International Journal of Research in Management & Social Science
Volume 13, Issue 4(III) October - December 2025

ISSN 2322 - 0899

A STUDY ON PSYCHOLOGICAL BARRIERS AMONG MIDDLE CLASS INVESTORS TOWARDS MODERN INVESTMENT INSTRUMENTS

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ABSTRACT

The financial ecosystem of India has rapidly evolved offering a diverse range of modern investment instruments such as mutual funds, equities, exchange-traded funds (ETFs), bonds, and cryptocurrencies. Despite the accessibility of these tools through digital platforms and the growing emphasis on financial inclusion, a substantial portion of India's middle-class population remains hesitant to adopt them. This study explores the psychological barriers influencing the investment decisions of middle-class investors in India, focusing on socio-cultural factors, myths, and behavioural biases that hinder the adoption of modern investment avenues.

The research was conducted using a structured online questionnaire distributed among individuals in Mumbai's suburban district. A total of 124 responses were collected through convenience sampling. The questionnaire consisted of close-ended and Likert scale-based questions. Statistical tools such as the T-test, Wilcoxon Signed Rank Test, and Spearman's correlation were used to interpret the findings.

The results highlight that although awareness of modern investments is increasing among educated and financially secure individuals, psychological constraints remain prominent. Fear of scams, perceived complexity, and a strong preference for traditional instruments such as fixed deposits and gold continue to restrict adoption of modern investment instruments. Deep-rooted myths—for example, equating stock market investments with gambling or assuming cryptocurrencies are illegal—further discourage participation. The findings offer valuable insights for policymakers, financial advisors, and technology providers in developing personalised investment platforms to shift investor mind-sets and behaviour in a rapidly changing investment landscape.

Keywords: *Investment practices, Psychological barriers, Investment myths, Modern investment instruments, Middle-class investors*

INTRODUCTION

India's financial landscape has undergone a significant transformation over the past few decades, marked by the rapid growth of modern investment instruments such as mutual funds, equities, exchange-traded funds (ETFs), bonds, and cryptocurrencies. These investment avenues offer considerable opportunities for wealth creation, portfolio diversification, and long-term financial planning. However, despite increasing accessibility through digital platforms and financial technologies, a large portion of India's middle-class investors remains hesitant to invest in these tools. This hesitation largely comes from deep-rooted psychological barriers shaped by socio-economic situations, personal experiences, and cultural beliefs (Sinha, 2019).

The Indian middle class, often referred to as the backbone of the nation's consumer economy, shows distinct financial behaviours which is influenced by principles of security, stability, and risk aversion (NCAER, 2021). Traditionally, this section of society has shown a preference for saving in fixed deposits, gold, real estate, and life insurance policies—options perceived as stable, familiar and low-risk. Their investment philosophy is driven more by the need for capital preservation than wealth accumulation (Chakraborty & Digal, 2011). Furthermore, even with higher potential returns, modern investment instruments are viewed with suspicion due how complex they can be and the associated risks.

This caution is deepened by prevalent myths and misconceptions about modern finance. Beliefs such as "stock markets are equivalent to gambling" or "cryptocurrencies are illegal or unsafe" are not uncommon among middle-class investors. These narratives are often shaped by failures of investors or negative social media coverage, which creates a psychological barrier even in the face of good investment opportunities. While government and private entities have rolled out many financial literacy campaigns, they somewhat fail to penetrate deep enough to change behaviour, especially in first-generation investors (SEBI, 2021).

Another major barrier is the perceived lack of financial knowledge. Many middle-class investors are overwhelmed by the jargon, volatility, and technological requirements that come with modern investment platforms (OECD, 2020). Even when they possess the capital to invest, the fear of financial loss and mistrust in digital platforms discourage investment.

Despite these challenges, there is evidence of a gradual shift. Younger members of the middle class, exposed to digital finance from an early age, are beginning to explore mutual funds, SIPs, and stocks using app-based services like Zerodha, Groww, and Paytm Money. However, the pace of this adoption remains slower than expected (Bain & Company, 2023). To truly accelerate financial inclusion and improve investments in modern instruments, it is crucial to understand the underlying psychological barriers that hinder modern investment adoption.

