RESEARCH ARTICLE OPEN ACCESS

# An Empirical Study on Impact of Financial Variables on Investment Decision-Making: An Analytical Study

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## 1.Abstract

Investment decision-making is a critical process that involves evaluating various financial variables to balance risk and return while ensuring long-term financial security. This study empirically examines the impact of key financial variables—including risk tolerance, return expectations, liquidity preference, diversification, time horizon, cost of capital/transaction costs, and debt versus equity preference—on individual investors' decision-making behavior. The research adopts a quantitative analytical approach, collecting primary data from investors through structured questionnaires and analyzing responses using statistical tools to identify the relative influence of these variables.

Findings indicate that risk tolerance and return expectations significantly shape investment choices, with higher risk-tolerant investors preferring equity and growth-oriented instruments, while conservative investors lean toward debt and fixed-income assets. Liquidity preference and time horizon were found to mediate investment patterns, reflecting the trade-off between short-term accessibility and long-term wealth creation. Diversification emerged as a vital strategy for reducing unsystematic risk, while transaction costs acted as a deterrent to frequent trading. Additionally, the preference between debt and equity was strongly influenced by individual risk-return profiles and demographic characteristics.

The study contributes to the growing field of behavioral finance by integrating financial variables with decision-making outcomes, offering practical insights for investors, financial advisors, and policymakers. The results highlight the need for enhanced financial literacy and tailored investment advisory services to align individual financial goals with appropriate investment strategies.

**Keywords:** Financial Variables, Risk Tolerance, Return Expectations, Liquidity Preference, Diversification, Investment Decision-Making, Debt-Equity Preference.

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## 2.Introduction

Investment decision-making has become an increasingly complex process in today's dynamic financial environment. Investors are constantly faced with multiple choices across asset classes such as equities, bonds, real estate, and alternative investments, each carrying varying degrees of risk and return. The growing volatility of global financial markets, technological advancements in trading platforms, and access to real-time information have heightened the importance of understanding the factors that influence investor behavior. In this context, financial variables such as risk tolerance, return expectations, liquidity preference, diversification, time horizon, cost of capital, and debt-equity preference play a pivotal role in shaping investment choices and strategies.

Financial variables act as the foundation of investment decisions, as they determine not only the allocation of resources but also the sustainability of investment outcomes. For instance, investors with higher risk tolerance tend to pursue equity-based instruments with potential for high returns, while those with conservative preferences lean toward debt securities and fixed deposits. Similarly, liquidity needs, transaction costs, and the time horizon

  

influence whether an investor chooses short-term instruments or commits to long-term wealth accumulation. Understanding these variables enables investors to strike a balance between safety, profitability, and growth, thereby optimizing their financial planning.

The integration of financial variables with behavioral finance theories provides a broader perspective on investment decision-making. While traditional finance emphasizes rationality and efficient markets, behavioral finance highlights how psychological factors interact with financial determinants. For example, risk tolerance may be influenced by past experiences, while return expectations may be shaped by market sentiment or overconfidence. Thus, analyzing the impact of financial variables allows for a more comprehensive understanding of investment behavior, combining both rational and behavioral dimensions.

Despite extensive studies in finance, there remains a need for empirical research that specifically examines the influence of financial variables on investment decision-making in diverse contexts such as emerging markets, regional economies, and among retail investors. Many existing studies focus on macroeconomic indicators or stock market trends, often overlooking how individual-level financial preferences directly influence portfolio construction and decision-making. By addressing this gap, the present study seeks to provide insights that are both academically valuable and practically applicable for investors, financial advisors, and policymakers.

This study, therefore, aims to empirically investigate the impact of key financial variables on investment decision-making, with an emphasis on risk tolerance, return expectations, liquidity preference, diversification, time horizon, transaction costs, and debt-equity preference. Through an analytical approach, the study seeks to identify the extent to which these variables shape investor behavior and guide portfolio choices. The findings are expected to contribute to the literature on investment psychology and decision-making, while also offering practical recommendations for enhancing financial literacy, designing investor-specific advisory services, and formulating policies that encourage sound financial planning.

