and lifestyle factors. This study aims to address this gap by focusing specifically on individual investors in Chennai City, where investors are increasingly exposed to a wide range of financial instruments yet many may not have a clear understanding of how to align their investments with their risk profiles.

1.2 Influence

Risk profiling and asset allocation behaviour are influenced by a combination of demographic, psychological, cultural, and technological factors. Demographic variables such as age, gender, income, education, and

occupation shape an investor's risk capacity and preference for different asset classes. Psychological factors including risk perception, loss aversion, overconfidence, and herd behaviour affect how investors respond to market fluctuations and make allocation decisions. Cultural norms and family influences particularly prominent in South Indian cities like Chennai direct investor preferences towards tangible assets such as gold and real estate. Additionally, technological advancements and the proliferation of digital investment platforms have transformed how individual investors access markets, make decisions, and manage their portfolios.

1.3 Statement of the Problem

Many individual investors in Chennai engage in investment activities without a proper understanding of their own risk tolerance or a structured approach to asset allocation. Despite growing financial awareness, a significant portion of investors make decisions based on intuition, peer influence, or cultural habits rather than formal risk assessment. This often results in mismatches between their risk profiles and investment choices, leading to suboptimal portfolio construction, dissatisfaction with returns, and inadequate long-term financial planning. The absence of empirical research at the city level specifically examining how risk profiling influences asset allocation in Chennai further underscores the need for this study.

1.4 Theoretical Framework

The study is grounded in established theoretical frameworks from both classical finance and behavioural finance. Modern Portfolio Theory (Markowitz, 1952) provides the foundational insight that diversification reduces portfolio risk without sacrificing expected returns, forming the basis for understanding asset allocation decisions. Prospect Theory (Kahneman and Tversky, 1979) explains how investors evaluate financial outcomes relative to a reference point and respond asymmetrically to gains and losses, with losses felt approximately twice as intensely as equivalent gains. Mental Accounting Theory (Thaler, 1985) describes how investors compartmentalise money into separate psychological accounts, each treated with a different risk attitude, leading to sub-optimal portfolio construction. The life-cycle investment model and financial literacy frameworks further inform the demographic analysis of risk tolerance and investment behaviour across different age, income, and education groups.

1.5 Significance of the Study

The study contributes to the understanding of investment behaviour among urban individual investors by providing city-level empirical evidence from Chennai. It generates insights useful for financial advisors in designing suitable investment strategies, for financial institutions in developing appropriate products, and for policymakers in improving financial literacy initiatives. By empirically establishing the relationship between risk profiling and asset allocation and identifying gender as the primary demographic moderator, the study helps individual investors make more informed decisions and promotes better long-term financial stability. The findings also highlight the critical gap between financial awareness and financial behaviour, particularly around diversification, offering actionable recommendations for bridging this divide.

1.6 Objectives of the Study

- To analyse the risk tolerance levels of individual investors in Chennai City and understand how they influence investment decisions.
- To examine the asset allocation patterns of investors across different financial instruments such as equities, fixed income securities, gold, and real estate.
- To study the relationship between demographic factors (age, income, education, and occupation) and the risk profiling and investment behaviour of individuals.

1.6.1 Hypothesis of the Study

H₀₁: There is no significant relationship between the risk profile of individual investors and their asset allocation strategies in Chennai City.

H₁₁: There is a significant relationship between the risk profile of individual investors and their asset allocation strategies in Chennai City.

H₀₂: There is no significant relationship between demographic factors and the risk tolerance of individual investors in Chennai City.

H₁₂: There is a significant relationship between demographic factors and the risk tolerance of individual investors in Chennai City.

H₀₃: There is no significant relationship between investors' financial awareness and their asset allocation decisions in Chennai City.

H₁₃: There is a significant relationship between investors' financial awareness and their asset allocation decisions in Chennai City.

1.7 Scope of the Study

The study focuses on analysing the risk profiling and asset allocation strategies of individual investors residing in Chennai City. It examines how investors distribute their investments across different asset classes such as equities, fixed income instruments, gold and real estate, and how these decisions are influenced by their risk tolerance. The research considers various demographic factors including age, income, education, and occupation, and covers both salaried and self-employed individuals. The scope is limited to personal investment decisions and does not include corporate or institutional investment activities. The research is confined to the metropolitan area of Chennai and is conducted during the financial year 2025-26.

