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Article

Influence of Market Catastrophe and the Herd-in-style on the Mutual fund Investor's Behaviour Evidence from India

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Abstract: Every investor has a healthier and safety investment through mutual fund, and their investment are affected by several aspects and market catastrophe is the nucleus that acts as an antecedent for their investing decision. This study specifically explores the impact of the factors that influence investor behaviour. Additionally, it examines how the market devastation mediating the investor's decision and behaviour through herd-in style and loss aversion and for this purpose, 519 mutual fund investors in India were surveyed on the topic selected through simple random sampling. The result revealed that market catastrophe has a significant impact on the investor decision when moderating through the herd in style of the investors and there was no association found between the loss aversion and the investor's behavior and decision. Those who are equipped with financial literacy and awareness towards corporate governance could defeat impact of market meltdown.
Keywords: Corporate Governance, Financial Literacy, Herd behaviour, Loss Aversion, Market Catastrophe, Salience bias.

1. Introduction

As far as the investors in Indian mutual funds are concerned, they had been witnessing a revolutionary growth in the industry over the past decade with 6-fold growth from ₹11.87 trillion in 2015 to ₹75.61 trillion in 2025. This development and inclusion of retailers have caused due to the spread of financial inclusion, access to digital economy, and regulatory reforms by SEBI and AMFI. Although the mutual fund industry has expanded, yet Indian retailers have depicted a strong behavioural dimension which is propelled by perceptions, emotions and social influence rather than rational thinking and evaluation of fundamental forces present in market

We have to grow upon understanding this phenomena of behavioural tendencies which becomes even more critical during periods of extreme market stress or catastrophe, when decision-making tends to deviate from classical finance assumptions.

Recently financial catastrophes, such as the **COVID-19 pandemic (2020)** the **Russia–Ukraine crisis (2022)** , and the **Adani Group stock collapse (2023)** , have shown that investors often respond to uncertainty with panic-driven actions rather than calculated strategies. During such episodes, patterns of **herding**, **loss aversion**, and **risk intolerance** tend to dominate investor psychology. These reactions not only shape individual portfolio outcomes but can also amplify market instability through collective behaviour. Previous knowledge generated by the studies in behavioural finance have highlighted that when investors depicts an elevated intimation behaviour under the situation

of crisis for safeguarding their interests by redeeming or reallocating their mutual fund holdings in an attempt to avoid potential losses leading to what may be termed as herd in style behaviour.

Prior knowledge extracted from past studies suggested that individual biases such as overconfidence, anchoring, and loss aversion, has been comparatively less focused to study how such catastrophic market events reconstruct herding dynamics and influence the complete formal behaviour of mutual fund investors' mind set up in giving the final green flag, especially in the emerging economy like India.

Studies in the Indian context demonstrate that external shocks can trigger elevated herding and behavioural biases . In India it has been deduced by the studies conducted by on herding behaviour, and behavioural biases during crisis period of rallies. It has found that there is a nexus between market catastrophes, investor sentiment, and behavioural response which represents a crucial phenomenon yet in blue waters.

So, the present investigation tries to construct a bridge over the gap by bringing the together behavioural finance theory with crisis behaviour models, further opening an avenue for inspecting how catastrophic shocks interact with financial literacy, governance perception, and risk tolerance to influence herding and investment decisions among Indian mutual fund investors.

As there is a complex nexus of behavioural and psychological factors intervening with each other's, this study tries to unearth while formulating a better understanding upon the financial literacy, loss aversion behaviour and herding behaviour of investors' decision towards the phenomenon of events such as governance and transparency, market catastrophe. These pieces of jigsaw combine towards the preparing moulds of mutual fund investment behaviour in India.

Unlike prior studies that examine these variables in isolation, this research emphasizes the interconnected pathways among them particularly under catastrophic market conditions to capture how investors react when traditional market rationality breaks down.

In this study an attempt has been made to conceptualise a model, positioning investment behaviour as a key mediating variable that transmits the effect of financial literacy, governance, and behavioural factors and Loss Aversion tendency of investors along with initiatives of the Government regulating towards transparency during market ups and downs.

In accordance and meeting the requirements of these theoretical considerations, the study addresses the following research questions:

1. Which key factors most strongly influence mutual fund investment behaviour from the investor's perspective?
2. Does market catastrophe positively influence investor behaviour and investment decisions?
3. Does the herd mentality of investors mediate relationship between market catastrophe and investment decision-making?
4. Does loss aversion mediate the relationship between investor behaviour and investment decisions?
5. Does income play a mediating role between market catastrophe and investment decision-making?

