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Investors Reneging in Mutual Funds: Financial Literacy as a Behavioural Buffer During Market Volatility

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Abstract

Many investors tend to withdraw their money from mutual funds when the market is going down this is a common behaviour, especially among small or retail investors in developing countries and it can affect their ability to build wealth over the long-term. Based on ideas from behavioural finance and a concept from queueing theory called “reneging” this study explains such action as Investment Reneging. This means that investors exit their investments before they get the expected returns, like how a person leaves a queue before receiving the service. Using primary survey data from 184 retail mutual fund investors in India (financial year 2025 – 26), the study employs binary logistics regression to identify the determinants of premature investment exit. Financial literacy is a statistically significant negative predictor of reneging ($\beta = -1.412, p < 0.05$), reducing the probability of exit by approximately 10% points at the sample mean and 25% relative reduction from the baseline. Loss aversion does not exert a significant direct effect, but its interaction with financial literacy is marginally significant ($p < 0.10$), indicating that financial knowledge moderates how investors interpret potential portfolio losses. Results are robust to prohibit re-estimation and multicollinearity diagnostics. The findings highlight how important investor education is in helping people stay calm and make better decisions during market ups and Downs. The study brings together ideas from behavioural finance and queueing theory to create a new way of understanding investor behaviour. It also provides real data showing how financial literacy can influence decisions in emerging markets. Based on this the study suggests practical steps that organizations like SEBI and AMFI and asset management companies can take to support investors better.

Keywords: Behavioural Finance; Financial Literacy; Mutual Fund Investments; Loss Aversion; Investor Reneging; Queueing Theory; Market Volatility; Logistic Regression; India

JEL Classification: G11; G23; G41; D81

1. Introduction

The participation of retail investors in mutual fund markets has expanded dramatically over the past 2 decades. In India the empirical context of this study assets under management grew from approximately ₹7.8 trillion in 2014 to over ₹80 trillion by late 2025 and the number of systematic investment plan (SIP) that is accounts exceeded 100 million by end 2025 SEBI 2025 says this. Despite this structural growth premature during periods of market turbulence remains a persistent and costly challenge. Investors frequently abandon long-term positions in response to short-term corrections foregoing compounding gains and incurring exit loads and tax liabilities (Wankhade, 2025). In aggregate, such behaviour can destabilize fund flows and amplify market volatility. (Pandey & Sinha, 2024).

Classical financial theory rooted in the efficient market hypothesis Nunes, R. (2025) and mean various portfolio optimization (Vieira, C (2025) assumes that investors maintain long horizon diversified positions consistent with their risk preference however decades of empirical research Human systematic departures from this ideal(Kumar et al., 2023). Prospect Theory (Kahneman & Tversky, 1979) demonstrates that individuals are systematically sensitive to losses relative to gains during market downturns loss investors experience disapproving panic driven exits inconsistent with long-term financial objectives (Sutton, C. V. (2025; Ji et al., 2024). There is a growing body of literature providing the idea that financial literacy is a behavioral buffer for investors, as they know how to understand the market in an intuitive manner and to take market fluctuations into account. Higher financial literacy is associated with better portfolio diversification, long-term planning and stronger resilience to market shocks (Chen et al., 2023; Aman et al., 2024; Shroff et al., 2024). However, the specific moderating role of financial literacy related to loss aversion and mutual fund exit decisions in emerging markets has been largely understudied (Rehmat et al., 2023; Hussain et al., 2023). We apply Queueing theory to shed light on the behaviour of investors who leave mutual funds. Investors who invest in mutual funds for financial reasons are in an implicit investment queue; market volatility adds uncertainty into this process and investors who have been made impatient by their behavioral biases may renege -even before the expected return has actually come (Dbeis & Al-Sahili, 2023). The study is designed to study three aspects: first to examine where financial literacy reduces premature exit, second to explore whether loss aversion drives exit decisions independently and third to test whether financial literacy moderates the effect of loss aversion on exit behaviour. The remainder of the paper is organized as follows Section 2 reviews the literature; section 3 develops the theoretical framework, section 4 describes methodology, section 5 present results and sections 6 and 7 discuss implication, limitations and conclusion.

