



Impact of Investor Trust and Risk Perception on Mutual Fund Investment Intentions: The Mediating Role of Financial Literacy

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ABSTRACT

This study aims to analyze the role of investor trust (IT) and risk perception (RP) in their mutual fund investment intentions (MFI), with a particular focus on the mediating effect of financial literacy (FL). Time-lagged data was collected from 389 individual investors actively investing in mutual funds from major urban metropolises in India. Structural equation modeling (SEM) using SmartPLS was used to measure and evaluate the structural model. The results show that IT and RP have an important influence on MFI. In addition, FL mediates to some extent the relationship between IT and MFIs as well as between RP and MFI. The current study extends existing research by identifying the critical function of FL in bridging the nexus between psychological factors (IT and RP) and MFIs. It has policy and practical implications for financial planners and policymakers to augment mutual fund investment through literacy programs.

Keywords: Mutual Fund Investment Intention, Financial Literacy, Risk Perception, Investor Trust, Behavioral Finance

JEL Classifications: G11, G41, D14, A20, C12

1. INTRODUCTION

Investing in investment funds is a popular but complex financial route for private investors, offering diversified exposure to the financial markets. However, the decision to invest in investment funds is not solely driven by objective financial considerations but, to a large extent, by cognitive and psychological factors at an individual level. Among the determinants of mutual fund investment plans, investor confidence and RP have attracted more attention due to their immense importance in investment psychology and behavioral finance (Utama et al., 2024; Oehler and Wendt, 2018; Hoffmann et al., 2015). IT, i.e., the belief in the ability and integrity of fund managers or institutions, provides a sense of security and therefore influences investment decisions under uncertainty (Nienaber et al., 2015). Similarly, perceived financial risk, or RP, is the individual investor's personal opinion about the uncertainty of outcomes, which directly affects their

willingness to invest capital in mutual funds (Weber et al., 2002). Despite extensive interest in the constructs, few have studied systematically how the factors impact mutual fund investment intention (MFI).

There is a large gap in how FL acts as a mediator between psychological antecedents such as IT and RP and the MFIs. FL, which is "a combination of financial awareness, knowledge, skills, attitudes, and behaviors to make sound financial decisions" (OECD, 2013), plays a key role in shaping investment attitudes. It has been proven that the higher an individual's financial knowledge, the better they are able to analyze financial products, reduce overconfidence or loss aversion, and make long-term investment plans (Lusardi and Mitchell, 2014; Chen et al., 2022; Xu et al., 2025). Apart from this, FL is a variable that can be manipulated to improve financial behavior through education, training, and policies (Hung et al., 2009). This study aims to answer

the appeal of Lusardi and Tufano (2015) by examining FL as an intermediary variable that may be able to connect the effect of trust and perceived risk on investment plans.

According to the Theory of Planned Behavior (TPB) (Ajzen, 1991), i.e., that behavioral intentions result from attitudes, subjective norms, and perceived behavioral control, we hypothesize that trust between investors and RP are the behavioral beliefs that influence investment intentions through FL. The TPB states that individuals are more likely to engage in a behavior if they are in a positive frame of mind towards it and are convinced that they can perform a behavior. In our case, FL improves perceived control over investment decisions and therefore exerts a transformative effect by converting psychological dispositions (e.g., trust, RP) into concrete investment intentions.

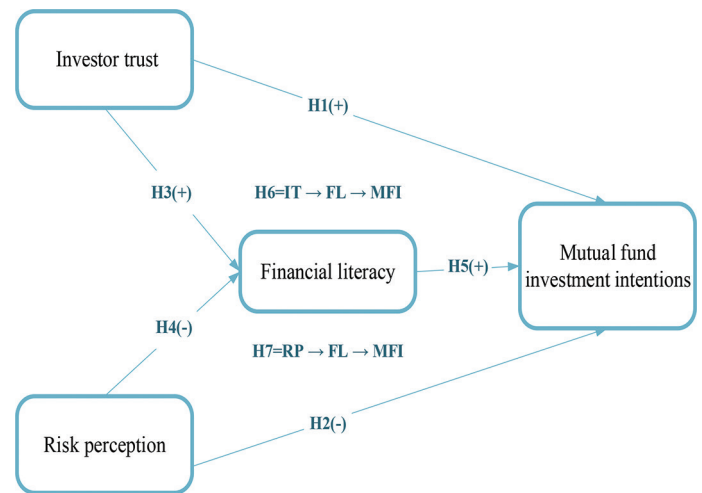
FL has traditionally been studied in previous literature either as an independent variable or as an outcome variable (Klapper et al., 2015; Faulkner, 2022; Singh and Singh, 2023; Rehman and Mia, 2024). However, few have examined it as an intervening variable that enables or inhibits behavioral transformation of trust or RP. Investigating this mediating role is important because FL not only enables investors to use financial information effectively but also prevents heuristics and emotional biases that are prevalent in investment decisions (Bucher-Koenen and Lusardi, 2011).

Understanding this mediation process has significant practical implications. It is assumed that financial RP and trust are not necessarily directly effective in investment decisions. However, their impact is greatly enhanced or diminished based on a person's level of FL. For example, a highly risk-averse individual can proceed with mutual fund investments if he or she possesses sufficient FL to differentiate between categories of risk and long-term returns. Likewise, investor confidence will not translate into increased investment activity unless the investor is sufficiently informed to optimally absorb fund information and policy statements.