The authors have presented the review of literature and the research gap based theoretical model which connected the various factors that impacting the investor's decision, followed by outline of the research methodology and findings and discussion and culminating the content with the limitations and scope for future research. We were sure that this outcome will have a good insight about the market catastrophe and its effect on the investor behavior through the moderating effect of the herd mentality and the loss aversion.

Through this integrated approach, the study contributes to both theoretical advancement by linking crisis behaviour models with behavioural finance frameworks and empirical evidence, offering policy and managerial insights for regulators, fund managers, and investors in mitigating panic-driven herd behaviour during market crises.

2. REVIEW OF LITERATURE

It is the literature review that enables the researcher to summarize the various thoughts within the field for establishing the fact of the current study. In this section, past literature were previewed based on the factors considered in regard to the investor's decision and behavior.

2.1 Financial Literacy and the investor's behavior

Savaliya (2024) underlined that financial literacy is must for achieving the goal in the investment and this literacy have no connection with the demographic factors of the investors. (Shah et al., 2024) concluded that optimal decision and obligations could be attained only through the financial knowledge of the investors however, their risk taking approach and the confidence level vary with the demographic factors. (Natsir et al., 2021) pointed out that the product knowledge or the financial literacy has made the investors intend to invest due to their familiarity with the product certainty. (Yuvaraj & Venugopal, 2024) showed that the financial knowledge acted as a vital forecaster in enjoying the long term return and the competitive advantage by the investors through its moderating role between investor's attitude and intention. (Ariwangsa et al., 2024) emphasized that only the financial literacy has built the confident level in the decision making and having behavioral control in addressing the risk and uncertainties that supports the ability of investment. (Lusardi, 2019) considered the financial literacy as a fundamental right and a global passport for everyone which helped them to take a positive decision based on product familiarity. The above outcome clearly showed the importance of the financial literacy and its attention universally, the researcher has proposed the following hypothesis.

H1 Financial literacy positively influencing the investment behavior

2.2 Governance and Transparency and the investor's behavior

Corporate Governance have a noteworthy impact on the investors behavior and decision as it has provided the maximum information about the company but (Ravishankar & Sathishkumar, 2018) found that company's transparency and the governance have a limited role in the investors decision and mostly, the human behavior played an important role in the decision making process and (Murugan et al., 2023) confirmed that mutual fund investors paid particular consideration in the document as it has valuable information about the scheme which is on parallel with the findings of (Saleem et al., 2021) clearly stated that there was a positive association among the awareness and the investment decision and behavior.. (Hrytsenko et al., 2023) particularly notified that the stability and volatility of the assets mainly depend upon the transparency information of the financial marketers, and uncertainty if any in the information resulting with the negative expectation by the investors. (Turtiainen et al., 2022) underlined that the fund fees and the risk of the scheme should be transparently informed briefly and not lengthy which made the investors to oversight those information due to their limited cognitive ability. As the better corporate governance through the transparent information is associated with the risk adjusted performance, this was considered as an important parameter on the investor's decision and the under mentioned hypothesis was framed.

H2 Governance and Transparency positively influencing investment behavior

2.3 Loss Aversion and the investor's behavior

It is the loss aversion that found predominantly among the investors that created careful investment tactics but it is not sure whether all the investors have this type of aversion. (Christopher & Thomas, 2025) identified that it is the income level of the investors that played a momentous role in the loss aversion particularly, low income group people exhibited have a strong cognitive bias and conservative in their investment but (Hussain et al., 2023) replied that this loss aversion positively manipulating the investment behavior in Pakistan as the investors were less sensitive towards the loss. However, (Hirdinis, 2024) proved that it is the financial knowledge that moderating this risk aversion and the investment decision. (Jowey et al., 2024) who have considered the fear of missing out (FOMO) as a mediating factor amidst the herding behavior, loss aversion and the investment decision found significant moderating effect among all the factors in the case of young generation of Jakarta. (Rawat, 2024) established that loss aversion of the investors have no significant direct impact on the investment decision rather indirectly influencing it through the risk tolerance in the Nepal Financial market. Hence it is evident the Investor's loss aversion have a great association with the herding behavior, risk tolerance and financial knowledge and therefore, it significantly influencing the investors decision also in this study and hence the researcher has considered the following alternative hypothesis.

