

# Risk Perception and Its Influence on Investment Decisions on Stock Market

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## ABSTRACT

Risk perception is one of the key factors influencing investment decisions in the stock market. This study examines the impact of risk perception on the investment behaviour of retail investors and explores the role of demographic and financial factors in shaping their attitudes toward risk. The study is based on primary data collected from 100 retail investors in Udupi and Dakshina Kannada districts of Karnataka through a structured questionnaire. Statistical tools such as correlation, regression, t-test, and ANOVA were used for data analysis. The findings reveal a significant positive relationship between risk perception and investment decisions, indicating that investors' understanding of risk strongly affects their investment choices. The study also found that age and financial literacy significantly influence risk perception, while gender and educational qualification do not. Furthermore, investors recognized portfolio diversification as an effective risk management strategy. The study concludes that enhancing financial literacy and risk awareness can help investors make more informed and confident investment decisions in the stock market.

**Keywords:** Risk Perception, Investment Decisions, Stock Market, Retail Investors, Financial Literacy.

## 1. Introduction

Risk perception plays a central role in shaping how investors make decisions in the stock market. Stock market investments involve a considerable level of uncertainty due to market volatility, fluctuations in share prices, economic conditions, and changing investor sentiments. The manner in which an individual perceives risk whether they consider stock market investments highly risky or potentially profitable directly influences their willingness to invest, the amount of funds allocated, and the type of stocks selected for investment.

In reality, investors do not always behave as fully rational and utility-maximizing individuals as assumed in traditional finance theories. Instead, their perception towards stock market risk is often influenced by various psychological and behavioural factors such as overconfidence, herding behaviour, and loss aversion. For instance, some investors may overestimate their ability to predict stock market movements, while others may follow the investment decisions of other market participants without proper analysis. Similarly, investors who have previously experienced financial losses may become more cautious and avoid risky stock market investments. These behavioural tendencies significantly influence investors' perception towards risk and their investment decision-making process.

Apart from behavioural aspects, demographic and financial factors such as age, gender, income level, investment experience, and financial literacy also play an important role in determining investors' risk perception in the stock market. Younger investors are generally more willing to take higher risks in expectation of greater returns, whereas older investors often prefer safer investment alternatives. Likewise, investors with higher income levels and better financial knowledge tend to exhibit greater risk tolerance compared to investors with lower financial awareness.

The present study titled "Risk Perception and its Influence on Investment Decisions in the Stock Market" aims to examine how investors perceive risk in stock market investments and how such perceptions influence their investment decisions. The study also attempts to analyse the role of behavioural, demographic, and financial factors in shaping investors' attitudes towards stock market risk. By understanding these factors, the study seeks to provide useful insights for investors and financial advisors to make informed investment decisions in the stock market.

## 2. Review of Literature

Bhattacharjee (2021) Bhattacharjee examined how investors perceive risk while investing in equity shares. The study found that investors who view stock market investments as highly uncertain are generally reluctant to invest large amounts in equities. It also highlighted that financial knowledge plays a crucial role in reducing fear and increasing participation in the stock market. The research concluded that risk perception significantly influences investment choices and portfolio allocation. Bairagi and Chakraborty (2022) Bairagi and Chakraborty investigated the impact of risk perception on retail investors' decision-making behaviour. The study revealed that emotional factors such as fear of loss and uncertainty strongly affect investment decisions. During periods of market volatility, investors tend to become more conservative and prefer safer investment options. The study emphasized the importance of understanding investor psychology in financial decision-making.