This study thus fills three of the major gaps in the literature: (1) Little empirical evidence on the impact of IT and RP on MFIs; (2) no studies examining FL as a mediating factor to describe these relationships; and (3) little integration of psychological and behavioral concepts into a TPB-based framework for MFIs. This study aims to fill these gaps by speculating and testing a conceptual model that assumes that IT and RP both directly and indirectly influence MFIs through FL. In this way, we extend behavioural economics research and offer practical advice for financial institutions and legislators wishing to encourage retail investor investment behaviour through educational programmes. In Figure 1, the conceptual framework is displayed.

This paper's main body is structured as follows. The research paper's second section outlines earlier studies that were looked at in order to develop and create the hypotheses and the third section elaborates on the data and methodology of the study. The fourth section presents the empirical results and discussion following the analysis of the primary data. The conclusions and implications of the study are explained in the fifth section.

Figure 1: Conceptual diagram



2. REVIEW OF LITERATURE

2.1. IT and MFIs

IT is the most important driver of financial decision-making under conditions of high uncertainty and information asymmetry, such as mutual fund or equity crowdfunding platforms. Relational social capital as trust reduces perceived uncertainty and risk (Han et al., 2023; Moysidou and Hausberg, 2020). Trust is even more important for investor engagement in online investment contexts, where interactions are often impersonal and information is scarce (Shneor et al., 2022). According to Alharbey and Van Hemmen (2021), investors' intentions are strongly influenced by their trust in the project platform and the funder. This aligns with transfer trust theory (Stewart, 2003) and swift trust theory (Meyerson et al., 1996), which stress the utility of quickly formed trust in online settings where traditional face-to-face verification is absent.

Trust on the part of investors is two-fold: Institutional confidence ("trust in the platform") and social confidence ("trust in the fundraiser or fund manager"). According to Alharbey and Van Hemmen (2021), trust in the platform not only has a direct impact on the intention to invest but also helps to increase trust in the fund as a trust transfer mechanism. For financial platforms, where complicated contracts and information asymmetries are common, this trust-building is particularly important (Ahlers-et al., 2015). Under such conditions, trust acts as a filter that investors use to see risk signals and decide whether or not to invest (Moysidou and Hausberg, 2020). Trust then shifts investor focus from ambiguity to confidence in decision-making (Wu et al., 2019; Liu et al., 2014). Alharbey and Van Hemmen (2021) used SEM-based empirical data from 216 users of an equity crowdfunding platform. According to their research, trust in the platform had a significant influence on investment intention, while trust in the funder also played an important role in influencing intention. In addition, trust in the platform indirectly influenced trust in the funder, confirming the idea that interpersonal trust is a by-product of institutional trust. Therefore,
 H_1 : IT has a positive and significant effect on MFIs.

2.2. RP and MFIs

RP is defined as the personal assessment of uncertainty and its potential consequences with regard to an investment decision

(Vasvári, 2015). In contrast to risk tolerance, which is likely to remain stable, RP varies and also depends on the situation, based on market conditions and investor experience (Weber et al., 2008; Saivasan and Lokhande, 2022). High-risk-perceived investors will be less inclined to invest in the stock market, especially during times of volatility or ambiguity (Cho and Lee, 2006). RP has been identified in behavioral finance as a significant cognitive factor that influences individuals' investment decisions, especially during affective or unclear financial situations (Almansour et al., 2025; Bhatia et al., 2020). Misconceptions and incorrect assumptions can lead to irrational behavior on the part of investors, deviating from optimal decision models (Khare and Kapoor, 2024).

RP also has a significant impact on the behavior of investors, acting as a deterrent and an incentive in investment decisions. Perceived risk at higher levels is associated with diminished investment activity with a preference for conservative financial choices (Awais et al., 2016). Investors are apt to avoid risky investments or delay investment when they perceive some kind of threat, thereby missing opportunities for greater gains (Wasiuzzaman et al., 2022). However, arguments have been made by certain research that RP is positively impactful on investment behavior through facilitation of careful, educated decision-making (Almansour et al., 2025; Ahmed et al., 2022). RP intersects with such behavioral biases as loss aversion and overconfidence and shapes investor sentiment towards capital markets. Investors are likely to demonstrate herding behavior in uncertain times due to heightened RP and resort to copying peer behavior instead of utilizing personal judgment (Aharon, 2021). Several empirical studies validate the strong relationship between investment choices and RP. Aren and Zengin (2016) revealed that RPs of investors play a vital role in influencing their asset choice and investment amounts. It was found that RP has a significant impact on voting decisions regardless of the type of stock, especially when emotional biases such as the disposition effect and herd behaviour play a role. Not every study finds a linear correlation. For instance, Ahmed et al. (2022) observed that RP mediated between blue-chip stock bias and investment decisions but did not mediate in the effect of other biases like herding or disposition. The outcome reflects the contextual and cultural influence of behavioral finance variables, especially from emerging economies like Pakistan, where collectivist tendencies and financial education distort the conventional risk-behavioral link. Therefore,

H₂: RP has a negative and significant effect on MFIs.