2. Literature Review

2.1 Investor Behaviour and Behavioural Biases

Classical financial theory posits that rational investors construct portfolios to maximum risk-adjusted returns through diversification (Markowitz, 1952; Hatemi-J et al., 2022) and the prices

fully reflect all available information (Fama, 1970; Almansour et al., 2023). However, a substantial body of empirical evidence documents persistent departures from rational behaviour. Recent views have consolidated over a dozen psychological biases including loss aversion, overconfidence, anchoring and representativeness that drive asset prices away from fundamental values and cause investors to make systematic errors in portfolio construction and market timing (Kumar et al., 2023; Goodell et al., 2023). Contemporary research for their confirms that investors are not the rational economic agents of the standard theory, but individuals whose financial decisions are shaped by context framing and psychological heuristics (Sachdeva et al., 2023; Gurung et al., 2024).

Behavioral finance identifies a range of cognitive and emotional biases that systematically distort investor judgment. Building on the foundational work of Benartzi and Thaler (1995), Recent meta analytic evidence continues to support the view that myopic loss aversion helps explain why risk averse investors demand substantial equity risk premia even when equities consistently outperform safer assets over long horizons (Brown et al., 2024). Saivasan and Lokhande (2022) Emphasise that retail investors are normal people whose financial behaviour is shaped by cohort mix of cognitive errors emotions and social influences. Tracking investors through periods of market stress Ji et al. (2024) demonstrate that risk perceptions, risk tolerance and risk return expectations deteriorate substantially during crisis and that these perceptual changes strongly predict trading behaviour including panic selling over subsequent periods.

The disposition effect the asymmetric tendency to sell winners prematurely and hold Too long represents one of the most robust behavioural biases in financial markets(Sachdeva et al., 2023). (Frazzini, 2006). Recent evidence suggest that investor sophistication significantly moderates the disposition effect: wealthier, more experienced and professionally employed investors exhibit significantly weaker disposition biases (Maheshwari et al., 2024). Kaur et al. (2023) Show that retail investors in emerging markets exhibit strong loss aversion during volatile trading periods, substantially increasing risk taking following early losses to break even a consistent with cross pattern consistent with prospect Theory's prediction of risk seeking behaviour in the loss domain.

Regret theory (Loomes & Sugden, 1982) adds a forward-looking dimension :investors may exist prematurely to pre-empt anticipated regret of further decline even when expected returns from maintaining the position are positive. Recent applications in emerging market context confirm that regret aversion remains a significant driver of premature exit decisions (Rehmat et al., 2023).

Cognitive capacity constraints further shape investor responses to market signals. Weixiang et al. (2022) demonstrate that Poor numeracy and limited compound growth comprehension are pervasive among detail investors to lead to significantly suboptimal financial decisions. Yasmin and Ferdaous (2023) show that investors with limited attention overreact to broad market movements and under react to firm specific Signals. Ji et al. (2024) Further established that macroeconomic experiences particularly exposure to financial crisis during formative investment years have lasting effects on individual risk-taking behaviour, creating heterogeneity in renewing propensity across investor cohorts. Herding behaviour (Sachdeva et

al., 2023; Kaur et al., 2023) amplifies collective panic driven exits particularly in emerging markets where retail investors rely on PR signals as a heuristic in the absence of independent financial guidance.

2.2 Financial literacy and investment persistence.

Financial literacy broadly defined as the ability to understand and apply financial concepts to economic decisions has emerged as a critical determinant of household financial well-being (Kumar et al., 2023). Contemporary work by Chen et al. (2023) using IV-GMM estimation on Chinese household data, establish is a strong positive casual association between financial literacy and stock market participation even after controlling for wealth and socio-economic characteristics. Shroff et al. (2024) provide parallel evidence from India documenting that higher financial literacy significantly increases the likelihood of informed investment decisions across budgeting credit management saving and investing.