Ahmad and Shah (2023) Ahmad and Shah explored the relationship between behavioural biases and investment decisions. Their findings showed that biases such as overconfidence, herding behaviour, and loss aversion significantly influence investors' perception of risk. Investors who were highly influenced by these biases often made irrational investment decisions. The study concluded that risk perception acts as a bridge between behavioural tendencies and investment outcomes. Kumar and Rani (2023) Kumar and Rani studied the role of financial literacy in shaping investors' risk perception. The research found that financially literate investors were more capable of evaluating investment risks and making informed decisions. Investors with limited financial knowledge were more likely to avoid stock market investments due to fear and uncertainty. The study emphasized the need for investor education programs. Singh and Verma (2024) Singh and Verma examined how demographic factors influence investment behaviour. The study revealed that age, income level, and investment experience significantly affect risk perception. Younger investors showed greater willingness to take risks, whereas older investors preferred stable and low-risk investment opportunities. The study concluded that demographic characteristics are important determinants of investment decisions. Chen and Lee (2024) Chen and Lee analyzed the influence of market volatility on investor behaviour. The findings indicated that sudden market fluctuations increase perceived risk among investors, leading many to reduce their investments in equities. The study also observed that investors with higher risk tolerance were less affected by short-term market movements. The research highlighted the relationship between market conditions and investment decisions.

The Investment Puzzle: Unveiling Behavioural Finance, Risk Perception, and Investment Decisions (2024) This study investigated how behavioural finance factors and financial literacy affect investment decisions. The findings revealed that risk perception mediates the relationship between investor behaviour and investment choices. Investors with better financial understanding displayed greater confidence and risk tolerance. The study suggested that improving financial literacy can lead to better investment outcomes. Yan (2025) Yan examined behavioural factors influencing risk perception and financial decision-making. The study found that emotions such as fear, greed, and overconfidence significantly affect investors' assessment of risk. Emotional reactions often lead investors to deviate from rational decision-making processes. The research concluded that managing emotional biases is essential for successful investing.

Rubilar-Torrealba (2025) Rubilar-Torrealba studied the relationship between risk perception and risky asset allocation. The findings showed that investors who perceive greater market risk allocate a smaller portion of their funds to equities and other risky assets. The study also highlighted that risk perception directly influences diversification strategies and investment planning. The research emphasized the importance of risk assessment in portfolio management. Sharma and Gupta (2025) Sharma and Gupta explored the impact of investor confidence on stock market participation. The study found that investors with higher confidence levels were more likely to tolerate risk and invest actively in the stock market. Conversely, low confidence increased perceived risk and reduced investment activity. The study concluded that investor confidence plays a crucial role in shaping investment behaviour and decision-making.

From the review of studies cited above, it is evident that most of the earlier studies focused on behavioural finance, investor psychology, and risk perception in financial investments. The studies confirmed that risk perception significantly influences investors' participation and decision-making behaviour in the stock market. However, limited studies have specifically examined the influence of risk perception on investment decisions of retail investors in the stock market in the context of Karnataka. Therefore, the present study attempts to analyse the influence of risk perception on stock market investment decisions among retail investors.

### **3. Objective of the Study**

The objective of the study is to examine the influence of risk perception of retail investors on their investment decisions in the stock market. The study also aims to analyse the role of behavioural, demographic, and financial factors in shaping investors' perception towards stock market risk and their investment decision-making behaviour

### **4. Research Methodology**

The present study is descriptive and explanatory in nature. Both primary and secondary data were collected and used for the study. The study aims to examine the influence of risk perception of retail investors on their investment decisions in the stock market.

The secondary data sources of the study include books, journals, research articles, websites, behavioural finance literature, stock market-related publications, and reports published by financial institutions and regulatory authorities such as SEBI. These sources provided conceptual and theoretical support for the study.

The primary data required for the study were collected from retail investors residing in Udupi and Dakshina Kannada districts of Karnataka who actively participate in stock market investments. The respondents were selected using convenience sampling method by giving due consideration to demographic factors such as age, gender, income, education, occupation, and investment experience.

In order to achieve the objective of the study, a well-structured questionnaire was developed and administered through Google Forms for collecting primary data from the respondents. The questionnaire was prepared by referring to previous research studies, behavioural finance literature, and stock market investment-related articles. The questionnaire consisted of statements relating to investors' perception towards stock market risk and their investment decision-making behaviour.

The responses of the investors were measured using a five-point Likert scale ranging from Strongly Agree to Strongly Disagree. The questionnaire was circulated among retail investors and the responses collected through the filled-up questionnaires were tabulated and analysed using SPSS software.