2.3. IT and FL

Trust is a deep psychological driver of what causes individuals to want to engage with financial products and services. On the part of Fisch and Seligman (2022), trust in markets, advisors, and financial institutions motivates individuals to explore, learn, and eventually adopt behaviors such as investing or retirement planning. As confidence grows, so does the feeling of security when it comes to learning about money matters, which can lead to more engagement with financial concepts and products. This is especially relevant given the complexity of financial decisions and products (Lusardi and Mitchell, 2014). The article also stipulates how trust facilitates learning about finance—individuals are more likely to approach and obtain financial guidance if they trust in

the institution giving out the information (Van der Crujisen et al., 2021). A trusting environment makes individuals feel comfortable being receptive to financial education programs, which is crucial in combating enormous financial illiteracy.

IT is not just essential for participation but also dictates learning styles. According to Fisch and Seligman (2022), more trusting investors in human professionals like investment advisors learn best through direct experience and can easily delegate sophisticated financial decisions. The relationship between financial knowledge and trust has also been investigated in studies such as Ha et al. (2022) and Liu et al. (2019), which showed a positive relationship between trust in financial institutions and the use of financial advice and knowledge about retirement plans. Similarly, Cui and Zhang (2021) confirmed that both trust and “stock market knowledge” predict stock market participation and that trust facilitates the application of financial knowledge in decision making. Although there was no discernible correlation between overall trust and financial knowledge, Fisch and Seligman (2022) found that educated people have slightly less trust in financial advisors, likely due to their greater independence. This is indicative of an inconspicuous relationship: while trust may provide the impetus for economic literacy among illiterate individuals, higher education may ultimately reduce reliance on external trust and improve independence. Therefore,

H₃: IT has a positive and significant effect on FL.

2.4. RP and FL

FL has a significant effect on the way people think and act towards financial risk. Chen et al. (2023) assert that true FL affects risk preference indirectly via self-reported FL, highlighting the fact that objective knowledge and belief in such knowledge influence risk-related choice. This is supported by Riley Jr and Chow (1992), who discovered that people with higher knowledge in finance are more confident when it comes to asset allocation and taking risks. Van Rooij et al. (2011b) also showed that individuals with greater FL have greater probabilities of participating in stock markets, mainly due to the fact that they possess greater capacity to understand and evaluate risk-return trade-offs. Furthermore, Almenberg and Dreber (2015) indicated that individuals with high FL possess greater RP, particularly where investment positions are complex.

Negative or exaggerated RP is likely to deter individuals from exposure to financial education or engagement with the world of investment. Chen et al. (2023) observed that individuals with low self-confidence and low self-assessed competence but moderate actual knowledge tend to have low risk taking, even when they are objectively competent - evidence of how fear or uncertainty functions as a cognitive constraint. Similarly, Allgood and Walstad (2016) argued that perceived knowledge deficits create psychological constraints that discourage individuals from financial education or counselling services. Bannier and Neubert (2016) determined that risk-averse individuals, particularly females, overestimate their finance knowledge and hence limit their investment behavior as well as literacy development. Risk aversion has, for centuries, been associated with low financial knowledge and market engagement. Chen et al. (2023) extend this by demonstrating dual effects: low-perceived but moderate/

high-actual-literacy individuals become progressively risk tolerant with higher literacy, whereas overconfident types may become overly conservative when presented with high-level decisions that expose their knowledge gaps. Lusardi and Mitchell (2007; 2008) established that low-literates are less likely to save for retirement or invest in the long term since they dislike making difficult and dangerous decisions. Chatterjee et al. (2017) also found that risk tolerance increases with higher FL, but only if reality reflects perception. Therefore,

H₄: RP has a negative and significant effect on FL.

2.5. FL and MFIs

FL is increasingly seen as a fundamental skill that influences investor behaviour. FL encompasses the ability to understand and make decisions about budgeting, investing and financial planning (Aren and Hamamci, 2020). The study reiterates that FL plays an important role in how investors respond to financial opportunities, especially when faced with complex products such as investment funds. Investors possessing adequate FL are able to analyze risk better, comprehend diversification, and make smart investment choices (Mandell and Klein, 2009; Wang et al., 2011) which ultimately improves investment performance and returns (Touny & Shusha, 2014). FL improves the quality of decision-making and reduces behavioral biases, and hence it is a determiner of conservative and aggressive financial strategies (Krische, 2019; Samsuri et al., 2019). Again, the study discovers FL to enhance rational and risk-conscious decision-making, especially among millennials, who are nowadays building wealth (Moreira Costa et al., 2021). This is in accordance with findings in Lusardi and Mitchell (2008), who highlighted the manner in which FL enhances financial market participation and reduces information processing gaps.

Some of the empirical research mentioned in the paper are good predictors of the direct and indirect impact of FL on MFIs. Shehata et al. (2021) conclude that FL and intention to invest are correlated positively, while Aren and Hamamci (2023) also establish FL's role in the choice of speculative investment vehicles. Li et al. (2020) and Liao et al. (2017) presented evidence that people with higher financial education own risky financial instruments and diversify their portfolios. However, Mohta and Shunmugasundaram (2024) discovered an interesting twist: Higher FL was associated with more conservative investment plans, especially under high-risk conditions — i.e., investors' literacy makes them more capable of perceiving risk, which could mitigate aggressive investment behaviour. Conflict evidence is present as well: while some research (e.g., Abdillah et al., 2019; Kawamura et al., 2021) contends that FL promotes risky behavior in finance, others (e.g., Dinç Aydemir and Aren, 2017) discovered that FL intensifies loss aversion and thereby discourages risky investment. This two-faced result has implications that FL facilitates more sophisticated risk-return analysis than simple risk-seeking. Hence,

H₅: FL has a positive and significant effect on MFIs.

