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ROLE OF INVESTMENT ADVISORS ON RETAIL INVESTORS DECISIONS IN BENGALURU

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ABSTRACT

The role of investment advisors has become increasingly significant in guiding retail investors through complex financial markets. This study investigates the influence of investment advisors on the investment decisions of retail investors in Bengaluru, a growing financial hub in India. Using a combination of primary data (structured questionnaires from 200 retail investors) and secondary data (existing literature and regulatory reports), the study evaluates how advisory services impact investor behavior, risk appetite, portfolio choices, and financial literacy. Findings indicate that trust, communication quality, and risk profiling are key determinants of investors' willingness to act upon advisor recommendations and to endorse them to peers. Demographic variables such as age and income do not significantly moderate recommendation behavior. The study offers actionable insights for advisors, investors, and regulators to enhance advisory efficacy, investor protection, and financial literacy in urban India.

KEYWORDS: Investment advisors, retail investors, Bengaluru, trust, risk profiling, behavioral finance

JEL Classification: G11, G23, D14

1. INTRODUCTION

The Indian financial market has witnessed rapid growth in retail investment participation over the last decade. Amid increasing investment options mutual funds, equities, insurance, and bonds investment advisors play a crucial role in helping retail investors navigate financial complexities. In Bengaluru, with its large urban, educated, and tech-savvy investor base, advisory services are pivotal in shaping investment decisions.

Investors often face challenges such as information asymmetry, risk misperception, and behavioral biases, which can impact portfolio performance. Financial advisors act as fiduciaries, educators, and

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behavioral moderators, offering tailored guidance to align investments with client objectives. This study explores how trust, communication, and risk profiling influence retail investors' advisory reliance and recommendation behavior. Findings from this research can guide financial institutions, regulators, and advisors to enhance service quality, investor protection, and financial literacy.

2. REVIEW OF LITERATURE

Research on investment advisory services highlights the multidimensional influence of advisors on retail investors.

Trust and Market Participation: Linnainmaa (2018) showed that financial advisors significantly increase market participation in Canada. Clients with longer advisor relationships exhibited greater willingness to hold equities during market downturns, emphasizing the psychological value of trust, though advised investors underperformed passive benchmarks after fees.

Advisory Impact and Financial Literacy: Pallavi (2024) underscored the critical role of advisors in guiding investors with limited financial literacy. Advisors' qualifications, trust-building, and technology use were key factors enhancing investor decision-making and confidence.

Advisor Matching and Performance: Hackethal (2012) reported that advisors are often matched with wealthier, experienced investors. Advised accounts demonstrated lower returns and higher trading costs compared to self-managed accounts, indicating structural inefficiencies and the need for regulatory oversight.

Digital Transformation: Coffi (2022) examined the rise of robo-advisors, concluding that digital tools complement rather than replace human advisors. Both models can coexist, with technology enhancing decision support and advisors focusing on behavioral guidance.

Financial Attitudes and Retirement Planning: Mustafa (2025) highlighted the influence of financial attitudes, literacy, and advisor engagement on retirement planning. Risk-aware guidance coupled with literacy interventions improved investor preparedness.

Advisory Sources and Cryptocurrency Investment: Qi (2025) investigated advisory sources for cryptocurrency, revealing a negative association between professional advice and crypto adoption, whereas media and social networks positively influenced investment intentions. This emphasizes the importance of professional guidance in high-risk and novel investment contexts.

Across studies, trust, communication, risk alignment, and advisor competence consistently emerge as determinants of advisory influence, while demographic factors show mixed effects. In the Indian context, urban investors value fiduciary alignment and behavioral guidance, underscoring the relevance of behavioral finance and agency theory.

3. RESEARCH OBJECTIVES AND HYPOTHESES

3.1 Research Objectives

1. To understand the dependency level of retail investors on investment advisors.
2. To analyze how advisor recommendations influence investment decisions.
3. To assess the relationship between investor profile (age, income, education) and use of advisors.
4. To evaluate predictors of investor recommendation behavior toward advisors.

3.2 Hypotheses

- **H1:** Greater trust in investment advisors is positively associated with the likelihood of recommending advisors to others.
- **H2:** Advisors' consideration of clients' risk profiles positively predicts higher recommendation rates, controlling for communication quality.
- **H3:** There is no significant association between age groups and recommendation levels (Low vs. High).

4. RESEARCH METHODOLOGY

4.1 Research Design

A descriptive-analytical design was employed, using quantitative survey methods to examine investor reliance on advisors and related behavioral outcomes.

4.2 Population and Sampling

The population consisted of retail investors in Bengaluru. A non-probability convenience sample of 200 respondents was surveyed to ensure diversity in age, income, and education.

4.3 Data Collection

A **structured questionnaire** (5-point Likert scale) assessed demographic variables, trust, communication quality, risk profiling, and recommendation behavior. Surveys were administered both online and in-person from May to August 2024.

4.4 Data Sources

- **Primary Data:** 200 survey responses.

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- **Secondary Data:** Academic journals, SEBI/AMFI reports, and scholarly articles.

4.5 Analytical Tools

- Descriptive statistics (mean, SD, frequency)
- Pearson correlation
- Multiple regression
- Chi-square tests

Reliability was confirmed with Cronbach's alpha = 0.82, and content validity was ensured through expert review.

5. DATA ANALYSIS AND FINDINGS

5.1 Descriptive Statistics

Variable	Mean	SD	Interpretation
Trust in Advisor	4.21	0.61	High
Communication Quality	4.05	0.73	High
Risk Profiling Accuracy	3.92	0.80	Moderate-High
Recommendation Likelihood	4.09	0.72	High

5.2 Correlation Analysis

All advisor attributes were positively correlated with recommendation behavior, strongest for **trust ($r = .71$, $p < .01$)**.

5.3 Multiple Regression Analysis

Model explains **62% variance** in recommendation behavior ($R^2 = 0.62$, $F = 104.37$, $p < .001$). Significant predictors:

- Trust ($\beta = 0.421$, $p < .001$)
- Communication ($\beta = 0.298$, $p < .001$)
- Risk Profiling ($\beta = 0.192$, $p = .006$)

5.4 Chi-Square Test

No significant association between age and recommendation behavior ($\chi^2 = 3.42$, $p = 0.49$), supporting H3.

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6. DISCUSSION

- **Trust** emerged as the strongest predictor, consistent with agency theory and prior studies (Linnainmaa, 2018; Pallavi, 2024).
- **Communication quality** enhances investor confidence, moderating cognitive biases (Gupta, 2025).
- **Risk profiling** ensures behavioral suitability, reducing regret and reinforcing loyalty (Hackethal, 2012).
- **Demographics** showed limited influence, highlighting uniform advisory perception in urban Bengaluru.
- Integration of **behavioral finance** and **agency theory** explains the dual roles of advisors as fiduciaries and behavioral moderators.

7. CONCLUSION, LIMITATIONS, AND FUTURE SCOPE

Conclusion: Trust, communication, and risk alignment are central to advisory effectiveness. Investors are more likely to endorse advisors with strong behavioral credibility and ethical alignment.

Limitations: Geographical restriction to Bengaluru, cross-sectional design, self-reported data, and focus on traditional advisors.

Future Scope: Comparative studies across cities, longitudinal tracking, fintech integration, exploration of behavioral biases, and regulatory impacts.

Practical Implications: Advisors should prioritize ethics, communication, and risk-alignment. Investors should assess fiduciary alignment. Regulators should strengthen transparency and professional standards.

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