The reliability of the scale of measurement used in the study was assessed using Cronbach's Alpha coefficient in order to ensure consistency and reliability of the instrument. Reliability refers to the degree of consistency and stability of the measurement scale used for data collection.

The collected data were analysed with the help of appropriate statistical tools. Percentage Analysis was used to analyse the demographic profile of respondents. Mean, Standard Deviation, Coefficient of Variation, and Ranking Technique were used to analyse the behavioural factors and risk perception of investors. Independent Sample t-test and One-Way ANOVA were employed to examine the influence of demographic and financial factors on investors' risk perception and investment decisions. Regression Analysis was used to examine the influence of risk perception on investment decisions in the stock market.

## 5. Hypothesis

The hypothesis formulated for the study is given below.

### H<sub>0</sub> (Null Hypothesis)

There is no significant relationship between risk perception of retail investors and their investment decisions in the stock market.

### H<sub>1</sub> (Alternative Hypothesis)

There is a significant relationship between risk perception of retail investors and their investment decisions in the stock market.

## SPSS Results Interpretation

### Reliability Analysis (Cronbach's Alpha)

Reliability analysis is conducted to examine the internal consistency of the questionnaire items used to measure a construct. Cronbach's Alpha determines whether the items in a scale consistently measure the same concept. A value above 0.70 indicates acceptable reliability.

Scale	Cronbach Alpha	Interpretation
Risk Perception	0.806	Reliable
Investment Decision	0.734	Reliable

**Interpretation:** The Cronbach's Alpha value for Risk Perception is 0.806 and for Investment Decision is 0.734. Since both values are greater than 0.70, the scales are considered reliable. This indicates that

the questionnaire items consistently measure the respective constructs and are suitable for further statistical analysis.

### Correlation Analysis

Correlation analysis is used to determine the strength and direction of the relationship between two variables.

Variables	r	p-value	Decision
Risk Perception & Investment Decision	0.783	0.000	Reject H0

**Interpretation:** There is a strong positive and statistically significant relationship between risk perception and investment decisions ( $r = 0.783$ ,  $p < 0.05$ ). Therefore, the null hypothesis is rejected.

### Regression Analysis

Why it is calculated: Regression analysis is conducted to determine the extent to which Risk Perception influences Investment Decision and the amount of variation explained.

R	R Square	F	Beta	Sig.
0.783	0.613	236.172	0.783	0.000

**Interpretation:** Risk perception significantly influences investment decisions and explains 61.3% of the variation in investment decisions. The model is statistically significant.

### Demographic and Financial Factors

ANOVA and t-test are used to determine whether demographic and financial factors significantly influence risk perception.

Factor	Test	F/t	p-value	Decision
Age	ANOVA	3.429	0.010	Significant
Gender	t-test	-1.050	0.295	Not Significant
Educational Qualification	ANOVA	1.500	0.205	Not Significant
Financial Literacy	ANOVA	8.222	0.000	Significant

**Interpretation:** Age and financial literacy significantly influence risk perception because their p-values are less than 0.05. Gender and educational qualification do not significantly influence risk perception because their p-values are greater than 0.05.

### Overall Conclusion

The study found that the measurement scales used are reliable. Risk Perception has a strong positive and significant relationship with Investment Decision and significantly influences investment behavior. Among the demographic and financial factors examined, Age and Financial Literacy significantly affect Risk Perception, while Gender and Educational Qualification do not show a significant influence.

## 6. Data Analysis and Discussions

### 6.1 Risk Perception of Investors in the Stock Market

#### Concept Explanation

Risk perception plays a crucial role in shaping investors' decision-making in the stock market. Stock market investments are inherently uncertain due to price volatility, market fluctuations, and economic changes. Investors' perception of risk reflects their subjective evaluation of uncertainty, potential loss, and variability of returns, which directly influences their willingness to invest in equity shares and other stock market instruments.