H3 Investor's Loss Aversion positively influencing the investment behavior decision

2.4 Herding Behavior and the investor behavior

Normally, the vagueness and inability directed the investor's towards this type of behavior and indeed, they believe in the behavior of others and it is the market dynamics based character and an important corollary for the market, fund managers and even for the investors. Bhutto et al (2025) confirmed the association of the herding behavior and the disposition effect which may lead to the sub optimal investment decision where the investment not

properly aligned with the objectives of the investor but (Santi & Zwinkels, 2023) realized that the fund flow in the mutual fund decreases when the herd in style increases but resulted with reduction in the value-weighted risk adjusted performance. Normally, the herding bias enhances the self motivation which attaining the investors self achievement (Annapurna & Basri (2024); enhancing the self control and investment skill analysis (Ullah, 2020) authenticated by (Rahayu et al., 2021). But the extent of this behavior resulted with unexpected macro economic shocks (Shang et al., 2024) in the BRICS stock market. In this study, this herding behavior was fixed as a moderator between the market meltdown and the investor's behavior besides its direct impact on the investor's decision and hence the following hypotheses were formulated.

H4; Herding behavior has mediating effect on market catastrophe and the investor's behaviour

2.5 Market Catastrophe and the Investor's behavior

Regarding the impact of market crash on the investment decision, (Hatch et al., 2018) found that investor's risk tolerance fluctuated based on the market's direction and its volatility and also highlighted that investors tolerance never changed during the low market volatility and (Prasad, 2023) expounded that it was the herd mentality, over-optimism and reluctance to acknowledge the losses through market crash were acted as a fuel during the unsustainable market rallies. (Mushinada, 2020) observed that the investor have under confidence and adaptive behavior where they start adapting to the changing market conditions in regard to their past experiences along with steep sell of the holding due to the poor performance of the market and in the case of risk taking capacity during the market crash, (Charness & Gneezy, 2012) illustrated that it is the female found financially averse than man.

Lakhangaonkar et al (2023) identified the investment pattern among the working women in such a way that they preferred the investment based on previous investment experience along with observing the range of market volatility and the market results and if required, herd mentality will be followed by getting the opinion from the third party and it is corroborated with the outcome of (Brooks & Williams, 2022) who underlined that investor's past experience, emotions, self efficacy, extraversion and their personal characteristics acted as a forerunner for their investment decision during market volatility. Overall, (Silva et al., 2012) finished off that the investors' motivations totally degenerated during the time of speculative bubble event and they have not cooperated in any activities and it is not in line with the outcome of (Folkinshteyn et al., 2015) who realized that investor's of smaller firms have not overreacted to the market crash. This study mainly focuses on the intermediate impact of market catastrophe between the investor's decision and their behavior by considering the herding behavior of the investors as the moderator. Hence the following alternative hypothesis was framed.

H5; Market catastrophe positively influences the investor's behavior

2.6 Investor's behavior and decision

Decision in any aspects is based on the behavior and (Jia, 2023) informed that the cognitive bias surely lead to sub optimal investment decision and a balanced decision could be taken by them when they leave the emotional bias. (Shiny et al., 2025) identified that investor preferred short cut through their overconfidence which leads to the poor investment choices. Hence to investor's behavior on the decision, the following hypothesis was framed.

H6; INVESTOR BEHAVIOUR has a direct positive effect upon INVESTOR DECISION

3. RESEARCH GAP

There were many earlier research works which focused on the mutual fund investor's by considering many factors that influence the investment behavior and decision. But this research mainly considering the financial literacy, governance and transparency, loss aversion, market catastrophe, herding behavior as the influenced factor and in addition, the mediating role of market catastrophe and the loss aversion along with the subsequent moderating role of herding behavior between the market catastrophe and the investor's decision was attempted which have not done earlier in any of the studies and this is the actual research gap identified for this study.