2.6. Mediating Role of FL

The use of mediation analysis in financial behavior studies has been the focus of attention in decision process understanding. Mediation is a process by which and why an independent variable

influences a dependent variable through a third variable—primarily a psychological or cognitive construct. FL in this work has been extensively employed as a mediating variable, allowing for the conversion of antecedents such as trust or RP into investment intention or behavior. This is particularly relevant to Theory of Planned Behavior (TPB)-based models that have been extensively tested in a broad array of behavioral contexts (Ajzen, 1991). The indirect paths whereby financial knowledge supports attitudes, which in turn strengthen investment intention, are emphasized by Jorgensen and Savla (2010) and Sang (2022) and Tanuwijaya and Setyawan (2021). Khan et al. (2021) also illustrated that FL indirectly influences financial behavioral intentions through its impact on RP and attitude. These findings illustrate the role of FL as not merely information but as a conversion factor that modifies individuals' cognitive appraisal, emotional response, and outcome behavior.

Trust alone will not trigger investment if it is not accompanied by adequate knowledge and skills. FL is the cognitive bridge that allows individuals to convert their trust to action. Raut (2020) demonstrated that although trust and subjective norms influence attitude, the presence of FL significantly enhances perceived behavioral control and intention. Van Rooij et al. (2011) also found that with greater FL, the individual has a greater likelihood of saving for retirement, building wealth, and investing in the stock market. In this sense, FL mediates the influence of trust on investment intent by providing individuals with the judgment and technical skills to execute trust.

RP is considered one of the most important factors that prevent or promote investment behavior. While high-RP can lead to a reluctance to invest, financial education can overcome this reluctance through better risk assessment and understanding. Sobaih and Elshaer (2023) found that students with good financial knowledge had more rational RPs, with subjective norms and perceived behavioral control serving as mediators for the effects of financial knowledge on risky investment intentions. Zhao et al. (2005) and Lu et al. (2021) also found that individuals with high financial self-efficacy—a dimension of financial knowledge—are better able to control risk and are more inclined to engage in investment activities. Specifically, Khan et al. (2021) found that both RP and attitude act as mediators between FL and investment intention, using a two-path mediation model. This shows that FL reduces the cognitive bias in RP and promotes an active investment decision.

There is also a growing empirical support for FL's mediating function in investment behavioral frameworks. Raut (2020) empirically tested an extension of the TPB in which FL had a positive effect on attitude and perceived behavioral control, which in turn influenced the investment intention of Indian investors. Similarly, Mulyono (2021) and Mahastanti and Hariady (2014) found that FL had a significant positive impact on investment confidence and eliminated irrational behaviors through improved cognitive framing. More broadly, Ammer and Aldhyani (2022), Hamza and Arif (2019), and Thomas and Spataro (2018) found that FL as an integrative conduit is centrally located in translating internal drivers and external pressures (e.g., peer norms, media,

education) into actual investment behaviors. Thus,
 H₆: FL mediates the relationship between IT and MFIs.
 H₇: FL mediates the relationship between RP and MFIs.

3. METHOD

3.1. Sample and Procedure

We obtained time-lagged (three-wave) initial survey data from financially independent retail individual investors actively engaged in mutual fund investment in major Indian cities such as Chennai, Mumbai, Bengaluru, and Hyderabad. Four weeks of interval were allowed between each wave to minimize common method bias and provide temporal spacing for the measurement of the independent, mediator, and dependent variables. This follows previous mediation studies, which indicate that time-lagged data are more reflective of the causal nature of mediation effects over time (Maxwell and Cole, 2007; Podsakoff et al., 2012).

A non-probability, purposive sampling approach was used within this research. The approach was used since it was not feasible to obtain a full sampling frame of individual mutual fund investors, and past investment experience respondents had to be contacted. Purposive sampling has been used successfully in the studies of investment behavior to obtain only information-rich and relevant respondents (Etikan et al., 2016).

Participants included public and private sector employees, freelancers, business owners, retirees and independent financial planners. We collected the questionnaires electronically and in paper form, along with a cover letter explaining the research objective and the confidentiality of the participants.

At Time 1, we analysed 520 questionnaires to gather information on investor confidence, RP and demographics. We obtained 478 completed surveys. Four weeks later, at Time 2, we invited the same subjects back to assess FL. Of 478, 445 were returned, 430 of which were usable and could be matched to Time 1 data with a unique alphanumeric code (initials and birth month). At Time 3, MFI information was collected, and 407 matched and usable end responses were collected from all three waves.

After thorough cleaning of the data and combining the three data sets, the analysis utilized a final sample of 389 full response sets, yielding an effective response rate of 74.8%. Respondents' answers were made voluntary and anonymous.

In demographic segmentation, the last sample consisted of 62% male and 38% female respondents. In education, 34% held an undergraduate degree, 44% held a postgraduate degree, and 22% held doctoral or professional degrees. According to age segmentation, 22% of respondents were between the ages of 21 and 30, 30% were between the ages of 31 and 40, 26% were between the ages of 41 and 50, and 22% were between the ages of 51 and 60. In marital status, 68% were married and 32% were unmarried. Monthly income segments were also diverse: 17% were less than ₹40,000, 24% between ₹40,000 and ₹70,000, 28% between ₹70,000 and ₹100,000, 18% between ₹100,000 and ₹150,000, and

13% were more than ₹150,000.

