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A Behavioral Accounting Framework for Retail Investor Interpretation of Financial Disclosures: Evidence from Mutual Fund Allocation Patterns

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Abstract
Understanding how retail investors interpret accounting disclosures is central to advancing accounting theory, particularly in contexts characterized by heightened market uncertainty. The study develops a behavioral accounting framework that explains how financial performance and risk disclosures shape retail investors' cognitive processing, risk framing, and subsequent investment allocation decisions. Drawing on behavioral theories such as loss aversion, recency bias, and herding, the framework proposes a set of theoretical propositions linking disclosure attributes to observable shifts in asset allocation across risk categories. Market-level mutual fund allocation patterns are used illustratively to examine the behavioral consistency of the proposed framework across different market conditions. The study contributes to theoretical accounting research by integrating behavioral insights into disclosure interpretation, offering implications for accounting standard setters, regulators, and practitioners concerned with improving the design and communication of financial information.
Keywords: Behavioural Accounting, Financial Disclosure, Investor Cognition, Risk Framing, Accounting Theory

1. Introduction

Over the last few years, the Indian financial market has been characterized by the increased involvement of retail, a rapid process of digitalization, and the growing interest in financial instruments, respectively, which was accompanied by a big change. According to the Economic Survey 2024-25, it is also observed that household financial savings is increasingly transferred to securities, including mutual funds, which is a structural shift in investment preferences of a retail participant (Ministry of Finance, Government of India, 2024). The transformations have been affirmed by the advances in market infrastructure and regulatory projects that focused on boosting transparency, the quality of disclosure, and investor protection (Securities and Exchange Board of India, 2024). The stock exchange reports also report a significant increase in the involvement of the retail market in the post-pandemic period, which highlights the increased significance of the comprehension of how the retail investors perceive the financial information and the decision-making process of allocation (National Stock Exchange of India, 2024).

In this dynamic environment, mutual funds have become a ubiquitous investment tool amongst Indian retail investors and this has been a significant result of the standardization of disclosure and fairly low entry barriers. Asset class disclosures show that the assets under management have continued to grow, especially in the equity-oriented schemes, and it appears that the migration to higher risk exposure among the retail participants takes place gradually (Association of Mutual Funds in India [AMFI], 2023). The COVID-19 pandemic increased market volatility, which provided conditions in which the effects of behavioral biases were more likely to have an impact on investment choices. Empirical research indicates that investor sentiment and volatile markets are strongly correlated with the mutual fund flows across the pandemic (Yadav and Yadav, 2024), and behavioral reactions to the crisis have greatly determined fund performance patterns in emerging markets (Maheen, 2021).

The body of extant literature in behavioral finance is consistent in reporting that retail investors fail to act strategically in line with rational decision-making assumptions and act under cognitive and emotional bias. The issue of overconfidence has been recognized to be a constant behavioral bias among Indian investors in trading and pricing under different market circumstances, and the bias usually results in excessive trading and mispricing (Kumar and Prince, 2022). Subsequent research establishes that overconfidence persists in retail investors even in the recent years, especially during turbulent market periods, where it is being reflected in overtrading and overstated risk-taking (Singh et al., 2024). This is also a common phenomenon in the Indian stock market, where investors often choose to adhere to the general market trend instead of using their analysis (Gupta and Kohli, 2021). Moreover, the recency bias is very much involved in the investment decision-making process, with investors assigning an undue importance to the market information in the recent past when making expectations (Dey and Singh, 2022).

The empirical data supporting these behavioral inclination states that firm-specific, psychological and market-related variables collectively contribute to individual investment choices and tend to exacerbate the cognitive biases (Mathew and Kumar, 2022). The conceptual clustering of behavioral finance studies also refer to recency bias being one of the primary and most interconnected factors of how an investor makes decisions (Bihari et al., 2022). Such non-rational behavior can be effectively explained using behavioral finance theory and especially prospect theory because investors can make judgments of gains and losses differently, which results in loss aversion and risk-framing biases that have a profound impact on financial decision-making (Ladron de Guevara Cortes et al., 2023). The behavioral patterns are particularly accentuated in the case of emerging markets, where the liquidity conditions and the investment behavior are largely influenced by the investor sentiment in the moments of increased uncertainty (Messaoud et al., 2023).