Extending this line of inquiry, Katauke et al. (2023) Examine the link between financial literacy and impulsive financial behaviours finding that individuals with lower literacy engage in costlier transactions. Arunachalam and Amudha (2024), studying Indian retail investors demonstrate that financial literacy is a significant positive predictor of mutual fund return outcomes with effects that are particularly pronounced among lower income households suggesting that the protective benefits of financial knowledge are largest for the most financially vulnerable. Aman et al. (2024) further show that financial literacy significantly predicts long term recognition and reduces short-term reading in mutual funds even after controlling for income education and experience.

In a comprehensive assessment of financial literacy in emerging markets, Shroff et al. (2024) Documents substantial heterogeneity in literacy level with rates particularly no among retail investors in developing economies in the context of investment persistence, Niculaescu et al. (2023) show that financially sophisticated investors are more likely to adopt contrarian strategies during market downturns. Pandey and Sinha (2024) Document that Indian retail investors with lowers of education hold significantly less diversified portfolios and make more correlated trading errors. Vishnani et al. (2024) develop an extended goal directed behaviour model in which financial literacy emerges as a key determinant of mutual fund investment persistence. Adil et al. (2022) provide evidence from Indian investors confirming that financial literacy interventions produce measurable improvements in financial knowledge and downstream investment behaviours.

2.3 Investor exit behaviour in mutual fund markets

The mutual fund flow literature provides extensive evidence on aggregate patterns of fund redemptions. Vishnani et al. (2024) establish that fund flow exhibit convex performance sensitivity; investors disproportionately chase top performing funds while being slow to exit poor performers. Arunachalam and Amudha (2024) show that mutual funds companies advertise selectively on the basis of past top performance and yet post advertisement performance deteriorates, while investors continue to chase advertising funds. Pandey and

Sinha (2024), granular Indian investor data, document that retail investors exhibit strong local bias in their mutual fund holdings and are disapprosen to peer and neighbourhood selling during market corrections consistent with social contagion dynamic particularly relevant for the Indian retail investor population where social networks play an important role in the investment decision.

At the individual level, premature exit during market correction imposes direct and indirect cost. Adil et al. (2022) show that investors who persist in financial market develop significantly better trading skills Uber time premature exit truncates this learning process. Pandey and Sinha (2024) document that individual investors who trade frequently systematically underperform buy and hold investors. Gurung et al. (2024) document a robust hump shaped relationship between age and financial decision-making ability- performance peaks around age 53 Providing a theoretical basis for including age as a control variable. Kumar et al. (2023) document the pervasive role of behavioural biases in household financial decisions, while Rehmat et al. (2023) find that investors who accept unbiased financial advice exhibit significantly better portfolio outcomes, suggesting that barriers to effective financial guidance are not merely informational but also behavioural and motivational.

2.4 Queueing Theory and the Reneging Construct

Queueing theory is a branch of operations research Concerned with mathematical analysis of waiting systems (Dbeis & Al-Sahili, 2023). A foundational insight is that customers may leave a queue before receiving the service if the perceived waiting time exceeds their patience threshold termed reneging. Related departures include balking (choosing not to join upon observing expecting delay) and Jockeying (switching queues in search of faster service). These constructs have been extensively applied in telecommunications, healthcare and manufacturing and more recently in retail settings (Dbeis & Al-Sahili, 2023).

The conceptual parallels with financial markets are substantive. When investors commit capital to mutual funds, they join an investment queue; the service outcome- the investment returns is expected to materialise overtime, market volatility introduces uncertainty into the expected return timeline, analogous to unexpected service delays. Investors whose patience threshold is eroded by behavioural biases such as loss aversion may renege from their positions (Ji et al., 2024). Conversely, investors endowed with higher financial literacy may be better position to evaluate whether market and induced delays are temporary or structural, raising their effective patience threshold and reducing reneging probability (Chen et al., 2023; Maheshwari et al., 2024). This interdisciplinary framing connects financial market behaviour with established constructs from operations research .The study accommodates three queueing analogue behaviours: balking (failing to invest due to anticipated market uncertainty); reneging (premature exit after investment the focus of this study) and jockeying (switching between fun categories in search of better performance).