These demographic variables (age, gender, income, education, and marital status) were employed as control factors in the structural model. The results showed that none of them had any statistically significant impact on the target endogenous variable, MFI.

3.2. Measures

In this study, proven, previously validated scales were used to measure the individual constructs. The survey was conducted in English as this language is widely used as a medium of instruction and formal communication in the Indian educational and professional environment. All items were measured on a "five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree)", unless otherwise stated.

3.2.1. Investor trust

IT was measured using a five-item scale adapted from Maziriri et al. (2019) and Gefen et al. (2003), which has been used in the context of financial services and online investment platforms. The scale measures the degree of investor confidence in the integrity, honesty and reliability of investment fund institutions. Exemplary statements are: "I believe that investment funds are trustworthy," "I believe that investment fund companies act in the best interests of their investors," "I trust the information provided by investment fund companies", "I believe that investment fund companies are able to protect their clients" "Mutual fund providers are honest in their dealings," and "I can rely on mutual fund companies to deliver promised returns."

3.2.2. Risk perception

RP was assessed using a six-item scale, adapted from Weber et al. (2002) and Keh and Sun (2008), focussing on the subjective assessment of uncertainty and potential financial loss associated with investing in mutual funds. The items included: "I believe that investing in mutual funds involves high financial risk," "The possibility of losing money with mutual funds worries me," "I consider mutual funds to be a risky investment," "I feel uncertain about the performance of mutual funds," "I believe that mutual funds carry a higher risk than time deposits or bonds" and "I am concerned about the volatility of mutual fund markets"

3.2.3. Financial literacy

FL was measured using a four-item self-assessment scale adapted from Thung et al. (2012) and Van Rooij et al. (2011), which is frequently used in investment behavior and financial capability studies. The scale evaluated the extent to which respondents believed they possessed knowledge and awareness related to financial matters. Sample items include: "I know what inflation and interest rate changes mean," "I make a price comparison when buying a product or service," "I pay attention to the price/performance ratio when buying a product or service," and "I have knowledge about financial products."

3.2.4. Mutual fund investment intention

MFIs was measured using a five-item scale adapted from Dodds et al. (1991) and Putrevu and Lord (1994), reflecting investors'

Figure 2: Measurement model

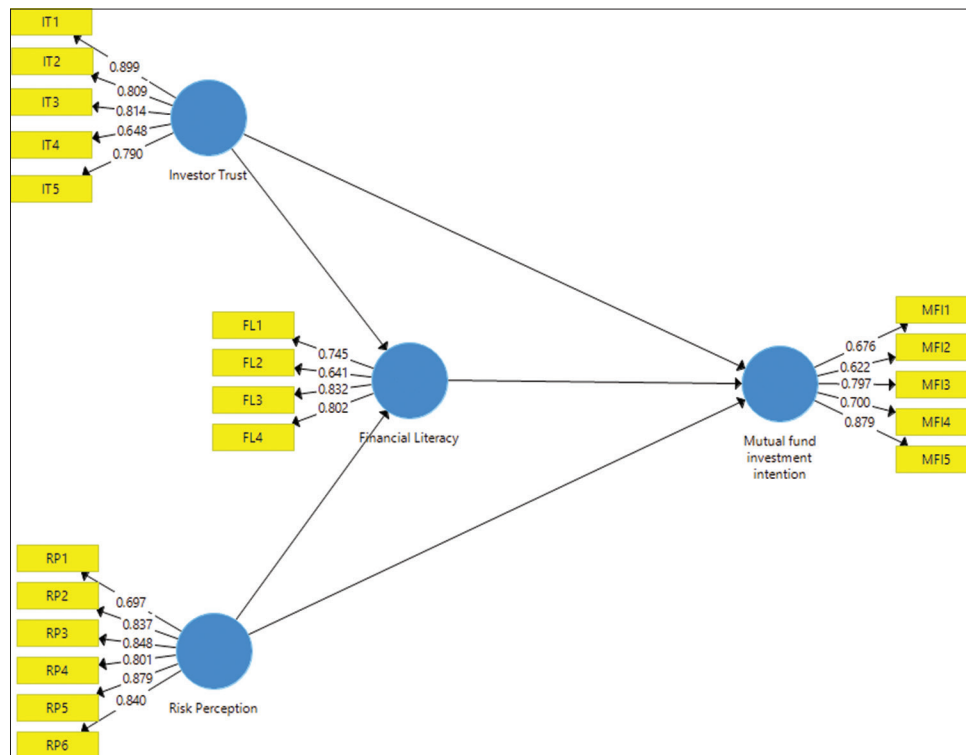


Table 1: Reliability and validity for constructs

Construct	Item code	Factor loading	Cronbach's alpha	rho_A	CR	AVE	VIF
Investor Trust (IT)	IT1	0.899	0.817	0.908	0.863	0.574	2.369
	IT2	0.809					2.021
	IT3	0.814					2.242
	IT4	0.648					1.305
	IT5	0.790					1.879
Risk Perception (RP)	RP1	0.697	0.902	0.915	0.924	0.671	1.833
	RP2	0.837					2.962
	RP3	0.848					2.905
	RP4	0.801					2.156
	RP5	0.879					3.008
	RP6	0.840					2.436
Financial Literacy (FL)	FL1	0.745	0.756	0.782	0.843	0.576	1.389
	FL2	0.641					1.287
	FL3	0.832					2.167
	FL4	0.802					1.765
Mutual Fund Investment Intention (MFI)	MFI1	0.676	0.756	0.825	0.829	0.502	1.278
	MFI2	0.622					1.251
	MFI3	0.797					1.630
	MFI4	0.700					1.562
	MFI5	0.879					2.049