More recent articles also indicate that the sentiment-based indicators, such as market trends and the trading signals, can serve as the proxy of the collective investor psychology and can impact the dynamics of asset pricing (Ding et al., 2023). In addition to emotion, financial literacy and capacity to take risks are critical factors of investor behavior. The empirical data of the mutual fund investors suggests that financial knowledge increases moderate risk tolerance and long-term portfolio choices (Hamurcu et al., 2025). Extended literature also confirms that financial literacy has a positive impact on financial health and enhances quality of economic decision-making and reduces vulnerability to behavioral biases (Lusardi and Messy, 2023). As per the mutual fund setting, existing literature shows that dynamic interaction between fund flows, market returns, and volatility exists, and that investors often reassign funds according to the latest performance instead of underlying valuations (Kaur & Vagrecha, 2023).

The behavior of mutual fund investment in Indian market is indicated to be affected by fund performance, as well as fund family characteristics, and shows that reputation-based and herding-driven decision-making are the two common features of retail investors (Chauhan et al., 2023). Behavioral responses to information signals and perceived risk are also evident in the investor perception of mutual fund flows because flow-based measures are measures of psychological reaction to market disclosure (Sharma, D. P. C., 2022). In order to be more conclusive on the influences of behavior, past research has prepared validated measurement scale to measure the cognitive and emotional distortions in investment decision-making, and the significance of behavioral constructs in financial analysis (Jain et al., 2022). Recent research synthesis The recent review-based studies synthesize this accumulating body of evidence and highlight the necessity of longitudinal, market-level studies in order to gain a better understanding of revealed investment behavior over time, especially in emerging economies (Arora and Purohit, 2024).

Besides the bias on the individual level, external and contextual influences were found to influence the retail investment behavior. It has been observed that financial literacy mediates the association between behavioral biases and investment decisions, and thus more informed investors can better cope with cognitive biases (Adil et al., 2022). The risk perception has also become a very important factor that defines the behavior of investment in the time of increased uncertainty, especially after the COVID-19 crisis (Hans et al., 2024). The theories of planning behavior, like the Theory of Planned Behavior, also indicate that attitudes, subjective norms, and the perceived ability to control behaviour are influential factors in shaping the mutual fund investment intentions (Thanki et al., 2025). Previous experiences of investments and financial literacy also play a role in the decision-making because investors base their considerations on the experience that they have gained when assessing other options of investment (Nurmelia et al., 2022). The concept of herding has also been indicated to influence investment returns in the Indian stock market, especially at times when there is stress in the market, and investors tend to conform to a general direction (Kanojia et al., 2022).

The changing aspect of the capital markets in India and how it affects the retail investors have gained more scholarly attention. The long term studies on capital markets indicate that there will be an ever-increasing level of retail involvement and diversification of investment options with time (Potharla, 2025). Empirical research at the regional level also supports the existence of various behavioral biases that affect the mutual fund investment decisions, which justifies the effectiveness of the market analysis on the basis of secondary data sources (Mydhili et al., 2025). Although there is growing literature, most of the research findings are based on survey-based or short-term based data and this limits its capacity to reveal investment behavior at various stages in the market.

Although past studies have given important input on the issue of behavioral biases using primary surveys, comparatively limited empirical focus has been accorded to the issue of how behavioral biases translate into realistic investment returns under varying market conditions. Furthermore, the research that has been done has seldom integrated the quantitative patterns of investment and the institutional information based on exchange-level disclosures. To fill this gap, the current research investigates the decision-making process of retail investors based on quarterly mutual fund returns between 2019 and 2024 and supported by qualitative data on stock exchange reports, which provides a market-based approach to understanding the impact of behavioral factors in investing in a portfolio.

Research Objectives

1. To study the meaning of accounting-based financial disclosures by retail investors and the expression of this meaning in the mutual fund allocation patterns in terms of equity, debt and hybrid funds.
2. To examine the development of retailer investor risk framing and behavioral reaction to accounting information across time using market-level measures of assets under management and fund flows.
3. To contextualize the observed behavior of allocation by institutional accounting and disclosure stories based on stock exchange reports.