2.5 The Indian mutual fund market and empirical models for binary decisions.

India's mutual fund industry provides an important and distinctive empirical setting the industry has undergone structural transformation since the mid-2010s, driven by SEBI's 'mutual fund Sahi hai' awareness campaign the proliferation of ship-based investing, and fintech enabled friction less on boarding. The SIP investor base grew from approximately 10 million accounts in 2017 to over 85 million by 2024 (AMFI, 2024). Vishnani et al. (2024), in a study of Indian retail investors, document that opaque fee structures lead to significant misallocation of capital toward higher cost products, with financially less sophisticated investors being disproportionately affected. Despite industry growth financial literacy among Indian retail investors remains uneven; Shroff et al. (2024) identify significant deficiencies in numeracy and compound interest comprehension, consistent with the mean financial literacy score of 3.24 out of 5 observed in this study sample India's equity markets have also experienced significant volatility including the covid 19 correction of March 2020 providing contests in which panic driven redemptions were plausibly prevalent (Ji et al., 2024; Pandey & Sinha, 2024).

The analysis of binary financial decisions is well suited to discrete choice econometric frameworks. Shroff et al. (2024) use logistic regression to examine financial literacy and investment decisions stock market participation. Chen et al. (2023) provide a methodological application of logit and IV-GMM models to stock market participation, financial product adoption, and saving choices. Aman et al. (2024) employ a logit framework to show that even sophisticated make suboptimal fund choices when information is presented in misleading ways, reinforcing the importance of literacy and framing effects in binary financial decisions. Given that the present study examines a binary outcome whether an investor exits or remains invested during market correction logistic regression with probit robustness checks provides the appropriate empirical framework (Rehmat et al., 2023).

3.Theoretical Framework and Hypothesis Development

3.1 Conceptual Framework

Investment persistence is rooted in psychological processes through which investors perceive uncertainty and evaluate future results. Prospect Theory (Kahneman & Tversky, 1979) is a fundamental theory that when market corrections cause portfolio values to fall below the reference point, loss averse investors experience disproportionate discomfort and leave before they should. The myopic loss aversion mechanism (Benartzi & Thaler, 1995) is reinforced by the widespread mobile portfolio monitoring (Ji et al., 2024). Rieger et al. (2022) also note that individual experiences of market loss permanently lower risk tolerance and cause lasting variability in renegeing propensity. Brown et al. (2024) empirically show through a meta-analysis that loss aversion coefficients differ systematically with investor experience and market conditions. Financial literacy may attenuate these behavioural responses through two complementary mechanisms. First, it provides investors with conceptual framework for interpreting volatility as a normal feature of long-term investing (Chen et al., 2023). Second, it equips investors with knowledge of historical market recovery patterns compounding mechanics and the cost of premature exit exit (Aman et al., 2024; Shroff et al., 2024).

Maheshwari et al. (2024) model financial literacy as a human capital investment good that yields return through better financial decisions. Formalised through the queuing theory lens, financial literacy raises the investors patience T_i through threshold within the investment queue, reducing the probability that market induced uncertainty triggers premature abandonment of investment positions. High loss aversion partially lowers this threshold, providing the theoretical rationale for the moderation hypothesis explaining the moderation hypothesis (Hussain et al., 2023; Rehmat et al., 2023).