#### Factors Identification

Based on a review of relevant literature and an understanding of stock market investment behaviour, the following factors influencing investors' risk perception were identified:

- Unpredictability of stock market returns
- Possibility of incurring financial loss
- Level of knowledge and awareness about the stock market
- Degree of portfolio diversification
- Dependence on professional advice (brokers, advisors)
- Liquidity needs of investors
- Age and experience of investors

#### Operational Definition

In the present study, **risk perception of investors** is operationally defined as the **beliefs, feelings, concerns, experiences, and judgments of individual investors regarding uncertainty, potential loss, and return variability associated with stock market investments.**

#### Measurement Method

To measure the risk perception of investors, a set of **statements related to stock market risk** was developed based on the identified factors. The opinions of respondents were collected through a **structured questionnaire** administered using Google Forms.

#### Scale Used

The responses of the investors were measured using a **five-point Likert scale**, ranging from:

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

#### Statements Framing

The following statements were used to assess investors' risk perception in the stock market:

1. I prefer to be cautious and avoid risky stock market investments.
2. Stock market investment involves a high level of risk similar to gambling.
3. Investors with higher income can afford to take greater stock market risk.
4. I rely on my broker or financial advisor to decide the level of risk in my investments.
5. Familiar stocks are less risky than unfamiliar ones.
6. Diversification of stock portfolio reduces investment risk.
7. Older investors generally prefer lower risk in stock market investments.
8. The need for quick liquidity discourages me from investing in high-risk stocks.

9. Higher returns in the stock market are associated with higher risk.

**Reference to Table for Analysis**

The responses collected from the investor respondents were **tabulated and analysed using SPSS**. The results relating to investors’ risk perception are presented in **Table 6.1**, which shows the **percentage distribution, mean scores, and standard deviation** of responses for each statement. The analysis provides insights into the overall level of risk perception among stock market investors.

**6.1 Risk Perception of Investors**

Investment decisions of individual investors in the **stock market** are largely influenced by their **perception of risk**. Risk perception determines how investors evaluate uncertainty, potential losses, and variability of returns associated with stock market investments. Hence, in the present study, based on a review of relevant literature and an understanding of stock market investment behaviour, several factors influencing investors’ risk perception were identified. These factors include **unpredictability of stock market returns, level of investment knowledge, possibility of financial loss, diversification of investment portfolio, liquidity requirements, and dependence on professional investment advice**.

In this study, the concept of **risk perception of investors** is operationally defined as the **beliefs, feelings, concerns, experiences, and judgments of investors regarding uncertainty and risk involved in stock market investments**. In order to measure investors’ risk perception, **nine statements** were developed based on the identified factors, and the opinions of the respondents were measured using a **five-point Likert scale**. The statements included aspects such as cautious investment behaviour, perception of high-risk investments, ability to take risk based on income, reliance on brokers, familiarity with stock investments, importance of diversification, age-related risk preference, liquidity considerations, and the relationship between risk and return.

The responses collected from the respondent investors were analysed using **mean and standard deviation**, and the results are presented in **Table 6.1**.

**Table 6.1**  
**Risk Perception of Investors in the Stock Market**

Risk Perception Statements	Mean	Standard Deviation	C.V.	Rank
A diversified portfolio reduces risk.	4.32	0.76	17.59	1
Higher returns in stock market investments are associated with higher risk.	4.05	0.94	23.21	2
Familiar stock investments are perceived as less risky.	3.96	0.99	25.00	3
My approach is to be cautious and avoid highly risky stock investments.	3.89	1.03	26.48	4
The need for quick liquidity discourages me from investing in risky stocks.	3.84	0.95	24.74	5
Investors with higher income can take greater investment risk.	3.78	0.92	24.34	6
I depend on my broker or advisor to decide the level of risk in investments.	3.55	1.21	34.08	7
High-risk stock market investments are similar to gambling.	3.41	1.00	29.33	8

Risk Perception Statements	Mean	Standard Deviation	C.V.	Rank
Older investors generally prefer lower risk in stock market investments.	3.27	1.25	38.23	9

Source: Field Survey

From Table 6.1, it is evident that the statement “*A diversified portfolio reduces risk*” is ranked first with the highest mean score of 4.32, indicating strong agreement among investors regarding the importance of diversification in reducing stock market risk. This is followed by the statement “*Higher returns in stock market investments are associated with higher risk*” with a mean value of 4.05, reflecting investors’ awareness of the risk–return relationship.