2. Methodology

2.1 Research Design

The research design used in the study is mixed method research design that focuses on the decision-making process of retail investors using behavioral accounting approach with special interest on how accounting-based disclosures of financial information are observed and interpreted in observed investment behaviors. The study uses a mix of quantitative archival research and qualitative document review to assimilate the allocation pattern of market level as well as the institution rules and regulations of accounting in which these decisions are made. The quantitative aspect is based on secondary time-series data that can determine how investment allocation has changed as a revealed response to accounting information, whereas the qualitative version is based on institutional documents that can place the trends within the framework of disclosure stories and regulatory views. The design suits theoretical accounting studies because it focuses on disclosed behavioural reactions to accounting information as opposed to the subjective psychological assessments. The combination of the numerical evidence and the documentary analysis will facilitate the explanatory level of the study and allow conducting a more holistic assessment of the behavior of retail investors under varying market circumstances.

2.2 Quantitative Data Source and Sample

The main source of quantitative data was the quarterly disclosures of mutual funds industry published by the Association of Mutual Funds in India (AMFI). The sample deals with 2019-2024 and is made of 24 quarterly observations based on disclosures on the publicly available accounting basis. The variables which have been extracted are assets under management (AUM) in equity-oriented funds, debt-oriented funds and hybrid funds, total industry AUM and net fund inflows and outflows. Mutual fund disclosures were chosen as they constitute a standard type of accounting data in terms of which the retail investors evaluate performance and risk, and the patterns of fund allocation became a significant proxy of revealed investor reactions to accounting data. The chosen time frame addresses different stages of the market, such as the pre-pandemic period, the COVID-19 disruptive period, and the following normalization period, thus allowing to study the development of the interpretation of accounting disclosures by investors in different market conditions.

2.3 Qualitative Data Source

Qualitative data was obtained based on the consolidated annual reports of BSE Limited, as well as the sampled market publications related to the exchange that are issued through official disclosures of the Bombay Stock Exchange. The sources include institution-based accounting accounts in terms of retail investor participation, market dynamics, digital adoption, and regulatory developments as it is manifested in reporting practices, disclosure frameworks, and governance initiatives. Annual reports were especially useful to provide some background information on how accounting information, transparency and disclosure standards are changing within times of increased market uncertainty. The selection of the qualitative sources was informed by the fact that they were credible, they covered in detail the institutional accounting environment and were employed to explain and place in perspective quantitative results and not to produce independent empirical outcomes.

2.4 Measurement and Operationalization of Variables

Mutual fund indicators based on accounting disclosures (AMFI) conceptualized observable retail investor decision-making behavior. Quarterly growths in equity fund assets under management (AUM) were taken as proxies of risk-taking behavior to measure changes in risk preference and loss aversion in terms of allocation decisions. The strength of the investment choices in the various stages in the market was measured using the net fund inflows and outflows, which are the unveiled reactions to the accounting information revealed in the level of fund and industry. The frequency used was a quarterly to make the allocations consistent with the financial reporting periods and to maintain the behavioral meaningfulness of the observed changes in the allocations. Qualitative data were operationalized on the basis of an interpretive review of stock exchange reports, and were focused on the themes of accounting and disclosure, including transparency efforts, retail participation pattern, market sentiment and institutional response in hedged times.

2.5 Ethical Considerations

The research is also based solely upon the secondary sources which are accounting disclosures and official institutional publications such as quarterly reports published by the Association of Mutual Funds in India (AMFI) and annual reports published by BSE Limited. All data were summarized on the industry level and had no individual, proprietary, or confidential information. As a result, there were no problems of informed consent, privacy, and confidentiality of data.

3. Results

3.1 Descriptive Analysis of Mutual Fund Trends

The quarterly data on mutual funds (2019-2024) suggest a gradual change in the participation of retail investors with a stable growth in the aggregate Assets Under Management (AUM) as reported by standardized mutual funds disclosures. The growth is also consistent in equity-based schemes, especially during the first year after the COVID-19 market disruption, but temporary spikes in inflows characterize the debt-based funds at times of increased uncertainty. The allocation of hybrid funds is rather steady, which indicates a moderate reaction to the performance and risk reporting data. Patterns of net inflows also indicate greater volatility in equity and hybrid scheme but less and still low volatility in debt scheme. Accounting wise, the above allocation patterns imply that the retail investors are responsive to fluctuations in reported financial performance, risk measures and market conditions that are interwoven in periodic fund reports. The trends that have been followed imply that the investment decisions are determined on the changing interpretation of accounting information whereby the equity allocation has been rising in favourable reporting conditions and debt allocation has been rising in periods of unfavourable market disclosure. Table 1 includes a quarter-by-quarter analysis of Assets Under Management and net fund flows by the equity, debt, and hybrid categories between the Q1 of 2019 and Q4 2024 showing the gradual increase in total AUM and a consistent increase in equity investments, gradual fall in debt investments, and a gradual increase in the hybrid investments.