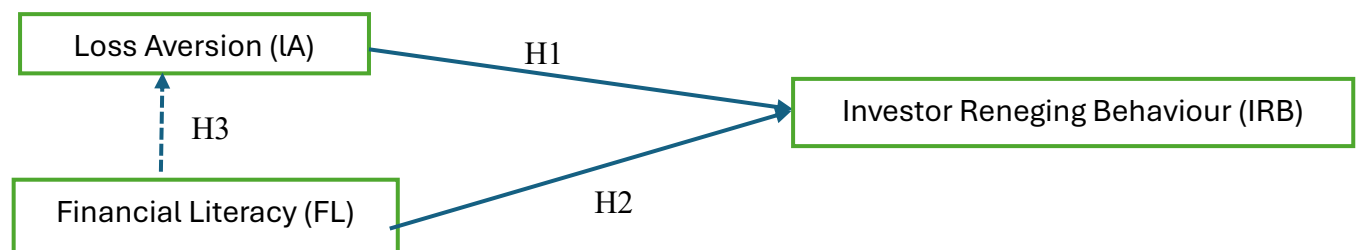
3.2 Research Hypotheses

H₁: Loss Aversion (LA) has a positive impact on Investor Reneging Behaviour (IRB).

H₂: Financial literacy (FL) has a positive impact on Investor Reneging Behaviour (IRB).

H₃: Financial Literacy (FL) serves as a moderator between Loss Aversion and Investor Reneging Behaviour (IRB).

Figure 1: Conceptual Framework



Source: Author's Creation

4. Data and Methodology

4.1 Data Collection and Survey Design

The empirical analysis is based on primary survey data collected from retail mutual fund investors in India during financial year 2024-25. Primary survey data are appropriate for research examining behavioural factors and individual decision-making processes not directly observable through secondary financial data sets (Adil et al., 2022; Rehmat et al., 2023). A Structured commerce self-administered questionnaire was developed in 2 stages. Financial literacy items were adapted from Chen et al. (2023) and Shroff et al. (2024); loss aversion items were adopted from validated behavioural risk tolerance instruments used in recent Indian investors studies (Saivasan & Lokhande, 2022) and presented on a five-point Likert scale. The draft instrument was pilot tested with 25 investors outside the final sample.

The internal consistency of the loss version scale yielded a Cronbach's Alpha of $\alpha = 0.76$, exceeding the 0.70 threshold recommended in contemporary psychometric practice (Sachdeva et al., 2023). Content validity was established through review by 3 academic experts in behavioural finance. Of 219 completed responses received, 35 were removed due to

systematically missing values, yielding a final analytical sample of 184 of valid observations (usable response rate: 84%). The Sample satisfied the minimum requirement of at least 10 events per predictor variable for binary logistic regression (Rehmat et al., 2023): the study record 73 renege events across 5 predictors, comfortably exceeding this threshold.

4.2 Variable Construction

Dependent Variable: Investor Reneging Behaviour (Reneg)

Respondents were asked how they responded during the most significant market correction in their mutual fund investment history. A binary variable was constructed: *Reneg* = 1 if the investor exited or discontinued the investment during the correction; *Reneg* = 0 if the investor maintained the position (Ji et al., 2024; Pandey & Sinha, 2024).

Independent Variables

Financial literacy was measured using five knowledge-based questions assessing compound interest, bond price interest rate relationships, portfolio diversification, inflation's real impact, and mutual fund NAV interpretation. Each correct response was scored 1, yielding a composite score of 0 – 5, consistent with established methodologies (Chen et al., 2023; Shroff et al., 2024). Loss aversion was measured using a 5 item Likert- scale subscale capturing emotional and behavioural responses to portfolio declines; item responses were averaged to produce a continuous score of 1- 5. The interaction term in (literacy × loss aversion) was constructed as a product of mean centred variables following the interaction analysis conventions adopted in contemporary behavioural finance research (Rehmat et al., 2023; Hussain et al., 2023). Control variables include Age Group, Income level and Investment experience.

4.3 Model Specification

Since the dependent variable is binary, the study employees are binary logistic regression model:

$$\frac{P_i}{(1-P_i)} = \beta_0 + \beta_1 Literacy_i + \beta_2 LossAversion_i + \beta_3 (Literacy \times LossAversion)_i + \beta_4 Age_i + \beta_5 Income_i + \beta_6 Experience_i + u_i$$

Where $P_i = Pr (Reneg = 1 | X_i)$ is the probability that investor I exhibits renege behaviour. β_1 and β_2 capture direct effects of financial literacy and loss aversion 3 captures the moderating interaction effect. The model was estimated using maximum likelihood estimation. The Model estimated using maximum likelihood estimation. Model fit was assessed via the likelihood ratio test, the Hosmer Lemeshow goodness of fit test and McFadden's pseudo- R^2 . Average marginal effects were computed at pseudo- R as a probit model was estimated as robustness check (Rehmat et al., 2023).