This study aims to explore these psychological roadblocks in detail, analysing how socio-cultural factors, myths and misinformation contribute to middle-class investment behaviour. By addressing these issues, stakeholders can design better financial education strategies, tailored investment products, and trust-building mechanisms to improve greater inclusion and participation in India's evolving financial ecosystem.

LITERATURE REVIEW

Thiyagarajan. S, Durairaj. S (2022) explored how investors with high income and relatively higher education levels took consultancy from financial brokers, whereas, investors with lower or moderate-income took advice from friends and family which resulted in the generation of various investment myths.

Goswami., et al (2020) studied the presence of investor bias among Indian investors and found that investors tend to judge a stock on the basis of its past performance. It also highlighted that investors are more likely to follow investment strategies adopted by people who they consider to be successful, do.

Gupta and Jain (2021) found that psychological factors such as financial insecurity, distrust in digital platforms, and emotional conservatism played a significant role in deterring urban middle-class investors from participating in capital markets.

Shiller (2000) argued that mass psychology and market perceptions play an important role in shaping investment decisions. For middle-class investors, especially in developing economies, a pessimistic market outlook makes them more risk aversion and their preference for secure investments increases.

Sivaraj and Senthil (2014) in their study on investment behaviour in Tamil Nadu highlighted that middle-class investors were hesitant to adopt mutual funds and equities due to low financial literacy and fear of loss, despite their awareness of higher returns.

Ige. B and Adebayo. R (2024) explored the relationship between psychological factors like overconfidence, anchoring and representative bias on investor’s decision making. It revealed how representative bias was the only variable that influences investment decisions while others had very less consideration.

Objectives of the Study:

1. To study the landscape of modern investment alternatives in India
2. To identify common psychological barriers preventing investment in modern instruments.
3. To analyse myths investors may have relating to modern investments.
4. To suggest strategies to address these barriers and encourage investment in modern instruments.

Hypothesis of the Study:

1. Ho (Null Hypothesis)

There is no significant impact of psychological barriers (such as fear of loss, lack of trust or perceived complexity) in choosing modern investment instruments.

H_1 (Alternative Hypothesis):

Psychological barriers (such as fear of loss, lack of trust or perceived complexity) has a significant impact in choosing modern investment instruments.

2. Ho (Null Hypothesis)

Belief in common investment myths (e.g., "stock markets are like gambling" or "cryptocurrencies are illegal’) does not significantly affect investors’ willingness to invest in modern financial instruments.

H_1 (Alternative Hypothesis):

Belief in common investment myths significantly affects investors' willingness to invest in modern financial instruments.

3. Ho (Null Hypothesis)

There is no significant correlation between demographic factors and the psychological barriers to investing in modern financial instruments

H_1 (Alternative Hypothesis):

There is a significant correlation between demographic factors and the psychological barriers to investing in modern financial instruments.