Table 1 : Quarterly AUM Growth and Net Fund Flow Analysis (Q1 2019 - Q4 2024)

Quarter	Total_AUM_Cr	Equity_AUM_Cr	Debt_AUM_Cr	Hybrid_AUM_Cr	Net_Equity_Cr	Net_Debt_Cr	Net_Hybrid_Cr
Q1 2019	950000	400000	500000	150000	20158	5491	1657
Q2 2019	982600	426100	497800	154300	45417	-11627	-4012
Q3 2019	1015200	452200	495700	158700	3289	-2839	8888
Q4 2019	1047800	478300	493500	163000	-10177	16996	-7033
Q1 2020	1080400	504300	491300	167400	40160	12122	4527
Q2 2020	1113000	530400	489100	171700	21975	19850	9170
Q3 2020	1145700	556500	487000	176100	-10460	12350	6048
Q4 2020	1178300	582600	484800	180400	-3636	12472	7506
Q1 2021	1210900	608700	482600	184800	-15389	13761	7955
Q2 2021	1243500	634800	480400	189100	7663	10351	-4927
Q3 2021	1276100	660900	478300	193500	31991	8132	-4896
Q4 2021	1308700	687000	476100	197800	37679	305	-7857
Q1 2022	1341300	713000	473900	202200	10977	-5183	-2643
Q2 2022	1373900	739100	471700	206500	29115	-3739	2043
Q3 2022	1406500	765200	469600	210900	40890	-14583	-6560
Q4 2022	1439100	791300	467400	215200	46387	5358	-4356
Q1 2023	1471700	817400	465200	219600	-1929	-11733	518
Q2 2023	1504300	843500	463000	223900	39275	2209	4552
Q3 2023	1537000	869600	460900	228300	-8062	9052	-7086
Q4 2023	1569600	895700	458700	232600	15195	11092	3584
Q1 2024	1602200	921700	456500	237000	-16000	-3662	2144
Q2 2024	1634800	947800	454300	241300	18304	-14588	4397
Q3 2024	1667400	973900	452200	245700	49449	-7457	-1213
Q4 2024	1700000	1000000	450000	250000	764	18496	4191

Source: Internal analysis based on compiled quarterly AUM and net fund flow data (2019-2024).

3.2 Analysis of Net Inflows and Market Timing

The quarterly net inflows shows that there is a systematic variation in the retail investor allocation behavior across market cycles and disclosure environments. The inflows into debt-oriented funds sharply grew at the beginning of 2020, as the period of COVID-19 uncertainties accelerated, accounting disclosures were more volatile and had more downside risk. Conversely, since the end of 2021, the pace of equity funds inflow increased markedly, equaling new optimism and increased readiness to take risk when reported financial performance and recovery indicators improved. There are mixed patterns in net inflows into hybrid funds, which implies an equalized allocation reaction to performance and risk disclosures. Inflow changes are greatest when the volatility is high and this means that the selection of funds is greatly dependent on how investors perceive accounting information and market disclosures and not on long-term stable valuation. According to behavioral accounting, these trends are in line with loss aversion and recency bias in that investors have the tendency to overemphasize the recently reported performance results and risk indicators in their allocation decisions.