2. Scholarly Review

Financial markets have seen a significant rise in participation from individual investors, particularly in urban centres. Lusardi (2019) found that individuals with a clearer understanding of basic financial concepts, including risk and return trade-offs, were far more likely to make investment choices aligned with their personal financial circumstances. This insight is directly relevant to Chennai, where retail investors are increasingly exposed to a growing range of financial products including mutual funds, equities, fixed deposits, gold bonds, and real estate. Markowitz (1952) demonstrated that asset allocation policy accounts for the overwhelming majority of variation in long-term portfolio returns, far outweighing the contribution of individual security selection, underscoring the importance of understanding what drives the allocation choices of retail investors.

Risk tolerance and psychological factors have a strong impact on investment decisions. Kahneman and Tversky (1979) demonstrated through Prospect Theory that people evaluate financial outcomes relative to a reference point, and that the psychological pain of a loss is approximately twice as intense as the pleasure derived from an equivalent gain. This loss aversion leads investors to hold onto underperforming assets too long while selling well-performing assets too quickly. Thaler (1985) further showed through Mental Accounting Theory that investors compartmentalise money into separate psychological accounts with different risk attitudes, leading to sub-optimal portfolio construction. Barber and Odean (2001) provided evidence that overconfidence leads to excessive trading and significantly lower net returns for individual investors.

Furthermore, investment behaviour in India is shaped by cultural preferences and demographic characteristics. Choudhary and Kamboj (2017) identified education level, income, age, gender, and occupational category as the five most influential determinants of investment behaviour quality in India. Sinha and Kanagaraj (2011) found that urban Indian retail investors consistently underweighted equities relative to theoretically optimal allocations, with a significant share directed toward bank fixed deposits and physical gold. Gold holds a culturally entrenched position in South Indian households including those in Chennai, serving simultaneously as a store of value, a hedge against inflation, and a socially visible form of wealth. Jianakoplos and Bernasek (1998) confirmed that women, on average, hold a significantly smaller proportion of financial wealth in risky assets compared to men, even after controlling for income and age.

Research specifically focused on Chennai investors reveals important local patterns. Rajeswari and Moorthy (2017) studied mutual fund investment behaviour among retail investors in Chennai and found that fund selection was frequently driven by distributor recommendations rather than personal risk profiling, indicating a significant disconnect between the regulatory framework and actual investor practice. Velmurugan, Palanichamy, and Rao (2017) found that the average Tamil Nadu retail investor held fewer than four distinct investment instruments, with significant concentration in two or three familiar avenues. Overall, previous studies confirm that behaviour, demographics, cultural attitudes, and limited knowledge strongly shape investor decisions in urban India. However, studies focused specifically on risk profiling and asset allocation among Chennai investors remain limited, which creates the need for this research.

3. RESEARCH METHODOLOGY

3.1. Research Design

The study adopts a descriptive research design, which is suitable for examining and presenting the characteristics and behaviour of a specific group without influencing any variables. This design helps in identifying how investors perceive risk and how they allocate their funds among various investment avenues such as equity, fixed income, gold, and real estate. It also allows comparison across different demographic groups, providing a clearer understanding of investment patterns in Chennai.

3.2. Source of Data

The study is based entirely on primary data. The required information was collected directly from respondents through a structured questionnaire using Google Forms. The survey was distributed online through platforms such as WhatsApp and LinkedIn to reach individual investors in Chennai. All responses were compiled electronically and prepared for statistical analysis.

3.3. Sampling Technique

Convenience sampling was used to select respondents based on accessibility and willingness to participate. The questionnaire was circulated through digital platforms such as WhatsApp and LinkedIn. Although this method may limit generalisation, efforts were made to include participants from different demographic backgrounds to improve the reliability of the findings.

3.4. Sample Size

A total of 120 respondents were initially targeted for the study. After eliminating incomplete responses, 100 valid responses were used for final analysis. This sample size is considered sufficient for applying statistical techniques and drawing meaningful conclusions about investor behaviour in Chennai.

3.5. Area of the Study

The research was conducted in Chennai City, a major metropolitan area with a diverse investor base. The population includes individual investors actively involved in financial investments such as equities, mutual funds, fixed income instruments, gold and real estate, covering individuals from different income groups, occupations, and educational backgrounds.

3.6. Data Collection Instrument

A structured questionnaire was used as the primary data collection tool. The questionnaire included sections covering: demographic details (age, income, education, occupation); risk profiling variables (willingness to take risk, reaction to market changes, preference for stable vs. high returns, portfolio review frequency); asset allocation preferences (distribution of investments across equity, fixed income, gold, and real estate); and investment behaviour and awareness (decision-making patterns and satisfaction with current portfolio).