4. Conceptual Framework

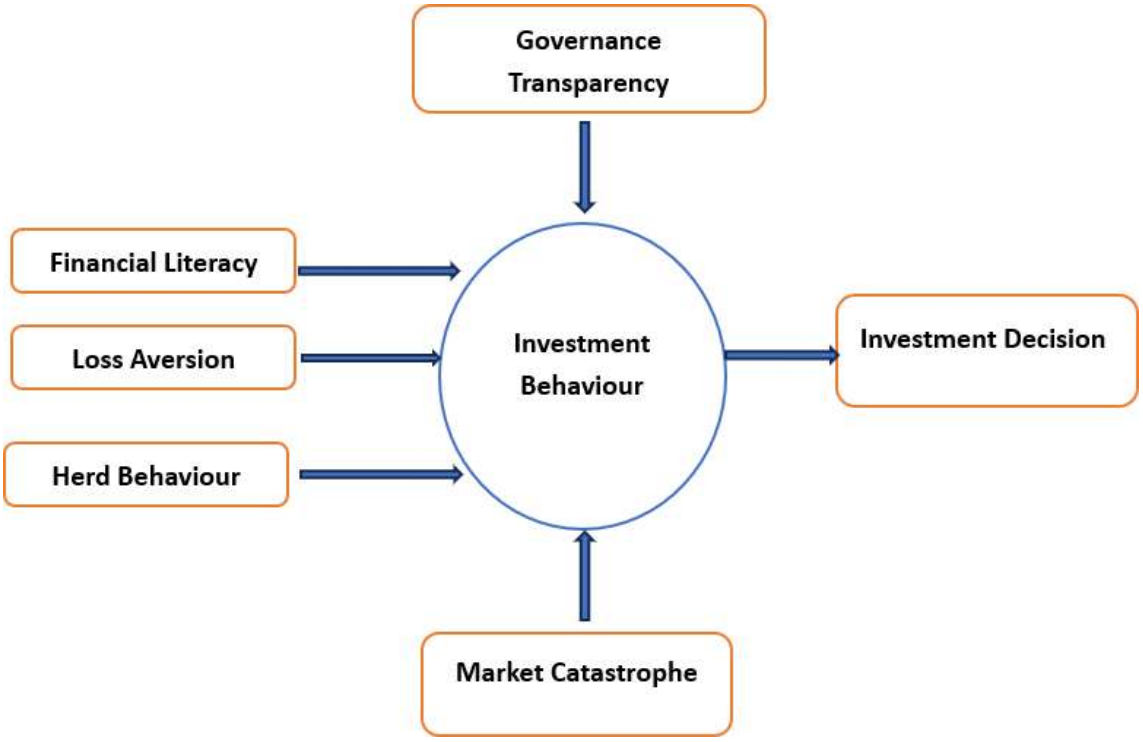

Figure 1. *Research Framework (Source: Author)*

5. RESEARCH OBJECTIVES

The following primary objectives were framed for this study.

1. To examine the influence of financial literacy on investors' investment behaviour.
2. To analyse the impact of governance and transparency on investors' investment behaviour.
3. To assess the effect of loss aversion on investors' investment behaviour.
4. To investigate the mediating role of herding behaviour in the relationship between market catastrophe and investor behaviour.
5. To examine the effect of investor behaviour on investment decision-making.
6. To explore the influence of demographic characteristics on investment behaviour during periods of market catastrophe.

6. RESEARCH METHODOLOGY

The present study has a strong foundation, which is standing on the pillars of quantitative deductions, for understanding how investors behaviour and investors decisions are connected with each other. The survey research design has done the spade work to collect the data from the respondents where the instrument had been the manure comprising of six constructs (5 independent and 1 dependent) and all were measured through Likert 5 point scale starting with (1-strongly disagree to 5- strongly agree). The questionnaire has two parts; Part A Demographic profile of the investor and Part B: Questions about the factors that influencing the investor's decision and the behavior.

The sample selection was another road block as the respondents are spread over whole India, and it's difficult to collect an individual's financial that to "investment information" from the agencies located in each state and hence snow ball sampling method along with referral method was followed to contact other respondents. In this way, 610

retail investors were gathered and questionnaire was sent to the concerned and while doing so, investors were informed about the ethical and social concern along with the purpose of the study and data confidentiality. But only 556 questionnaires were received and out of which only 521 found with reusable condition with the percentage of 85.41%. Initially, pilot study was conducted with the known investors in the local jurisdiction and confirmed the reliability of the instrument. Various tools were used through SPSS 21 and the result revealed is given in the underneath section. The reliability of the tool was calculated by using Cronbach (α) came for all the variables which was .784 for financial literacy (8 items),governance and transparency .716 (5 items),market catastrophe .756 (6 items), loss aversion .739(6 items),herd behaviour it came .857 (12 items), investor behaviour reached upto .823 (6 items) and investor decision .813 (4 items) which shows acceptable internal consistency of the tool.