Table 2: Fornell-Larcker Criterion

Construct	IT	RP	FL	MFI
Investor Trust (IT)	0.758			
Risk Perception (RP)	0.025	0.819		
Financial Literacy (FL)	0.072	0.094	0.759	
Mutual Fund Investment Intention (MFI)	0.053	0.169	0.242	0.709

Table 3: Heterotrait-Monotrait (HTMT) ratio

Construct	IT	RP	FL	MFI
Investor Trust (IT)	–			
Risk Perception (RP)	0.058	–		
Financial Literacy (FL)	0.094	0.112	–	
Mutual Fund Investment Intention (MFI)	0.083	0.245	0.311	–

likelihood and willingness to invest in mutual funds in the near future. The items included: “I intend to invest in mutual funds in the near future,” “I will consider mutual funds as a primary

investment option,” “I am likely to increase my investment in mutual funds,” “I plan to invest in mutual funds within the next six months” and “I am confident to invest part of my income in

Table 4: Effects on endogenous variables

Hypothesis	Path	β	CI (95%)	SE	t-value	P-value	Decision	f ²
H1	IT→MFI	0.162	(0.032, 0.274)	0.061	2.656	0.008	Supported	0.071
H2	RP→MFI	-0.185	(-0.306, -0.062)	0.071	2.605	0.01	Supported	0.084
H3	IT→FL	0.198	(0.071, 0.324)	0.064	3.094	0.002	Supported	0.091
H4	RP→FL	-0.144	(-0.267, -0.016)	0.058	2.483	0.014	Supported	0.066
H5	FL→MFI	0.225	(0.092, 0.354)	0.072	3.125	0.002	Supported	0.102

Abbreviations: Investor Trust (IT), Risk Perception (RP), Financial Literacy (FL), Mutual Fund Investment Intention (MFI)

Table 5: R² and Q² values for endogenous variables

Endogenous variable	R ²	Q ²
Financial Literacy (FL)	0.176	0.104
Mutual Fund Investment Intention (MFI)	0.126	0.089

mutual funds.”

3.2.5. Control variables

In line with previous studies (Lusardi and Mitchell, 2014; Awais et al., 2016), demographic variables such as age, gender, education level, marital status and monthly income were treated as control variables. These were included in the model to test their potential influence on MFIs, although initial analysis showed that their effects were statistically insignificant.

All the scales employed in this study have been validated in previous research, and were slightly adapted to suit the Indian mutual fund investment context. The reliability and validity of the scales were tested in subsequent analysis using SmartPLS.

3.3. Data Analysis

Through SmartPLS, the research used “partial least square structural equation modeling” (PLS-SEM) to analyze data. The following arguments support our preference for PLS-SEM over CB-SEM: Initially, the goal of the study is to evaluate the structural paths’ “predictive capability,” or “to maximise explained variance in the latent endogenous variables rather than theory confirmation.” Additionally, the study evaluated a complex moderated mediation model, meaning that it evaluated the moderator effect of emotional intelligence in addition to estimating the main effects (Henseler and Fassoot, 2010). Using the PLS algorithm and the bias-corrected and accelerated (BCa) bootstrapping technique, we used SmartPLS to evaluate the measurement model and the structural model in accordance with Hair et al.’s recommendations. The analysis’s findings are shown in the section that follows.

4. RESULTS

4.1. Measurement Model

The measurement model was evaluated in the study on the basis of three key psychometric properties, i.e. internal consistency, convergent validity and discriminant validity according to Hair et al. (2023) and Henseler et al. (2015). Figure 2 displays measurement model with factor loading.

Composite reliability (CR) and Cronbach’s alpha were used to estimate the reliability of internal consistency. As shown in Table 1, all the constructs—IT, RP, FL, and MFI—have Cronbach’s Alpha

estimates above the minimum threshold of 0.6 and CR estimates higher than the recommended 0.7 threshold (Hair et al., 2023). Exactly, CR ranged between 0.829 (MFI) and 0.924 (RP), whereas Cronbach’s Alpha ranged from 0.756 (FL and MFI) to 0.902 (RP), thus determining the internal consistency of the constructs.

In order to determine convergent validity, both the external (factor) loadings and the average variance extracted (AVE) were calculated for the model. According to the criterion of Fornell and Larcker (1981), all AVE values are greater than the minimum threshold of 0.50 and range from 0.502 (MFI) to 0.671 (RP), indicating a satisfactory convergence of the items to their respective latent constructs. In addition, most of the external loadings were greater than the threshold of 0.6, which is evidence of convergent validity. However, two items — IT4 (0.348) and MFI1 (0.476) — were significantly below the threshold, indicating a low contribution to the respective constructs. They could be removed in a future model refinement to improve the AVE and reliability.