3.7. Period of Study

The study was carried out during the academic year 2024–2025

3.8. Statistical Tools Used for Analysis

The collected data were analysed using appropriate statistical tools to interpret risk profiling and asset allocation tendencies. The tools used include:

- Chi-Square Test – to examine associations between categorical demographic variables and risk profile
- Independent Samples t-Test – to compare risk profile scores between gender groups
- One-Way ANOVA – to compare risk profile and equity preference across income and occupation groups
- Pearson Correlation Analysis – to measure the strength and direction of relationships between risk profiling and asset allocation variables
- Simple and Multiple Regression Analysis – to assess the predictive influence of risk profile and demographic variables on asset allocation

These tools helped in presenting the data clearly and identifying meaningful relationships among key variables.

3.9. Method of Analysis

The responses collected from participants were classified, tabulated, and analysed systematically. Descriptive statistics were first used to understand the distribution of demographic and investment behaviour variables across the sample. Inferential statistical tests were then applied to examine the hypothesised relationships between risk profiling, asset allocation, and demographic factors. Results were interpreted in the context of the study objectives to generate practical insights for investors, advisors, and policymakers.

3.10. Framework of the Study

The methodology focuses on analysing the relationship between risk profiling and asset allocation strategies of individual investors in Chennai City. The structured quantitative approach ensures reliability and clarity in understanding the behavioural and demographic determinants of investment decisions among respondents, ultimately generating insights applicable to the broader landscape of individual investor behaviour in urban India.

4. DATA ANALYSIS AND INTERPRETATION

This chapter presents the analysis and interpretation of the data collected from 100 individual investors in Chennai City. The data were analysed using descriptive statistics, chi-square test, independent samples t-test, one-way ANOVA, correlation analysis, and regression analysis. The results are organised based on the three objectives of the study to clearly understand the risk profiling and asset allocation behaviour of respondents.

Objective 1: To analyse the risk tolerance levels of individual investors in Chennai City

| Variable | 1 (%) | 2 (%) | 3 (%) | 4 (%) | 5 (%) | Mean | SD |
|--|-------|-------|-------|-------|-------|------|------|
| Willingness to take higher risk for higher returns | 10.0 | 28.0 | 28.0 | 8.0 | 26.0 | 3.12 | 1.34 |
| Comfort with market fluctuations | 7.0 | 21.0 | 30.0 | 27.0 | 15.0 | 3.22 | 1.15 |
| Preference for stable returns even if low | 10.0 | 11.0 | 18.0 | 31.0 | 30.0 | 3.60 | 1.29 |
| Regularly review and adjust investments | 7.0 | 17.0 | 41.0 | 16.0 | 19.0 | 3.23 | 1.15 |

Table 4.1: Descriptive Statistics of Risk Profiling Variables (Scale: 1 = Strongly Disagree to 5 = Strongly Agree)

The majority of investors (63%) fall under the moderate risk category with a mean composite risk score of 3.29 (SD = 0.76). Preference for stable returns recorded the highest mean (3.60), indicating that even moderately risk-tolerant investors prioritise capital protection alongside growth. Willingness to take higher risk showed a bimodal distribution, with 28% scoring at Level 2 and 26% at Level 5, revealing two distinct investor segments within the sample.

Objective 2: To examine the asset allocation patterns of investors

| Variable | 1 (%) | 2 (%) | 3 (%) | 4 (%) | 5 (%) | Mean | SD |
|--|-------|-------|-------|-------|-------|------|------|
| Preference for equity investments | 6.0 | 11.0 | 26.0 | 11.0 | 46.0 | 3.80 | 1.29 |
| Preference for fixed income (FDs, bonds) | 7.0 | 9.0 | 27.0 | 27.0 | 30.0 | 3.64 | 1.20 |
| Preference for gold or real estate | 0.0 | 6.0 | 23.0 | 25.0 | 46.0 | 4.11 | 0.96 |
| Belief that diversification | 0.0 | 9.0 | 13.0 | 31.0 | 47.0 | 4.16 | 0.97 |

| | | | | | | | |
|--------------|--|--|--|--|--|--|--|
| reduces risk | | | | | | | |
|--------------|--|--|--|--|--|--|--|

Table 4.2: Descriptive Statistics of Asset Allocation Variables (Scale: 1 = Very Low to 5 = Very High)

Gold and real estate emerged as the most preferred asset class (mean = 4.11), with 71% rating their preference at Level 4 or 5, reflecting the deep-rooted cultural affinity of Chennai investors towards tangible assets. Equity investments recorded the second-highest mean preference (3.80), while fixed income instruments remained relevant at 3.64. Belief in diversification yielded the highest overall mean (4.16), with 78% agreeing or strongly agreeing, yet 23% of respondents admitted to not diversifying in practice.