7. STRUCTURAL MODELLING

The technique of Structural Modeling was used to find out the conceptual clarity about the influence of market catastrophe and herd behaviour of mutual fund investors. The adequacy of proposed model was evaluated with the parameters of goodness fit with different indices.

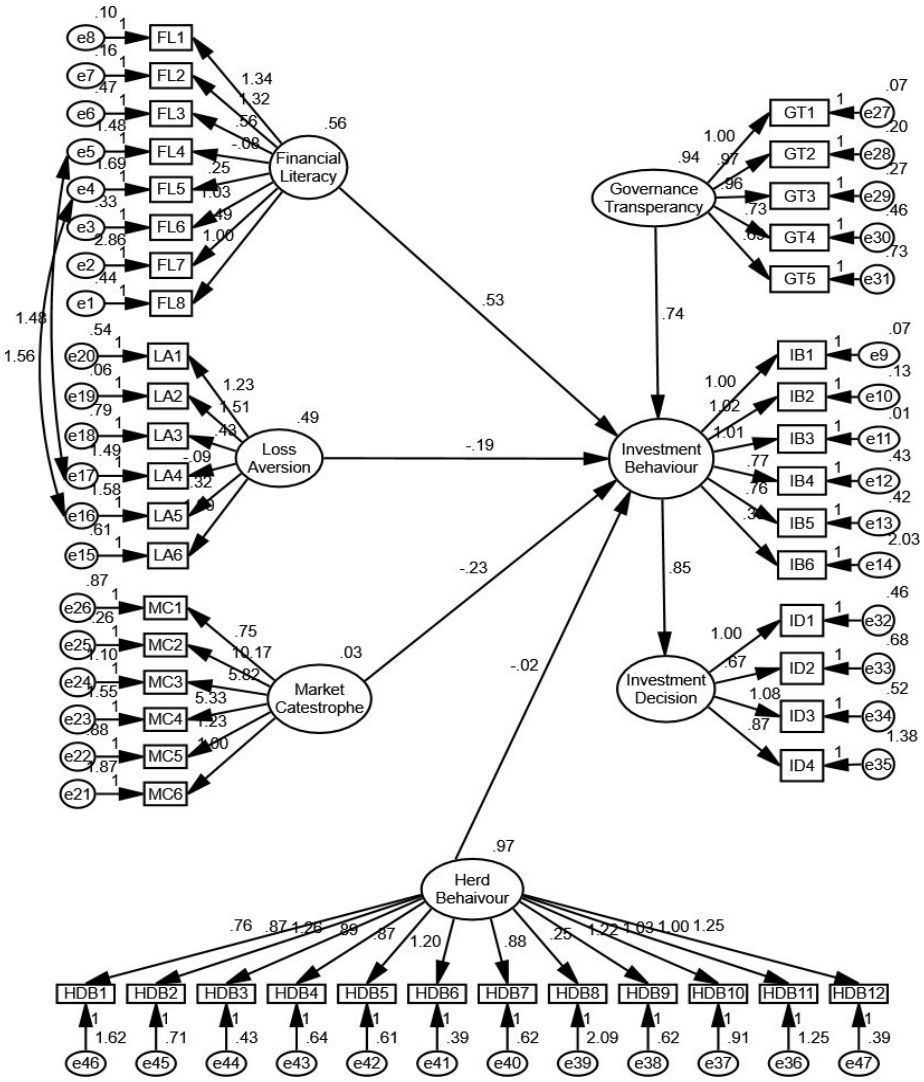

Figure 1.2 Investment Behaviour and Investment Decision' determinants

The base line comparisons for mutual fund investors behaviour shows that the MODEL has achieved Goodness of Fit index, which is evident from the results of Comparative Fit Index (CFI = .916), Tucker Lewis Index (TLI

=0.904) exceeds the threshold of acceptance of 0.90, which gives ground for the robustness of the proposed model. Further, Root Mean Square Residual (RMR=0.043) another test i.e. Root Mean Square Error of Approximation (RMSEA=0.47) falls within the permissible limit. In toto these indicis confirms that the model was suitable for further analysis no matter infact some indices like Chi and incremental lagged behind.