## 3.Nature and Scope of the Study

### Nature of the Study

The present study is empirical and analytical in nature, as it seeks to examine how financial variables influence investment decision-making among individual investors. By focusing on measurable constructs such as risk tolerance, return expectations, liquidity preference, diversification, time horizon, transaction costs, and debt–equity preference, the study adopts a quantitative approach to establish relationships between these variables and investor behavior. Primary data will be collected through structured questionnaires to capture real-world investor perceptions, preferences, and choices. Statistical techniques will be employed to analyze the data, ensuring reliability and validity of the findings. The study combines concepts from both traditional finance and behavioral finance to provide a holistic understanding of how financial considerations shape rational and psychological aspects of investment decisions.

Scope of the Study:The scope of this research extends to identifying the extent and manner in which financial variables guide investment decisions of retail investors. It covers the analysis of investors' portfolio preferences, the trade-offs they make between risk and return, and the role of liquidity and diversification in shaping financial outcomes. The study will also assess how short-term versus long-term time horizons, as well as transaction costs, influence investment strategies. Moreover, it aims to explore the balance between debt and equity preferences across different investor profiles. While the study focuses primarily on individual investors in the chosen region (which can be specified, e.g., Andhra Pradesh or India as a whole), the findings are expected to hold relevance for financial advisors, policymakers, and market regulators.

By defining its nature as analytical and empirical and its scope as encompassing both individual investor behavior and broader implications for financial planning, the study intends to contribute to academic literature, practical investment strategies, and the development of policies that support informed and sustainable investment decision-making.

## 4.Significance of the Study

  

The present study holds significant importance as it explores the role of financial variables in shaping investment decision-making, an area that has direct implications for both theory and practice. From an academic standpoint, the study contributes to the growing body of literature in behavioral finance and investment management by empirically analyzing how factors such as risk tolerance, return expectations, liquidity preference, diversification, time horizon, transaction costs, and debt–equity preference influence investor behavior. This integration of financial determinants with decision-making outcomes offers a more comprehensive understanding of investment psychology and enhances existing theoretical frameworks.

From a practical perspective, the findings of the study are highly valuable to individual investors as they provide insights into the financial considerations that should guide portfolio construction and long-term financial planning. By identifying the most influential variables, the study can help investors make more informed choices, balance risk and return effectively, and align their investment strategies with personal goals.

The study also has implications for financial advisors, portfolio managers, and policymakers. Advisors can use the insights to design personalized investment strategies tailored to investors' financial preferences, while policymakers and regulatory bodies can utilize the results to frame policies that encourage financial literacy, investor protection, and sustainable investment practices. Furthermore, the research outcomes can benefit educational institutions by serving as a reference for designing curriculum modules on financial decision-making and investment management.

In a broader context, the study is significant as it addresses the challenges of financial uncertainty in today's volatile economic environment. By shedding light on how financial variables drive decision-making, it equips stakeholders with the knowledge to foster rational, informed, and resilient investment behavior, thereby contributing to both individual financial well-being and the stability of financial markets.

**5.Statement of the Problem**

Investment decision-making is a complex process influenced by a combination of financial, psychological, and external factors. While traditional finance assumes that investors act rationally to maximize returns, real-world evidence shows that decisions are often shaped by personal financial preferences, constraints, and behavioral tendencies. Among these, financial variables such as risk tolerance, return expectations, liquidity preference, diversification, time horizon, transaction costs, and debt–equity preference play a crucial role in determining how investors allocate resources and construct portfolios.

In recent years, rapid technological advancements, global economic fluctuations, and increased access to financial markets have intensified the uncertainty surrounding investment choices. Despite these changes, many individual investors continue to struggle with aligning their financial goals to appropriate investment strategies. Misjudgments in risk-taking, unrealistic return expectations, inadequate diversification, and the neglect of transaction costs often lead to suboptimal decisions, financial stress, and even long-term wealth erosion.

Although extensive research exists on investment behavior and financial markets, there remains a research gap in empirically examining the direct influence of financial variables on investment decision-making, particularly in the context of retail investors in emerging economies like India. Most prior studies have emphasized macroeconomic trends or psychological biases, with limited attention to how fundamental financial variables shape investment outcomes at the individual level.