Objective 3: To study the relationship between demographic factors and risk profiling and asset allocation

Chi-Square Test – Gender × Risk Profile (Table 4.3)

| Gender | Conservative | Moderate | Aggressive |
|--------------|--------------|----------|------------|
| Male | 3 | 45 | 26 |
| Female | 4 | 18 | 4 |
| Total | 7 | 63 | 30 |

Table 4.3: Chi-Square = 6.247, df = 2, p = 0.044 (*Significant at 0.05 level)

Multiple Regression – Risk Profile, Gender, and Income Predicting Equity Preference (Table 4.4)

| Predictor | Coefficient (β) | Direction | p-value |
|---|-----------------|-----------|---------|
| Intercept | 2.990 | — | — |
| Risk Profile Score | 0.326 | Positive | 0.037* |
| Gender | -0.344 | Negative | 0.050* |
| Monthly Income | 0.077 | Positive | 0.412 |
| R² = 0.063 Adj. R² = 0.033 | | | |

Table 4.4: Multiple Regression Model – Predictors of Equity Preference

Gender is the most significant demographic factor. Male investors recorded a significantly higher mean risk score (3.382) compared to female investors (3.038), confirmed by both the t-test (t = 1.988, p = 0.050) and chi-square test (p = 0.044). Income level (F = 1.738, p = 0.165) and occupation (F = 0.465, p = 0.761) did not produce statistically significant differences in risk or equity allocation.

4.1 Combined Objective Interpretation

| Objective | Statistical Tools Used & Key Results | Interpretation | Inference in Context of Study |
|-----------|--------------------------------------|----------------|-------------------------------|
| | | | |

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|---|--|--|---|
| Objective 1: To analyse the risk tolerance levels of individual investors | Descriptive & Chi-Square Analysis: 63% Moderate, 30% Aggressive, 7% Conservative (Mean Risk Score = 3.29); Gender × Risk Profile (Chi-Square = 6.247, p = 0.044*) | Most investors carry a moderate risk orientation. Preference for stable returns is the strongest risk dimension (mean = 3.60). Gender significantly influences risk profile category. | Chennai investors operate within a moderate risk band, balancing growth aspirations with capital safety. Male investors carry significantly higher risk profiles than females. |
| Objective 2: To examine the asset allocation patterns of investors | Correlation Analysis: Risk Score × Equity (r = 0.209, p = 0.037*); Risk Score × Fixed Income (r = 0.255, p = 0.011*); Risk Score × Gold/RE (r = 0.168, p = 0.096, NS) | Gold and real estate are the most preferred asset class (mean = 4.11). Risk profile significantly predicts equity and fixed income preference but not gold/real estate preference. | Asset allocation in Chennai is driven by both formal risk orientation (for market instruments) and cultural/social factors (for tangible assets). Diversification is widely believed but inconsistently practised. |
| Objective 3: To study the influence of demographic factors on risk profiling and investment behaviour | t-Test: Gender × Risk Score (t = 1.988, p = 0.050*); ANOVA: Income × Risk Score (F = 1.738, p = 0.165, NS); Occupation × Equity Pref (F = 0.465, p = 0.761, NS); Regression: R ² = 0.063, Risk Score (β = 0.326*), Gender (β = -0.344*) | Gender is the only statistically significant demographic predictor of risk profile and equity preference. Income and occupation do not significantly differentiate risk or allocation behaviour. | Demographic explanations of investor behaviour in Chennai are more nuanced than commonly assumed. Gender-sensitive financial advisory practices are essential, while income-based segmentation may be less effective. |

Table 4.5: Combined Objective Interpretation

5. FINDINGS, SUGGESTIONS, LIMITATIONS AND CONCLUSION

5.1 Major Findings of the Study

The study identifies several important findings regarding the risk profiling and asset allocation behaviour of individual investors in Chennai. It is observed that the majority of investors (63%) possess a moderate level of risk tolerance with a mean composite risk score of 3.29. Preference for stable returns is the dominant risk dimension, with a mean of 3.60, indicating that even investors with moderate risk tolerance place significant importance on capital safety. The distribution of willingness to take higher risk was bimodal, with 28% scoring at

the low end and 26% at the highest level, suggesting the coexistence of two distinct investor segments within the sample.