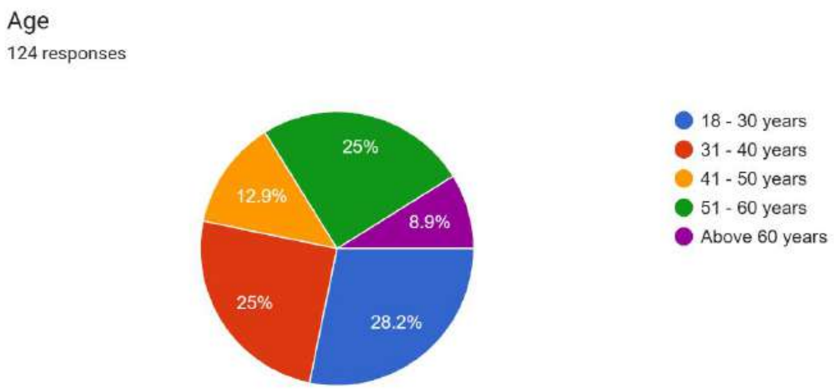
LIMITATIONS OF THE STUDY

1. **Sample Bias:** The study is limited to respondents from Mumbai's suburban district and may not reflect investment behaviours across different Indian regions or rural areas.
2. **Dynamic Market Context:** The rapidly changing nature of financial markets means the relevance of findings may shift over time.
3. **Limited Scope of Instruments:** The study focused on selected modern investment tools and may not account for newer or alternative instruments such as REITs (Real Estate Investment Trusts), ETFs (Exchange-Traded Funds), or peer-to-peer lending in depth.

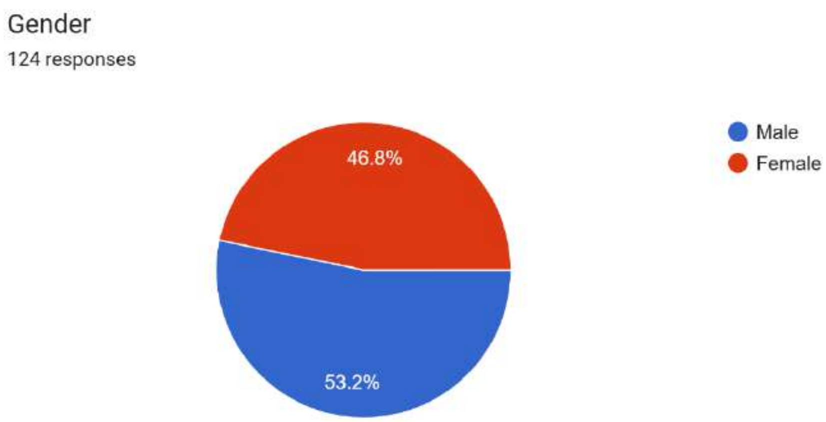
RESEARCH METHODOLOGY

An online questionnaire was circulated to understand the Psychological barriers investors have regarding modern sources of Investment. The questionnaire included close ended and five point Likert scale type of questions. The questionnaire was circulated among individuals in Mumbai, Suburban district. Using the convenience method of sampling, 124 responses were collected. Data obtained is analysed using statistical tests like T-test, Wilcoxon Signed Rank test, Spearman’s correlation test and interpreted to present in summarised form, respecting data confidentiality.