5. Empirical Results and Discussion

5.1 Sample characteristics and Descriptive Statistics

Table 1 depicts sample profile and Descriptive Statistics (N= 184). This table is divided into two panels- Panel A (Table 1a) indicating categorical variables and Panel B (Table 1b) indicates continuous variable summary Statistics.

Table 1a: Panel A Categorical variable

<i>Variable</i>	<i>Category</i>	<i>n</i>	<i>%</i>	<i>Notes</i>
<i>Age Group</i>	<i>Below 30 years</i>	52	28.3	<i>Digitally active; newer investors</i>
	<i>30 – 45 years</i>	79	42.9	<i>Largest cohort; peak earning phase</i>
	<i>Above 45 years</i>	53	28.8	<i>More experienced; pre – retirement</i>
<i>Annual Income</i>	<i>< ₹5 lakh</i>	41	22.3	<i>Lower – income; higher vulnerability</i>
	<i>₹5 – 15 lakh</i>	98	53.3	<i>Middle – income majority</i>
	<i>> ₹15 lakh</i>	45	24.5	<i>High – income; greater absorptive capacity</i>
<i>Investment Experience</i>	<i>< 2 years</i>	38	20.7	<i>Novice investors</i>
	<i>2 – 5 years</i>	87	47.3	<i>Moderately experienced</i>
	<i>> 5 years</i>	59	32.1	<i>Experienced investors</i>
<i>Reneging Behaviour</i>	<i>Exited (Renegade = 1)</i>	73	39.7	<i>Premature exit during correction</i>
	<i>Remained (Renegade = 0)</i>	111	60.3	<i>Maintained investment position</i>

Source Author's Creation

Table 1b: Panel B- Continuous Variable Summary Statistics

<i>Variable</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
<i>Financial Literacy Score (0 – 5)</i>	3.24	1.18	0	5
<i>Loss Aversion Score (1 – 5)</i>	3.61	0.94	1	5

Source: Author's calculations based on primary survey data (2025–26).

Approximately 40% of respondents ($n = 73$) exited their mutual fund investments during the most recent significant market correction ($Reneg = 1$), while 60 % ($n = 111$) maintained their positions. The mean financial literacy score of 3.24 out of 5 ($SD = 1.18$) reflects the heterogeneity in investor sophistication documented by Shroff et al. (2024) across Indian retail investor populations. The mean loss aversion score of 3.61 is consistent with Prospect Theory predictions and with the crisis-period perceptual patterns documented Ji et al. (2024).

5.2 Logistic Regression Results

Table 2: Binary Logistic Regression — Determinants of Investor Reneging Behaviour

Panel A: Coefficient Estimates

<i>Variable</i>	<i>Coeff. (β)</i>	<i>Std. Error</i>	<i>z – Statistic</i>	<i>p – value</i>	<i>Odds Ratio</i>
<i>Intercept</i>	2.156	1.389	1.552	0.121	8.635
<i>Financial Literacy</i>	−1.412	0.597	−2.366	0.018 **	0.244
<i>Loss Aversion</i>	−0.523	0.387	−1.353	0.176	0.593
<i>Literacy $\times$ Loss Aversion</i>	0.283	0.171	1.652	0.098 *	1.327
<i>Age Group (ref: < 30)</i>	−0.314	0.284	−1.106	0.269	0.730
<i>Income Level</i>	−0.198	0.231	−0.857	0.392	0.820
<i>Investment Experience</i>	−0.427	0.263	−1.624	0.104	0.652