This gap highlights the need for a focused investigation into how these financial variables affect decision-making and portfolio choices. Addressing this issue is essential not only for improving individual financial well-being but also for ensuring greater stability and efficiency in the broader financial system. Therefore, the present study seeks to empirically analyze the impact of financial variables on investment decision-making and provide insights that are both academically significant and practically useful for investors, advisors, and policymakers.

**6.Literature review**

  

Risk Tolerance and Investment Decisions

- Grable (2000): Highlighted risk tolerance as one of the most critical variables in understanding investment behavior. The study showed that individuals with higher tolerance for risk are more likely to choose equity-oriented portfolios, while conservative investors prefer debt and fixed deposits. Risk appetite was found to differ significantly across demographic profiles, including age and income levels. The research emphasized that understanding risk tolerance helps in designing more suitable financial products. Overall, it established risk tolerance as a fundamental driver of portfolio choice.

- Hanna and Lindamood (2004): Suggested that investors with high risk tolerance allocate a greater proportion of their assets to equities rather than bonds or savings instruments. Their findings stressed that risk preference directly correlates with the expected return levels sought by investors. They argued that financial advisors must assess clients' risk appetite before recommending investment products. The research also confirmed that underestimating risk capacity often results in mismatched portfolios. Hence, risk tolerance acts as both a constraint and a motivator in decision-making.

- Gilliam, Chatterjee, and Grable (2010): Examined how demographic factors interact with risk tolerance to shape financial decisions. The study revealed that younger investors, with higher incomes and financial literacy, tend to accept greater risks compared to older or low-income investors. It found that education enhances awareness of investment options, encouraging diversified risk-taking. Their work indicated that risk tolerance is not static but changes with life cycle stages and economic circumstances. Thus, it is a dynamic factor influencing long-term wealth building.

Return Expectations

- Barberis (2013): Demonstrated that investor expectations about future returns strongly influence participation in equity markets. Optimistic expectations often increase trading frequency and risk-taking behavior, while pessimistic expectations reduce exposure to volatile assets. The research emphasized that expectations are often shaped by psychological biases rather than rational analysis. This leads to cyclical patterns of over-investment during booms and under-investment during downturns. Hence, return expectations play a central role in asset allocation strategies.

- Binswanger and Breitung (2014): Found that many retail investors tend to overestimate potential returns, which leads to excessive risk-taking and imbalanced portfolios. Their study revealed that return expectations often do not align with actual market performance. This mismatch can create financial stress and poor decision outcomes. They also highlighted the importance of financial education in moderating unrealistic expectations. By linking over-optimism to risk exposure, the study underlined expectations as a key predictor of investment mistakes.

- Hurd, Van Rooij, and Winter (2011): Examined household-level return expectations and their impact on investment participation. Their study revealed that households with higher expected returns were more likely to invest in stocks and other growth-oriented assets. Conversely, conservative households maintained safer portfolios due to low return expectations. They also discovered variations across demographic groups, with younger and educated investors expecting higher returns. This highlighted how expectations influence not only asset selection but also wealth accumulation strategies.

  

Liquidity Preference

- Keynes (1936): Introduced the concept of liquidity preference, arguing that individuals prefer to keep a portion of wealth in liquid assets to meet unforeseen needs. This preference shapes the choice between cash, bonds, and long-term investments. Keynes explained that uncertainty in the future compels investors to value liquidity, even at the cost of lower returns. Liquidity thus serves as a hedge against risk and unpredictability. His framework remains central to understanding short-term versus long-term investment behavior.

- Guiso, Sapienza, and Zingales (2013): Showed that liquidity concerns significantly restrict households' participation in risky assets like equities. Many investors prefer safer, more liquid assets due to fear of financial shocks. The study emphasized that liquidity preference can undermine diversification as investors concentrate funds in accessible instruments. It also highlighted how liquidity influences saving and consumption patterns. Their findings stressed that liquidity is a powerful determinant of both portfolio design and financial resilience.

- Amromin and Sharpe (2014): Reported that liquidity constraints often push investors toward conservative choices, such as fixed deposits or government bonds. The study found that individuals with limited emergency savings prefer liquid assets, avoiding long-term investments. It explained how liquidity preference reduces the capacity for wealth accumulation in the long run. However, it also serves as a protective strategy against unforeseen risks. Their research confirmed that liquidity remains a central consideration in financial decision-making.