The variance inflation factor (VIF) for all items was between 1.251 and 3.008, well below the critical value of 5, which is not an indication of multicollinearity between the indicators (Hair et al., 2023). The results of the reliability and validity tests confirm that the measurement model is psychometrically valid. The minimum threshold of convergent validity and internal consistency is met by all the constructs.

In addition to measuring convergent validity, the study also tested discriminant validity, which refers to the extent to which each latent factor differs empirically from other factors in the model (Hair et al., 2023). Two widely accepted methods were applied in testing discriminant validity, i.e., the “Fornell–Larcker criterion” and the “Heterotrait–Monotrait” (HTMT) ratio of correlations.

The square root of the AVE of each construct (off-diagonal values) was compared with its correlations between constructs (off-diagonal values) in order to apply the Fornell–Larcker criterion, as shown in Table 2. Every construct shares more variance with its indicators than with other constructs in the model, according to the results, which show that each construct’s square root of AVE is higher than its correlations with other constructs. This establishes the discriminant validity across all latent variables—IT, RP, FL, and MFI—based on the Fornell–Larcker criterion (Fornell and Larcker, 1981).

The study assessed the HTMT ratio, a causal method proven to be more sensitive in detecting discriminant validity issues (Henseler et al., 2015). All HTMT values in Table 3 are below the conservative threshold of 0.90 (HTMT.90), with the highest

Table 6: Summary of mediating effect tests

Hypothesis	Path	β	t-value	95% BCCI	Decision	VAF
H6	Investor Trust→Financial Literacy→MFI	0.115	2.985	(0.056, 0.198)	Supported	58.08%
H7	Risk Perception→Financial Literacy→MFI	0.104	2.712	(0.042, 0.173)	Supported	54.21%

Table 7: Goodness-of-fit index (GFI)

Constructs	AVE	R ²
Financial Literacy (FL)	0.576	0.176
Investor Trust (IT)	0.574	–
Risk Perception (RP)	0.671	–
Mutual Fund Investment Intention (MFI)	0.502	0.126
Average Values	0.581	0.151
Goodness-of-Fit (GFI)		0.296

being 0.311 between FL and MFI. For further increasing the robustness of the findings, HTMT values were also estimated by using bias-corrected and accelerated (BCa) bootstrapping with 5,000 resamples and one-tailed t-test at the 90% confidence level, as per Hair et al. (2023). All HTMT values are well below the conservative value of 0.90 (HTMT.90), offering discriminant validity to all constructs. Specifically, the HTMT values were in the range of 0.058 (IT ↔ RP) and 0.311 (FL ↔ MFI), and this indicates that each of the latent constructs empirically varies from the other. In all cases, the uppermost point of the interval was below the value of 0.90, and this further reinforces discriminant validity.

4.2. Structural Model

Once the measurement model was tested, the study proceeded to analyze the structural model in an effort to establish the set hypotheses. Non-parametric bootstrapping with 5,000 subsamples was applied to carry out path analysis, as recommended by Hair et al. (2023), for the purposes of estimating the path coefficients (β), t-values, and p-values. In addition to the analysis of the strength and significance of the structural links, predictive accuracy and validity of the model were assessed with R² (coefficient of determination), Q² (cross-validated redundancy), and f² (effect size).

The results of the structural model are presented in Table 4. The analysis confirms all five hypotheses. That is, IT was significantly and positively correlated with MFI ($\beta = 0.162$, $t = 2.656$, $P = 0.008$, $f^2 = 0.071$), thus confirming H1. On the other hand, RP significantly negatively correlated with MFI ($\beta = -0.185$, $t = 2.605$, $P = 0.010$, $f^2 = 0.084$), thus confirming H2.

With respect to the FL predictors, it was found that IT positively and significantly impacted ($\beta = 0.198$, $t = 3.094$, $P = 0.002$, $f^2 = 0.091$), supporting H3, whereas RP significantly and negatively impacted FL ($\beta = -0.144$, $t = 2.483$, $P = 0.014$, $f^2 = 0.066$), supporting H4. In addition, the path from FL to MFI was also significant and positive ($\beta = 0.225$, $t = 3.125$, $P = 0.002$, $f^2 = 0.102$), supporting H5. The results show that IT increases FL and MFI, while RP reduces FL and MFI. In addition, FL has a direct and significant effect on MFI.

In addition to the significance tests, the predictive power of the model was assessed using the R² and Q² values for each endogenous construct. As shown in Table 5, the R² value for FL

was 0.176, which means that IT and RP together explain 17.6% of the variance in FL. Similarly, the R² value for MFI was 0.126, indicating that IT, RP and FI explained 12.6% of its variance. The Q² values obtained by blindfolding were 0.104 for FI and 0.089 for MFI. As all Q² values are greater than zero, this confirms the predictive relevance of the structural model.

4.2.1. Mediating Effect Tests

Apart from examining direct effects, the study also explored the mediating effect of financial literacy between (i) IT and MFI (H6), and (ii) RP and MFI (H7). We tested these indirect effects by using the model suggested by Zhao et al. (2010). The indirect models were tested using the bias-corrected and accelerated (BCa) bootstrapping approach with 5,000 resamples.