Panel B: Model Fit Statistics

<i>Statistic</i>	<i>Value</i>
<i>Observations</i>	184
<i>Null Deviance (df = 183)</i>	237.76
<i>Residual Deviance (df = 176)</i>	225.43
<i>Reduction in Deviance (χ^2)</i>	12.33 ***
<i>AIC</i>	233.43
<i>Hosmer – Lemeshow χ^2 (p – value)</i>	6.84 (p = 0.553)
<i>McFadden Pseudo – R^2</i>	0.052
<i>Max VIF</i>	3.21 (no multicollinearity concern)

Notes: $p < 0.01$; $p < 0.05$; $p < 0.10$. Robust standard errors. Odds ratios = $\exp(\beta)$. Interaction term uses mean-centred variables. Source: Author's calculations based on primary survey data.

The coefficient on Financial Literacy is negative and statistically significant at the 5 per cent level ($\beta = -1.412, z = -2.366, p = 0.018$), confirming Hypothesis H₁.

Interaction term uses mean centred variables. Source: Author's calculation based on primary survey data. The coefficient on financial literacy is negative and statistically significant at the 5% level ($\beta = -1.412, z = -2.366, p = 0.018$), confirming hypothesis H₁. The Odds ratio of 0.244 implies that each one unit increase in the financial literacy score is associated with approximately a 76% reduction in the odds of reneging, consistent with Chen et al. (2023), Aman et al. (2024), and Shroff et al. (2024). The coefficient on loss aversion is negative but statistically insignificant ($\beta = -0.523, p = 0.176$), failing to support Hypothesis H₂. The absence of a significant direct effect is consistent with evidence that influence of loss aversion is context dependent (Brown et al., 2024; Niculaescu et al., 2023): survey based measures capture generalised attitudinal tendencies rather than real time emotional responses potentially understating the influence of loss aversion on exit decisions (Ji et al., 2024). The interaction term between financial literacy and loss of virgin is positive and marginally significant ($\beta = 0.283, p = 0.098$), providing partial support for Hypothesis H₃ indicating the protective effect of financial literacy is attenuated when loss of aversion is high. Among control variables, investment experience shows the largest coefficient ($\beta = -0.427, p = 0.104$), consistent with Adil et al. (2022) and Maheshwari et al. (2024). The Hosmer-Lemeshow test ($p = 0.553$) indicates good model calibration.

5.3 Average Marginal Effects

Table 3: Average Marginal Effects on Probability of Reneging

<i>Variable</i>	<i>Marginal Effect</i>	<i>Std. Error</i>	<i>p – value</i>
<i>Financial Literacy</i>	−0.098	0.042	0.020 **
<i>Loss Aversion</i>	−0.036	0.027	0.181
<i>Literacy × Loss Aversion</i>	0.020	0.012	0.101

Notes: Marginal effects evaluated at sample means. $p < 0.05$. Baseline predicted reneging probability: 0.397 (39.7%).

Source: Author's calculations.

The marginal effect of Financial Literacy is -0.098 ($p = 0.020$), indicating that a one unit increase in the financial literacy score the probability of investment exit by approximately 10% points at the sample mean of 25 % relative reduction from the baseline reneging probability of 39.7 %. This is consistent in magnitude with Chen et al. (2023), find that sophisticated

investors respond contrarily during market downturns and with intervention effects documented by Adil et al. (2022) and Maheshwari et al. (2024) in behavioural bias studies.

5.4 Robustness Checks

The logistic regression model was re estimated using a probit link function. Probit estimates are fully consistent in sign and significance with the logit results: the coefficient on financial literacy remains negative and significant at the 5% level, Loss Aversion remains insignificant and the interaction term is marginally significant. This confirms robustness to the choice of link function, consistent with standard approaches in household finance research (Shroff et al., 2024; Rehmat et al., 2023). A second check, estimating the model excluding the interaction term confirms that the key finding on financial literacy is not an artefact of multicollinearity. The maximum VIF of 3.21 is well below the threshold of 10.