Hypothesis	Relationship	β Value	Direction	Decision
H1	Financial Literacy → Investment Behaviour	0.53	Positive	Accepted
H2	Governance Transparency → Investment Behaviour	0.74	Positive	Accepted
H3	Loss Aversion → Investment Behaviour	−0.19	Negative	Rejected
H4	Market Catastrophe → Herd Behaviour → Investment Behaviour	Indirect	Mediation	Supported
H5	Investment Behaviour → Investment Decision	0.85	Positive	Accepted

The results Figure 1.2 depicts the structural model where the alternate H1 to H5 was tested, the results shows that financial literacy has a significant positive effect on investment behaviour (β = 0.53), confirming that respondents in the present study with higher financial knowledge are more rational and structured towards behavioural decisions, that too in turbulent market conditions, which approves H1. Factors such governance and transparency policy also plays a vital and positive role in drafting investment behaviour (β = 0.74), confirming that greater institutional transparency and governance mechanisms instils investors with confidence and provides robust behavioural decisions, thus, H2 is accepted. However, the relationship between loss aversion and investment behaviour is found to be negative (β = -0.19), indicating that highly loss-averse investors tend to adopt conservative and risk-averse behavioural patterns during uncertain market periods; therefore, the proposed positive hypothesis is not supported and H3 is rejected despite the existence of a significant inverse relationship.

In the present study, herd behaviour is found to mediate the relationship between market catastrophe and investment behaviour. The direct effect of market catastrophe on investment behaviour is weak and negative (β = -.23), while herd behaviour exhibits a strong positive association with investment behaviour (β = 0.97), suggesting that investors respond to catastrophic market events largely through collective behavioural mechanisms, thereby supporting partial mediation and thus H4 gets accepted. Lastly investment behaviour does have a strong positive effect on investment decision-making (β = 0.85), depicting behavioural patterns significantly converts into actual investment decisions, and therefore H5 was accepted.

Category		Frequency	Percent
Gender	Male	286	54.9
	Female	235	45.1
Age	Below 20 years	130	25.0
	20-30 years	140	26.9
	31-50 years	120	23.0
	Above 50	131	25.1
Occupation	Unemployed	62	11.9
	Student	87	16.7
	Private job	196	37.6
	Government Job	87	16.7
	Business/Self Employed	89	17.1
Marital Status	Married	202	38.8
	Unmarried	292	56.0
	Divorced	27	5.2
	Below – 25000	219	42.0

Monthly Income	25000 – 45000	174	33.4
	45001 – 75000	92	17.7
	Above – 75000	36	6.9
Income sufficiency for current financial goals	Strongly Disagree	138	26.5
	Disagree	144	27.6
	Neutral	137	26.3
	Agree	82	15.7
	Strongly Agree	20	3.8
Investment Interest	Share market	132	25.3
	Mutual Funds	243	46.6
	Fixed Income	77	14.8
	Real Estate	46	8.8
	Other	23	4.4
Awareness for Mutual Fund	Yes	378	72.6
	No	143	27.4
Invested in Mutual Fund	Yes	304	58.3
	No	217	41.7
	Total	521	100

(Source: Primary data)

Asper the above result male gender was more open to the questionnaire 54.9% of the respondents, while females accounted for 45.1 %, while participation from all age groups were seen still the younger and middle-aged individuals has shown more interest with 51% combinedly. In sharing about information regarding financials private sector employees formed the largest occupational group with 37.6%, the majority of respondents were from low- and middle-income section, with 75.4 percent earning below Rs. 45,000 per month depicting moderate financial capacity.

The researcher has performed multiple regression analysis for targeting Objective 6 to study the effect of demographic factors influence on investors' behaviour during periods of when the market is under turbulence. The results show that variables such as age, gender, marital status, qualification, occupation, and monthly income together had a petty role upon investment behaviour the overall regression model was not statistically significant $F(6, 514) = 0.775$, $p = .590$, indicating that demographic data here, do not meaningfully explain variations in investment behaviour. The model shows a very weak effect upon the investor's behaviour ($R^2 = 0.009$; Adjusted $R^2 = -0.003$). This makes our understanding that psychological and behavioural factors are likely to play a more important role than demographic background in shaping investors' responses during times of market uncertainty. The insignificant behaviour of demographic variables also incongruence with Prospect Theory propounded by which suggest that investor decisions during market catastrophes are primarily driven by psychological biases such as loss aversion and herd behaviour rather than demographic variables.