As presented in Table 6, the result shows that the indirect effect of IT on MFI through FL is statistically significant ($\beta = 0.115$, $t = 2.985$, 95% BCCI [0.056, 0.198]). The indirect effect of RP on the MFI via FL also emerges as considerable ($\beta = 0.104$, $t = 2.712$, 95% BCCI [0.042, 0.173]). These findings confirm H6 and H7 empirically and ascertain that FL is actually a mediator in both these relations.

To further verify the strength and mode of mediation, we estimated the Variance Accounted For (VAF) of H6 and H7. The VAF estimates were 58.08% and 54.21%, respectively, and both fell within the range of 20%–80%. From Zhao et al. (2010), this is partial or complementary mediation, wherein the mediator explains a substantial part of the total effect while the direct effect remains significant.

As suggested by Tenenhaus et al. (2005), in addition to testing for structural paths, the GFI was also used in the study to estimate the overall fit of the model. The GFI, which is the geometric mean of the average AVE and the average R², shows the structural explanatory power as well as the quality of the measurement model. As can be seen from Table 7, the mean AVE over constructs (FL, IT, RP, MFI) was 0.581, and the mean R² over endogenous constructs (FL and MFI) was 0.151. This resulted in the GFI being 0.296, which while short of the 0.36 proposed as indicative of a large effect size (Wetzels et al., 2009), nonetheless represents moderate model fit and is adequate for exploratory models in behavioral research contexts. Finally, the predictive power of the model was assessed using Stone–Geisser's Q² test with an omission distance of 5. The predictive power of the model for the endogenous variables is sufficient, as shown by the statistically significant Q² values for MFI (0.089) and FL (0.104).

5. DISCUSSION, CONCLUSION, LIMITATIONS AND SUGGESTIONS

The research objective was to examine directly and indirectly the impact of IT and RP on MFI plans through the mediating influence

of FL. Taking the time-lagged survey design of 389 financially independent individual investors from big Indian cities, the study confirms all the proposed hypotheses and contributes to a better insight into behavioral finance in the context of MFI.

The findings first affirm that IT positively affects MFI (H1). This is in harmony with mounting consensus in the literature that trust in financial institutions and agents matters to enable investor participation, particularly where uncertainty reigns (Nienaber et al., 2015; Fisch and Seligman, 2022). Such investors are more likely to convert such trust into active investment activities when they perceive mutual fund providers as honest and competent.

On the other hand, RP was found to have a negative influence on MFI (H2). Investors who experience high uncertainty or fear losses are significantly less likely to pursue mutual fund investments. This aligns with the ideas of behavioral finance in which emotional and cognitive errors—e.g., loss aversion—prevail over rationality, leading to decreased investment engagement (Weber et al., 2002; Ahmed et al., 2022).

The results also validate the hypothesis that IT significantly enhances FL (H3). Trust facilitates a safe learning setting wherein investors have higher chances of seeking, keeping, and applying financial information (Fisch and Seligman, 2022). Perceived risk negatively affects FL (H4), since it is posited that fear or perceived complexity inhibits individuals from financial education programs (Chen et al., 2023; Allgood and Walstad, 2016).

Additionally, FL had a straightforward, positive influence on MFI (H5). This concurs with previous literature that individuals who are financially literate are more capable of evaluating investment opportunities, managing risk, and making good-quality decisions (Lusardi and Mitchell, 2014; Shehata et al., 2021). In this case, FL is an enabler in bridging knowledge and action.

Above all, it was established that FL mediated the IT-MFI (H6) and RP-MFI (H7) relationships. The indirect effects in both cases were statistically significant with VAF statistics of 58.08% and 54.21% respectively, signifying partial or complementary mediation. This implies that although IT and RP have a direct effect on MFI, most of their effect arises indirectly through enhancing—or suppressing—FL. Trust is a conduit for learning and comprehension, to translate into more investment behavior, while risk overestimation is a psychological barrier FL can overcome.

Together, these findings add to the theoretical model of the Theory of Planned Behavior (TPB) by empirically establishing FL as a cognitive-conversion factor. It augments perceived behavioral control, thus converting trust or fear attitudes into concrete MFI. This is particularly relevant in emerging market contexts such as India, where investment levels are low in the face of greater financial inclusion.

In practice, the study has several implications. Policymakers, educators, and financial services providers must envision FL as

more than an issue of knowledge but as a behavioral portal. Efforts at increasing participation in mutual funds must combine trust-building initiatives with components of financial education that are specially designed to address RPs. Interventions in the young or novice investor segments must specifically focus on eliminating errors regarding mutual fund risk and generating confidence by means of learning.

In conclusion, the study again attests that investor behavior is not only a function of monetary incentive or rationality of the market, but one that is built upon trust, emotions, and cognitive awareness. FL is therefore the unifying concept that can reconcile these factors, rendering it essential in building an educated, assertive, and engaged investor community.

This study provides useful information regarding IT, FL, and RP as they relate to MFI. Some of the limitations need to be stated. FL was assessed subjectively; future studies should employ both subjective and objective measures for completeness. Second, although FL partially mediated the relationships analysed, other possible mediators—investment experience or financial confidence—remain to be investigated. Third, the study used a lagged non-probability sample, which was restricted to specific cities in India and may limit generalisability. Future studies should use probability sampling of broader populations. Lastly, the model did not have moderating variables; future studies could examine psychological variables like overconfidence or financial concern in an attempt to explain further variance in investment behavior. Increasing the model in such manners would make it more relevant and applicable in various finance contexts.

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