6. Implications

The significant negative association between literacy and premature investment exit provides strong justification for prioritising investor education as a policy instrument. Adil et al. (2022) and Maheshwari et al. (2024) demonstrate that well designed financial education interventions produce measurable improvements in knowledge and downstream investment behaviours; Chen et al. (2023) show theoretically that the social returns to financial literacy investments can be substantial when scaled across a large investor population. In the Indian context, SEBI's regulatory framework mandates investor education expenditure by asset management companies, and AMFI's Mutual Funds Sahi Hai campaign has achieved broad recognition. However, awareness campaigns may need to be supplemented by structured, knowledge building programmes targeting deficiencies in compound interest comprehension, inflation adjusted returns and fee structures (Shroff et al., 2024; Arunachalam & Amudha, 2024).

Asset management companies can integrate behavioural insights drawing on the nudge framework of (Leal & Oliveira, 2024) into their investor Communication strategies. Aman et al. (2024) demonstrate that the way financial information is presented significantly affects investor choices; Vishnani et al. (2024) find that personalized financial advice is associated with more appropriately diversified portfolios. The marginally significant interaction between financial literacy and loss aversion implies that the literacy programmes may need to be complemented by behavioural nudges to preserve investment discipline at the point of emotional decision making particularly during severe market corrections when heightened loss aversion may temporarily overwhelm the moderating role of financial knowledge (Ji et al., 2024; Rieger et al., 2022). From a systematic perspective reducing individual investor reneging behaviour contributes not only to individual financial wellbeing but also to the stability and resilience of capital markets.

7. Limitations

This study is based on relatively modest sample size of 184 respondents which although adequate for logistic regression analysis but me limit the statistical genre disability of the

findings across the broader population of mutual fund investors. The analysis selected behavioural and demographic factors and does not incorporate other potentially relevant influences such as macro-economic conditions and market specific variables or institutional factors that may affect investor exit behaviour. The use of self-reported survey data introduces the possibility of response bias, as investor behaviour and perceptions are subject to individual interpretation and recall limitations at the time of data collection. The cross-sectional design of the study captures investor behaviour at a single point of time which restricts the ability to observe dynamic changes in behaviour across different market cycles or to establish strong casual relationships.

8. Conclusion

This study examined the behavioural determinants of premature investment exit among retail mutual fund investors integrating behavioural finance with reneging construct from queuing theory by conceptualising investor exit during the market corrections as a form of queue abandonment, the study provides a novel analytical lens for understanding investment persistence in financial markets. Using primary data from 184 retail mutual fund investors in India and a binary logistic regression framework, the study yields three principal findings. First, financial literacy is a statistically and economically significant negative predictor of reneging behaviour: a one unit increase in the financial literacy score reduces the probability of premature exit by approximately 10 percentage points, a 25% relative reduction from baseline and reduces the odds of reneging by 76% confirming hypothesis H_1 and the broader financial literacy literature (Chen et al., 2023; Aman et al., 2024; Shroff et al., 2024). Second, Loss aversion does not exhibit a statistically significant direct effect on reneging probability; H_2 is not supported. Third, the marginally significant interaction between financial literacy and loss aversion provides evidence that financial knowledge moderates how investors respond to potential losses partially supporting H_3 (Hussain et al., 2023; Rehmat et al., 2023). The study makes four contributions Firstly it applies the queuing theory reneging construct to financial market behaviour establishing a conceptual bridge between operations research and behavioural finance. Secondly it puts together the findings in the framework of several complementary theories such as prospect theory, myopic loss aversion, regret theory, and nudge theory. Thirdly, the analysis from India addresses a gap in the emerging market literature and lastly it offers policy recommendations for SEBI, AMFI and asset management firms. The paper has several limitations. It is based on self-reported survey data that may have recall bias and social desirability effects. The purposive sample may also be limited to rural investors and other geographical areas. Cross-sectional design prevents causal inference. Future research could use longitudinal designs with real transaction data (Pandey & Sinha, 2024; Ji et al., 2024), experimental designs with financial education at the point of investment (Leal & Oliveira, 2024), and comparative studies in emerging and developed market contexts to determine whether financial literacy stabiliser is universal or context specific (Rieger et al., 2022; Gurung et al., 2024).

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