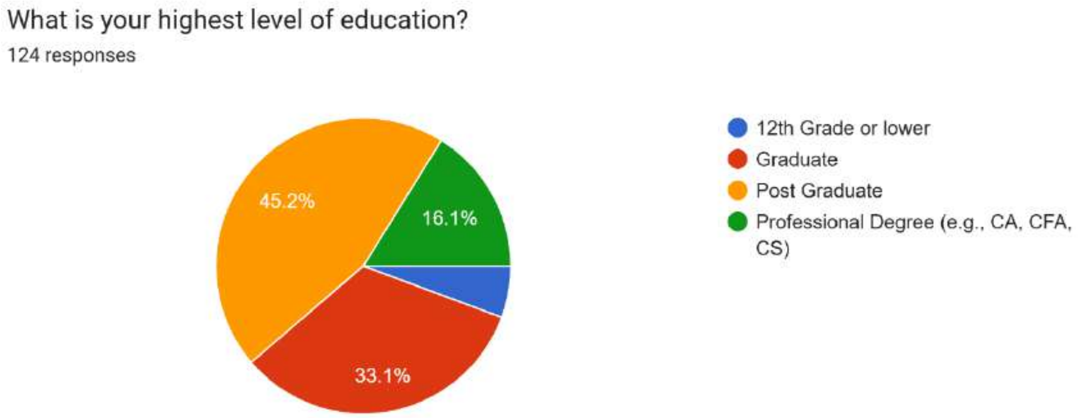
DATA FINDING & ANALYSIS



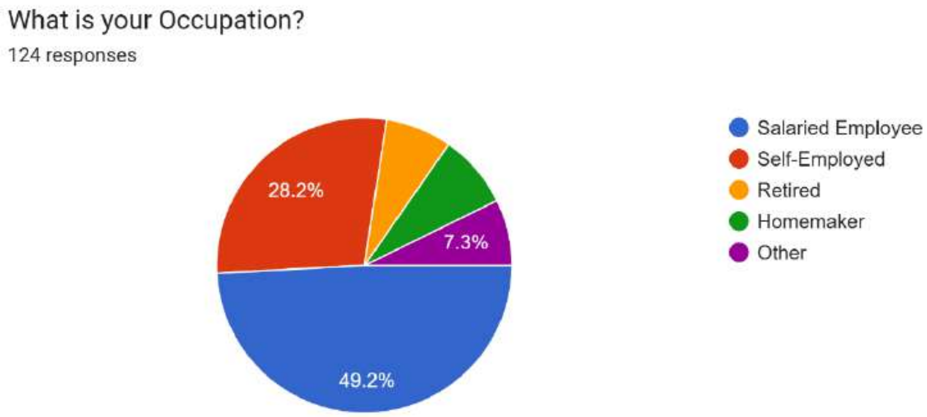
53.2% respondents were up to the age of 40 years which is mid stage in investment cycle. Only 8.9% of respondents were above the age of 60 who could be potentially sceptical on investing in modern investment alternatives.



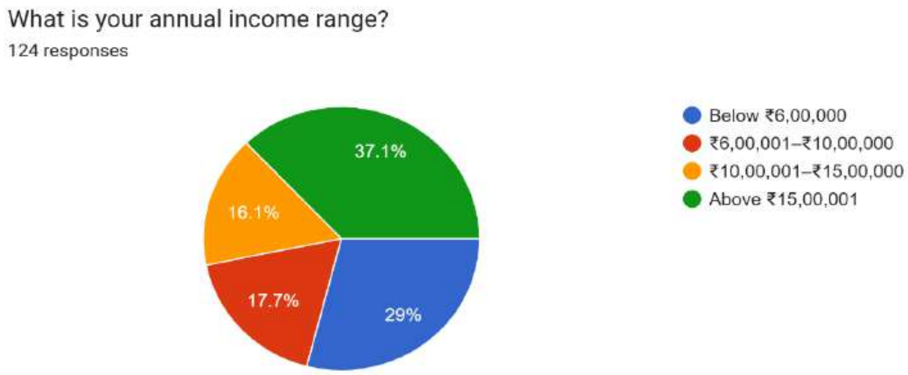
The mix between male and female in terms of the respondents was found to be fairly balanced. This should give fair judgment on the perception of the population as the representation is balanced.



78.3% of the total respondents were found to be at least graduates including 45.2% post graduates. 1/6th of the respondents were having a professional degree. The profile of the investors indicate that there is awareness about the modern investment alternatives.



With almost ½ of the respondents were salaried employees, the stable income source could be important factor in the investment decisions. Amongst the rest of the respondents, 28.2% (Gross) were self-employed and negligible percentage was for home makers and retired employees who may not be willing to take risk which is required for modern investment alternatives.