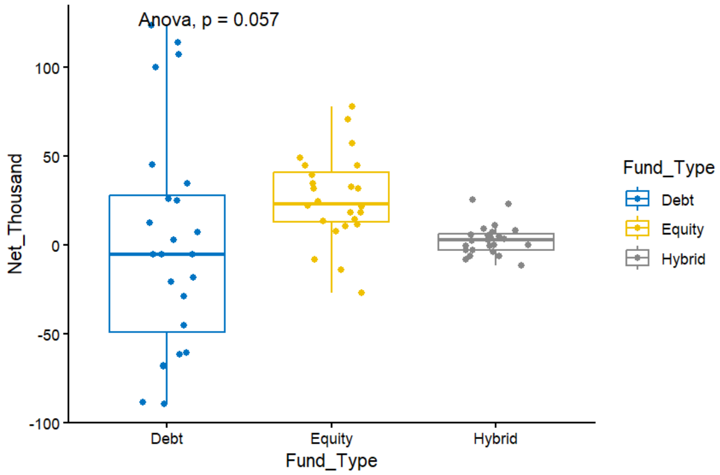

Figure 1. Comparison of Net Inflows Across Mutual Fund Types

Figure 1 shows that a quarterly net inflows between equity, debt and hybrid mutual funds have differed with fluctuation in the financial performance and risk disclosure indicators reported by a fund at different stages in the market.

3.3 Risk Preference Analysis Based on AUM Share

Changes in the risk preference of retail investors were measured in terms of the Proportion of Assets Under Management (AUM) in fund categories reported in accounting-based disclosures of the allocation. The ratio of equity-oriented funds to overall AUM improved significantly after 2021, whereas the ratio of debt-oriented funds dropped, which shows that the company transitioned to more risky investments in the market recovery stage. The corresponding share of hybrid funds was rather steady, as they served the purpose of offsetting the reported risk and returns. AUM visual analysis on a fund type basis validates a long term increment in equity allocation with time. Behavioral accounting wise, the trend implies the increase in risk-taking and return chasing behavior, especially in the later time when disclosed performance indicators looked positive. Subsequently, the shift in AUM composition is an effective proxy to the shift of risk preferences by retail investors. Table 2 shows the evolving equity, debt, and hybrid AUM between 2019 and 2024, with the trend of the rising equity allocations remaining constant.

Table 2 : Changing Asset Allocation Mix: Equity, Debt, and Hybrid AUM Share Trends

Quarter	Equity ↑	Debt ↓	Hybrid ˜ Stable	Comment
Q1 2019	35.2%	52.6%	12.2%	Pre-COVID baseline.
Q2 2020	37.5%	50.3%	12.2%	Early COVID, slight equity gain.
Q4 2021	42.1%	44.7%	13.2%	Recovery phase, equity ↑.
Q2 2022	46.3%	40.2%	13.5%	Continued risk-on shift.
Q4 2023	49.7%	38.1%	12.2%	Equity dominance increases.
Q2 2024	52.8%	35.0%	12.2%	Highest equity share, lowest debt.

Source: Internal analysis based on compiled quarterly AUM share data derived from Equity, Debt, and Hybrid Assets Under Management. Note: Values are approximate and based on aggregate AUM shares over the respective quarters.

3.4 Institutional Accounting Narratives and Interpretation of Market Behavior

The qualitative data shows more active digital presence, an improved ability to disclose information, and more investor education efforts since 2020. Indicatively, in the BSE reports, it is indicated that online trading accounts and systematic investment plan (SIP) registrations have significantly increased in the last two years 2021-2023, which are in line with the recorded growth in the equity-based fund allocations in the quantitative data. SEBI has engaged in regulatory efforts especially those aimed at the protection of investors, the transparency concerning disclosure and financial education which seem to have impacted the risk perception of retail investors in the form of accounting information and thus contributing to an increase in equity markets participation. The increased use of online and tech-oriented methods also contributed to the access to accounting disclosures and performance. Taken as a whole, these institutional accounting stories help support the quantitative evidence and indicate that identified behavioral shifts are not only cyclical market responses, but they are also influenced by systemic shifts in the disclosure habits and the reporting settings.

3.5 Behavioral Biases as Reflected in Accounting-Based Allocation Patterns

The patterns of investment observed during the 2019-2024 period give a clear evidence of the behavioral biases according to the accounting based allocation disclosures. High equity levels in times of a bullish market reflect an overconfidence and optimism bias whereas higher levels of changes towards using more debt oriented funds during more volatile markets will reflect the loss aversion. The herding behavior can be seen in the regular inflows in particular types of funds and it is very common during the periods of market expansions when the disclosed performance indicators are positive. The recency bias also manifested in the nature of investors to shift funds to schemes that show strong performance in the short run as seen by the changes in assets under management by the year. Even though the motives of individual investors cannot be directly measured with the help of the secondary data, the revealed preferences can be quantified in terms of disclosed fund flows and AUM movements. According to behavioral accounting point of view, these trends would offer informative but strong support on how accounting information and performance disclosures influence the decision-making process of retail investors over the long run.