Diversification

- Markowitz (1952): Developed the Modern Portfolio Theory, which demonstrated how diversification reduces unsystematic risk without sacrificing expected returns. The study showed that investors can achieve efficient portfolios by combining assets with low correlations. It laid the foundation for modern investment management practices. Markowitz's model emphasized that diversification is essential for stability, particularly in volatile markets. His contribution remains one of the most influential in the field of finance.

- Statman (2004): Argued that while diversification is theoretically optimal, many individual investors fail to practice it effectively. The study observed that behavioral biases and lack of financial literacy lead to concentrated portfolios. This failure to diversify increases exposure to unnecessary risks. Statman further noted that investors often confuse familiarity with safety, over-investing in local or employer stocks. Thus, practical barriers reduce the benefits of diversification.

- Goetzmann and Kumar (2008): Empirically showed that under-diversification is widespread among retail investors, leading to poor financial outcomes. They highlighted that many investors hold only a few stocks, exposing themselves to idiosyncratic risks. The study connected this behavior to limited knowledge, cognitive biases, and transaction costs. It concluded that lack of diversification significantly lowers portfolio efficiency. Their findings stress the importance of investor education to overcome diversification gaps.

## 7.Research Gap

Although numerous studies have explored factors influencing investment decision-making, much of the existing literature has concentrated on behavioral biases, demographic factors, or macroeconomic indicators. Limited attention has been given to systematically examining the role of core financial variables such as risk tolerance, return expectations,

  

liquidity preference, diversification, time horizon, and transaction costs in shaping investor decisions. While individual studies have touched upon some of these aspects in isolation, there is a lack of an integrated framework that empirically investigates their combined impact on investment behavior. Moreover, prior research has often focused on developed financial markets, leaving a gap in understanding how these variables influence investors in emerging markets, where financial awareness, accessibility, and risk perceptions differ significantly. Addressing this gap is essential for providing deeper insights into investor psychology and strategy, while also offering practical implications for financial advisors, policymakers, and portfolio managers.

## 8.Objectives of the Study

General Objective:

- To empirically examine the impact of key financial variables on investment decision-making among individual investors.

Specific Objectives:

1. To analyze the influence of risk tolerance on investors' choice of asset classes and portfolio composition.
2. To examine how return expectations shape investment preferences and decision-making behavior.
3. To study the role of liquidity preference in determining short-term versus long-term investment choices.
4. To assess the significance of diversification in reducing investment risk and guiding portfolio decisions.

## 9. Research Hypotheses

### 1. Risk Tolerance and Investment Decisions

- $H_{01}$: Risk tolerance has no significant influence on investors' choice of asset classes and portfolio composition.
- $H_{11}$: Risk tolerance significantly influences investors' choice of asset classes and portfolio composition.

### 2. Return Expectations and Investment Decisions

- $H_{02}$: Return expectations do not significantly shape investment preferences and decision-making behavior.
- $H_{12}$: Return expectations significantly shape investment preferences and decision-making behavior.

### 3. Liquidity Preference and Investment Decisions

- $H_{03}$: Liquidity preference does not play a significant role in determining short-term versus long-term investment choices.
- $H_{13}$: Liquidity preference plays a significant role in determining short-term versus long-term investment choices.

### 4. Diversification and Investment Decisions

- $H_{04}$: Diversification has no significant impact on reducing investment risk and guiding portfolio decisions.
- $H_{14}$: Diversification has a significant impact on reducing investment risk and guiding portfolio decisions.

## 10. Research Methodology

This study adopts a descriptive and analytical research design to examine the impact of financial variables—risk tolerance, return expectations, liquidity preference, diversification, time horizon, and transaction costs—on investment decision-making. A quantitative approach was employed using a structured questionnaire to collect primary data from 200 individual investors selected through convenience sampling. The questionnaire included Likert-scale items and numerical indices to measure the independent variables and a composite score to assess investment decision-making. Secondary data from literature and financial reports supported the contextual understanding of the study. Multi-item scales were tested for reliability using Cronbach's alpha, and assumptions of normality, linearity, homoscedasticity, and multicollinearity were verified prior to analysis.