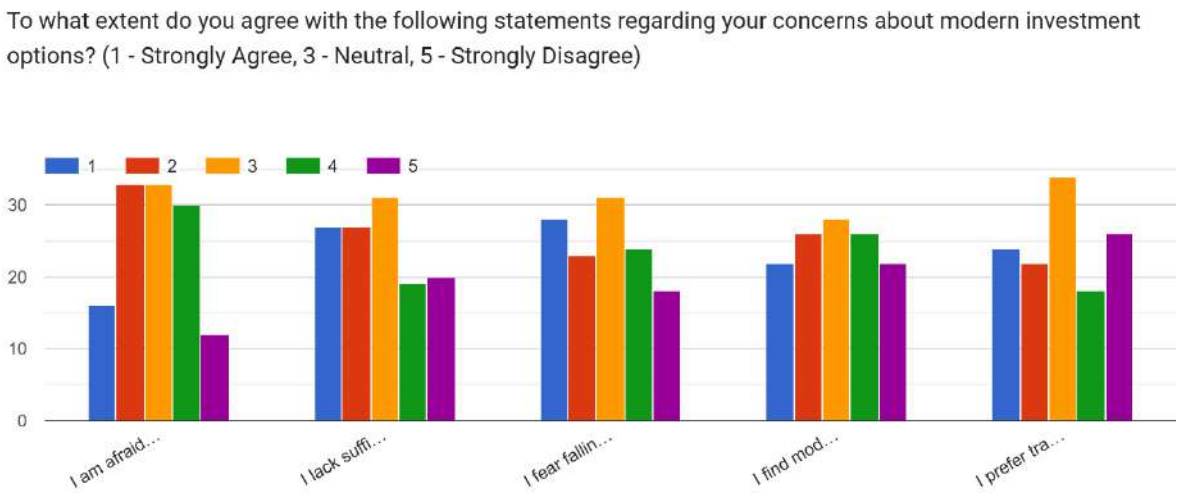


More than every one person out of the three was found to be having income more than 1,25,000pm which is strong case for investing in modern sources of investments which is done after savings and traditional investment avenues. 29% were having income below 6,00,000 p.a. and they are less likely to invest in modern sources of investment.

Analysis and Interpretation on Comfort level on Investing in Modern Sources of Capital:
52.4% of the respondents were found to be at least comfortable in terms of exploring modern investment alternatives such as shares, derivatives, mutual funds etc. This includes 2/3 respondents who were very comfortable. Almost 1/4th of respondents were neutral as they are undecided about the choice of investments for modern avenues.

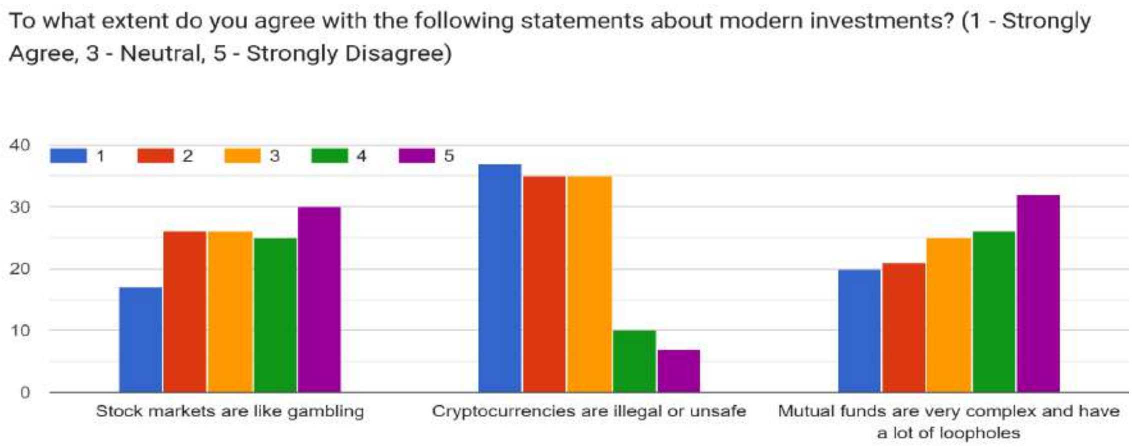
Analysis on Concerns over investing in Modern Investment Alternatives:

Despite the ability and willingness to invest in modern avenues, it was found that the fear of falling victim for online scams was found to be major concern, followed by sufficient knowledge about the investment avenues and preference for traditional investment for safety. Fear of losing money in modern investment alternatives was found to be least bothering factor for respondents. The responses are evident from the following chart for representation based on 5 point scale of agreement.



Analysis of myths about the modern investment alternatives:

The following chart provides insights on the myths and misconceptions about modern investing options.