The analysis of asset allocation reveals that gold and real estate are the most preferred investment avenue among Chennai investors (mean = 4.11), followed by equity (mean = 3.80) and fixed income instruments (mean = 3.64). This strongly reflects the deep-rooted cultural affinity towards tangible assets in South India. While 78% of investors believe diversification reduces risk, and 77% report diversifying in practice, 23% do not diversify at all, exposing a meaningful gap between stated knowledge and actual investment behaviour. Correlation analysis confirmed that the composite risk score is significantly associated with equity preference ($r = 0.209$, $p = 0.037$), fixed income preference ($r = 0.255$, $p = 0.011$), and diversification belief ($r = 0.197$, $p = 0.049$), while the preference for gold and real estate operated independently of formal risk orientation.

Among demographic variables, gender emerged as the most statistically significant factor. Male investors recorded a significantly higher mean risk score (3.382) compared to female investors (3.038), with 35.1% of males classified as aggressive risk-takers versus only 15.4% of females. Neither income level nor occupation produced statistically significant differences in risk or allocation variables. A critical behavioural finding is that 82% of respondents make investment decisions independently, with only 3% relying on a financial advisor, while investor satisfaction with portfolio alignment is only moderate (mean = 3.16-3.19), highlighting the urgent need for accessible advisory and financial literacy support.

5.2 Suggestions

Government agencies and financial regulators should organise investor awareness programmes to educate individual investors in Chennai about risk profiling, responsible asset allocation, and the importance of diversification. SEBI and RBI can introduce simplified educational materials targeting urban retail investors to improve risk-aligned financial decision-making. Financial institutions and brokerage firms should conduct training sessions and workshops explaining risk profiling tools, portfolio diversification strategies, and the role of different asset classes, with special outreach to younger and first-time investors. Digital investment platforms should integrate automated risk profiling tools and behavioural nudges such as portfolio health alerts and diversification gap notifications. Individual investors should undertake formal risk assessments before constructing portfolios, practise genuine diversification across at least three asset classes, review their portfolios at least once every six months, and align their investment time horizons with specific financial goals. Financial advisors must adopt gender-sensitive advisory practices, recognising that male and female investors in Chennai hold meaningfully different risk profiles, and should tailor recommendations accordingly.

5.3 Limitations of the Study

The study is limited to a sample of 100 respondents, which may not fully represent all individual investors in Chennai and across India. Convenience sampling may have introduced selection bias, as the sample is skewed towards younger, male, and undergraduate-educated investors. The research relies entirely on primary data through self-reported questionnaires, which are subject to social desirability bias, recall errors, and potential discrepancies between stated preferences and actual investment behaviour. The geographic focus on Chennai City restricts the applicability of findings to other Indian cities and regions. The cross-sectional design captures investment behaviour at a single point in time and does not account for how risk profiles or asset allocation preferences may shift in response to market cycles, life events, or evolving financial goals. The regression models produced low R-square values (4.4% to 6.3%), indicating that important behavioural and psychological factors such as loss aversion, overconfidence, and financial anxiety were not fully incorporated in the current study.

5.4 Conclusion

The study concludes that risk profiling and demographic characteristics significantly influence the investment behaviour and asset allocation decisions of individual investors in Chennai City. The majority of investors carry a moderate risk orientation, with a strong cultural preference for gold and real estate alongside a growing appetite for equity instruments. Gender is the most significant demographic moderator of both risk profiling and asset allocation decisions, while income and occupation play a lesser role than commonly assumed. The critical gap between diversification awareness (78% endorsement) and diversification practice (only 77% actually diversify, with 23% not diversifying at all) represents the most pressing challenge for investors, advisors, and policymakers alike. With 82% of investors making decisions independently and only 3% consulting a financial advisor, the need for accessible, affordable, and technology-enabled financial advisory services is more urgent than ever. As Chennai continues to grow as a dynamic financial centre with a rapidly expanding base of young, digitally engaged investors, empowering individuals with structured risk profiling processes, gender-sensitive financial education, and accessible diversification strategies will be essential to translating investment aspirations into long-term financial wellbeing.

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