### 6.2 Investment Decisions in the Stock Market

There are various avenues of investment available for investors to allocate their savings. However, the **stock market** remains one of the prominent investment options due to its potential for higher returns. From the analysis of investors’ risk perception, it is evident that investors exhibit a **moderate level of financial conservatism**, and therefore prefer investment options that offer a balance between **risk and return**.

In the present study, the **investment decision of individual investors in the stock market** is measured based on their **level of participation in stock market investments** and the **extent to which they allocate funds to equities** as part of their overall investment portfolio. Understanding the degree of investment in the stock market is essential to assess how risk perception influences investors’ allocation decisions.

For this purpose, the respondents were asked to indicate their **extent of investment in stock market instruments**. The level of stock market investment was classified into suitable categories based on the proportion of funds allocated to equities. The distribution of investors according to their stock market investment decisions is presented in **Table 6.2**, which highlights the pattern of stock market participation among the respondents.

**Table 6.2**  
**Investment Decisions of Investors in the Stock Market**

Extent of Investment in Stock Market (Percentage to Total Financial Investments)	Number of Investors	Percentage to Total
Less than 25%	18	18.0
25% – 50%	22	22.0
50% – 75%	30	30.0
75% – 100%	30	30.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

Source: Field Survey

### Findings of the Study

The reliability analysis confirmed that the measurement scales used in the study were reliable, with Cronbach's Alpha values of 0.806 for Risk Perception and 0.734 for Investment Decision, indicating

good internal consistency. The study found a strong positive relationship between risk perception and investment decisions ( $r = 0.783$ ,  $p < 0.05$ ). This indicates that investors' perception of risk significantly influences their stock market investment decisions.

Regression analysis revealed that risk perception explains 61.3% of the variation in investment decisions, demonstrating that risk perception is one of the major factors affecting investor behaviour in the stock market. Age was found to have a significant influence on risk perception. Different age groups exhibited different attitudes toward investment risk, suggesting that risk-taking behaviour changes with age.

Financial literacy showed a significant impact on risk perception. Investors with higher levels of financial knowledge demonstrated a better understanding of investment risks and were more confident in making investment decisions.

Gender and educational qualification were not found to have a significant influence on risk perception, indicating that risk attitudes are not necessarily determined by these demographic factors.

Investors strongly agreed that diversification helps reduce investment risk, making it the most important factor influencing risk perception among respondents. Respondents also recognized the relationship between higher risk and higher returns, indicating a reasonable level of awareness regarding stock market investment principles.

### **Suggestions**

Investors should improve their financial literacy through training programs, investment workshops, and educational resources to make more informed investment decisions. Financial advisors and brokerage firms should focus on investor education initiatives that help individuals understand risk management techniques and portfolio diversification strategies.

Investors should avoid making decisions based solely on emotions, market rumours, or herd behaviour and instead rely on proper analysis and financial planning. Diversification should be encouraged as a risk management strategy, as the study found that investors strongly believe diversified portfolios reduce investment risk.

Young investors should be guided to balance risk and return appropriately, while older investors should adopt investment strategies that match their financial goals and risk tolerance levels. Regulatory bodies and financial institutions should conduct awareness programs to improve investor confidence and promote responsible participation in the stock market. Investors should regularly review their investment portfolios and align their investment decisions with their risk-bearing capacity and long-term financial objectives.

### **Conclusion**

The present study examined the influence of risk perception on investment decisions among retail investors in the stock market. The findings clearly indicate that risk perception plays a crucial role in shaping investment behaviour. Investors who possess a better understanding of investment risks tend to make more informed and confident investment decisions. The study also establishes that age and financial literacy significantly influence how investors perceive risk, whereas gender and educational qualification do not show a significant impact.

Furthermore, the results highlight the importance of financial awareness and portfolio diversification in reducing perceived investment risk and improving decision-making quality. As stock market

participation continues to grow, understanding investor risk perception becomes increasingly important for investors, financial advisors, and policymakers. Overall, the study concludes that enhancing financial literacy and promoting sound investment practices can contribute to better investment decisions and more effective participation in the stock market.

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