Maximum of the respondents believe that the cryptocurrency is illegal or unsafe to invest in. The perception on mutual funds was found to be complex and challenging to find the right one as per the needs of investor. Least number of the respondents were of the opinion that stock markets are gambling.

General findings:

- Family members or relatives were not found to be obstacles for investments in modern sources of investment.
- Accuracy and transparency along with simplified information about modern sources was found to be the encouraging factors for investment in modern investment avenues.
- Majority of the investors were found to be learning from the previous mistakes in the journey of investments.

ISSN 2322 - 0899

Hypothesis Testing:

Hypothesis 1:
There is no significant impact of psychological barriers (such as fear of loss, lack of trust or perceived complexity) in choosing modern investment instruments.

Variable	Observations	Mean	S.D	Df	t value	P value
Fear of losing money	124	2.9112	1.1894	123	3.8504	0.0001
Lack of sufficient knowledge	124	2.8225	1.3677	123	2.6263	0.0049
Fear of Scams	124	2.8467	1.3617	123	2.8357	0.0027
Complexity	124	3.1222	1.3614	123	4.0895	0.0000
Preference for traditional investment	124	3.1254	1.3968	133	3.9859	0.0001

On applying one sample t test, it was found that the p value for the psychological factors were 0.0001, 0.0049 , 0.0027, 0.0000 and 0.0001. Since all the p values are less than 0.05, we can reject the null hypothesis suggesting that the psychological factors impact the choice of modern investment instruments significantly.

Hypothesis 2:
Belief in common investment myths (e.g., "stock markets are like gambling" or "cryptocurrencies are illegal') does not significantly affect investors' willingness to invest in modern financial instruments.

Sign	Observations	Sum Ranks	Expected
Positive	54	2571	3875
Negative	70	5179	3875
Ties	00	00	00
Total	124	7750	7750

Z value: 3.379

P value: 0.006
On applying the one sample Wilcoxon Signed Rank test, it was found that the p value was 0.006 which was less that 0.05 at the significance level of 95%. Hence, we can reject the null hypothesis and conclude that believing in common myths significantly affects willingness to invest in modern financial instruments.

Hypothesis 3:
There is no significant correlation between demographic factors and the psychological barriers to investing in modern financial instruments

Variable 1	Variable 2	Coefficient of Correlation	p value
Fear of losing money	Age	-0.2174	0.0153
Fear of being victim to scam	Gender	-0.1920	0.0326
Preference of traditional investment	Age	-0.3125	0.0004

On applying Spearman's correlation test, the significance value for select psychological barriers was found to be 0.0153, 0.0326 and 0.0004 respectively. Hence, we can reject the null hypothesis and say that there is significant correlation between the demographic factors and psychological barriers to investing in modern financial instruments.

CONCLUSION
The study highlights that that while there is a growing awareness of modern investment instruments among educated and financially stable individuals, psychological barriers continue to act as substantial obstacles while investing. Fear of scams, perceived complexity, and a preference for traditional instruments due to familiarity continue to restrict wider adoption. Additionally, deep-rooted myths—such as associating stock markets with gambling or believing cryptocurrencies are illegal—substantially influences investor behaviour. The study confirms that demographic factors like age and gender correlate significantly with investment apprehensions. The findings highlight the need for targeted interventions to bridge the psychological and informational gap between traditional and modern investing.

SUGGESTIONS

1. **Financial Literacy Programs:** Organising regular training workshops and online webinars can help explain modern investment tools, highlighting both risks and rewards in a simple, relatable manner.

ISSN 2322 - 0899

2. **Cultural Shift Campaigns:** Using social media to bring out stories of investors who moved from traditional to modern investments successfully can help ease negative perceptions and social myths.

3. **Leveraging Technology:** Since India enjoys a massive youth support, developing user-friendly investment platforms with Artificial Intelligence (AI) support can help simplify investment choices of users based on their risk profiles and investment preferences.

4. **Building Trust among Investors:** Regulatory bodies and FinTech companies should work hand-in-hand to ensure transparency, secure transactions and faster grievance redressal services are offered to build investor confidence.

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