4. Discussion

The study gathers information on the decision-making of retail investors in the Indian mutual fund sector in 2019-2024 by studying the behavior of allocation as disclosed via accounting-based disclosures. The longitudinal trends show the systematic changes in the funds assignment in the periods of the market, which is in line with the behavioral accounting principles. The increase in equity allocations after the pandemic is overconfidence and recency bias because investors react to positive performance disclosures even when the macroeconomic conditions are disproportionate. However, contrary, the rise in debt inflows at the beginning of the COVID-19 crisis is an indication of loss aversion and flight to safety due to the increased risk disclosures. The fact that the allocation to hybrid funds is relatively stable implies that there is a limited rationality with the investors using diversified disclosure-based strategies to strike the right balance between perceived risk and yield.

The implications of these findings on the accounting practice, regulation and market policy are significant. Improved financial literacy programs, especially those focused on risk evaluation and investment discipline over the long run, have the potential to increase the accounting disclosure interpretation of investors. Better disclosures of risks to investor and more informative fund documents can help reduce the influence of behavioral biases through enhancing transparency and comparability. The increasing utilization of the digital investment platforms also underscores the necessity of the disclosure-oriented interface design with embedded behavioral nudges that facilitate making informed choices. BSE and SEBI reported institutional evidence indicates that digitization, increased standards of disclosure and investor education programs have redefined the reporting environment, which contributes to investor behavior as a result of interacting between accounting information and regulatory frameworks and investor psychology.

The results of the current research are consistent with the previous behavioral accounting literature that indicated that investor decision-making processes are influenced by cognitive limitations and interpretation of accounting information as opposed to the use of rational evaluation. Studies indicate that the problem of attention of investors may result in underreaction to earnings announcements when extraneous information diverts attention despite the availability of accounting information (Hirshleifer et al. 2009). The literature on behavioral accounting also establishes the presence of reporting environments and cognitive processes inherent in accounting systems in determining financial judgments (American Accounting Association, 1989). There is also some evidence that the mode of presentation of accounting information has a lot of influence on the decision made by nonprofessional investors, which highlights the importance of disclosure design (Maines and McDaniel, 2000). Risk assessment research studies affirm that investors use accounting classifications and reported properties in assessing financial risk (Koonce, et al. ,2005), and reports of comparability on financial statements reveal the superiority of standardized reporting in improving interpretability and consistency of decisions (De Franco, et al. 2011). This study methodologically builds on the existing understanding of the experimental studies on behavioral accounting at the market level in disclosure (Libby, et al. , 2002).

The analysis is based on aggregate secondary data based on publicly available accounting disclosures, and therefore it does not reveal the motivation and cognition of individual investors. It does not also explicitly include macroeconomic variables that can affect flows of mutual funds outside of the behavioral responses to accounting information. The further study might combine the primary survey evidence with the indicators of market level disclosure to uncover both the psychological and the revealed aspects of the investment decision-making. The integration of macroeconomic factors and temperatures would also contribute more to completing the knowledge of the interaction of external shocks with accounting information. Inter-ecological analyses of the emerging markets can enhance the generalizability of the results whereas advanced panel data analysis and machine learning algorithms might enhance predictive understanding of how investors react to behavioral triggers produced by disclosures.

5. Conclusion

The research provides an analysis of retail investor behavior in the Indian mutual fund sector during 2019-2024 by evaluating the market-level allocation patterns that are disclosed via accounting-related disclosure. The shifts in the asset allocation of both equity and debt and hybrid funds indicate that retail investors react to market volatility and economic events in a systematic manner based on the reported performance and risk information. The greater investment in debt funds in the COVID-19 period means they were scared of losses and risk-averse under uncertainty, whereas the more they invest in equity funds in recovery phases means they have regained their confidence and are prone to overconfidence bias. The observed relations between funds inflows and assets under management are further evidence that sentiment-based reactions to disclosed information exist. According to qualitative evidence in institutional reports, regulatory efforts, improved disclosure practices, and digitalization have influenced the investment environment and enabled the wider involvement of retail. The study is relevant to the behavioral accounting literature because it emphasizes on the significance of explaining disclosure-motivated behavioral interactions to inform investors, support policymaking and fund management in emerging markets.

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