8. DISCUSSION AND MANAGERIAL IMPLICATIONS

The present study has taken the behavioural factor of investors which lays the foundation of financial decision of the investors and their decisions regarding to investment. The variables scrutinized were financial literacy, loss aversion, governance and transparency, market catastrophe in India. First, the conceptual framework was validated through structural equation modelling and found with the goodness of fit. On a whole, this research has several results and implications.

The outcome has supported the formulated hypothesis H1 and it implied that financial literacy acquired by the investor has a good support in making the investment decision and this corroborated with the findings of which specified the adequate financial literacy are related to the investment decision among both male and female gender. This also gets supports with the work of who stated that financial literacy boosts financial decision making and market

enrolment. Likewise reported that financially literate individuals are more likely to participate in stock markets and has better investment choices, thereby reducing irrational trading behaviour.

In the present study it has been confirmed that governance and transparency shows the strongest effect among the explanatory variables, indicating that institutional factors has a significant role in casting behavioural responses in financial market. In emerging economies, like where people may have weak trust upon regulators, investors have robust psychological reassurance over transparent governance frameworks this has been proved in the result aligns of agency theory and the findings given by , who documented that transparency reduces ambiguity and enhances investor confidence. It also supports also reconfirms the role of investor protection and governance in crafting market behaviour. These findings suggest that behavioural responses are not only driven by individual psychology but also by institutional and structural factors.

In the present study the loss aversion's negative influence on investment behaviour confirms that emotional and psychological biases significantly investors proactiveness towards market participation. This finding is also in symmetry with prospect theory proposed by , which gives more emphasis on losses than gains, leading to conservative investment behaviour during uncertain periods. also found in their study that loss-averse investors exhibit reduced risk-taking and trading activity. The divergence between hypothesized and observed effects underscores the importance of incorporating psychological biases in behavioural models rather than assuming linear positive relationships, supporting the behavioural finance critique of traditional rational models.

The mediating role of herd behaviour indicates that investor responses to market catastrophes are largely collective rather than individualistic. Market catastrophes trigger uncertainty and ambiguity, leading investors to rely on social information and collective market signals. Herd behaviour acts as a transmission mechanism that amplifies or dampens behavioural reactions to market shocks. This result is consistent with informational cascade theory where argued that individual's sometimes inplace of relying upon themselves relies how others are behaving in market informational cascades along with social learning theory. also reported that how investors respond to volatility and loss aversion.

Lastly, the robust linkage between investment behaviour and investment decision making hence proves that behavioural factors are directly converts while taking expending each penny. This finding supports behavioural decision theory and the ground work of , who also stats importance of psychological biases toward directly financial choices of investors, who reported that investor behaviour significantly influences trading decisions and portfolio outcomes. This suggests that behavioural interventions and policy measures targeting investor psychology can have tangible effects on market outcomes.

While answering the research question of this study, of all the factors, financial literacy plays a vital role in the investor behaviour but market catastrophe has direct negative impact on the investment behaviour and it has a positive mediation amid the investor's u and their decision. The mediating role of the herd in style behaviour and loss aversion also found positive and good between the investor behaviour and decision. The findings also evidenced that there was a significant association existed between the demographic profile of the investors such as income and educational qualification on their behaviour. Also the decision tree analysis result proved that the type of mutual fund, marital status and income played a vital role in the decision process during the market catastrophe.

The outcome of the study will be very useful for the managers as well as the investors in understanding the behavioural finance with market catastrophe, herd style and the loss aversion. Risk is common during market crisis, but investor's literacy and awareness towards the corporate governance will support in increasing the confidence level that enable a positive decision in investment pattern.

9. LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

This quantitative study is a specific context oriented where respondents were restricted with the mutual fund domain and hence the outcome could not be generalized to the investors of other avenues. Also, the sample size was very small and no cross-sectional study was carried out. Hence further research is required in this area by considering large sample size and by application of other innovative tools, so that the defined result will be expected, which will give a good insight to the reader of the article.

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Individual Contribution:

Author 1: Conceptualization, Data Collection, Research methodology and overall drafting

Author 2: Data Collection, Data curing, Research Methodology and overall Supervision

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