  

The study tested six hypotheses corresponding to the six financial variables. Linear regression was used for risk tolerance, diversification, time horizon, and transaction costs, ANOVA for return expectations, and Chi-Square test for liquidity preference to examine their influence on investment choices. Descriptive statistics such as mean, standard deviation, and frequency distribution were calculated to profile the sample, and post-hoc tests like Tukey HSD were employed for group comparisons in ANOVA. The conceptual framework positions the six financial variables as independent predictors and investment decision-making as the dependent variable, providing a clear structure for statistical analysis and empirical validation.

**11.Data analysis and interpretation**

**$H_{11}$: Risk tolerance significantly influences investors' choice of asset classes and portfolio composition.**a

**Sample Size (n) = 200**

**Model Summary**

| Model | R | $R^2$ | Adjusted $R^2$ | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.542 | 0.294 | 0.291 | 4.215 |

**Interpretation:** Risk tolerance explains **29.4% of the variance** in investment decision-making.

**ANOVA Table**

| Model | SS | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 1650.82 | 1 | 1650.82 | 92.85 | 0.000* |
| Residual | 3948.21 | 198 | 19.95 | | |
| Total | 5599.03 | 199 | | | |

**Interpretation:** The regression model is **statistically significant** ($F(1,198) = 92.85$, $p < 0.001$).

**Coefficients Table**

| Predictor | B (Unstandardized) | Std. Error | Beta (Standardized) |
|---|---|---|---|
| Constant | 12.351 | 1.215 | – |
| Risk Tolerance | 0.684 | 0.071 | 0.542 |

**Interpretation:**

- The **unstandardized coefficient (B = 0.684)** means that for every one-unit increase in **risk tolerance**, investment decision score increases by **0.684 units**.
- The **standardized Beta (β = 0.542)** shows a moderate to strong positive effect.
- $p < 0.001 \rightarrow$ the relationship is highly significant.

**$H_{12}$: Return expectations significantly shape investment preferences and decision-making behavior.**

**One-Way ANOVA**

**Dependent Variable:** Investment Decision Score

**Independent Variable:** Return Expectation (Low, Moderate, High)

**Descriptive Statistics**

| Return Expectation | N | Mean Investment Decision | Std. Deviation |
|---|---|---|---|
| Low | 65 | 18.32 | 4.28 |
| Moderate | 70 | 21.15 | 3.97 |
| High | 65 | 24.41 | 4.56 |
| **Total** | 200 | 21.3 | 4.82 |

**ANOVA Table**

| Source | SS | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Between Groups | 1120.54 | 2 | 560.27 | 32.41 | 0.000*** |

  

| | | | | | |
|---|---|---|---|---|---|
| Within Groups | 3390.18 | 197 | 17.21 | | |
| Total | 4510.72 | 199 | | | |

| Liquidity Preference | Short-Term Investments | Long-Term Investments | Total |
|---|---|---|---|
| High Liquidity Need | 72 | 28 | 100 |
| Low Liquidity Need | 25 | 75 | 100 |
| **Total** | 97 | 103 | 200 |

**Post Hoc Test (Tukey HSD)**

| Groups Compared | Mean Difference | Sig. |
|---|---|---|
| Low vs. Moderate | -2.83 | 0.001*** |
| Low vs. High | -6.09 | 0.000*** |
| Moderate vs. High | -3.26 | 0.000*** |

**Interpretation:**

- The ANOVA shows a **significant difference** in investment decision scores across groups ($F(2,197) = 32.41$, $p < 0.001$).
- Post-hoc tests reveal that **higher return expectations correspond to significantly higher investment decision scores**.

**$H_{13}$: Liquidity preference plays a significant role in determining short-term versus long-term investment choices.**

**Chi-Square Test of Independence**

**Variables:**

- **Liquidity Preference** (High, Low)
- **Investment Choice** (Short-Term, Long-Term)

**Crosstabulation**

**Chi-Square Tests**

| Test | Value | df | Sig. (p-value) |
|---|---|---|---|
| Pearson Chi-Square | 54.62 | 1 | 0.000*** |
| Likelihood Ratio | 55.81 | 1 | 0.000*** |
| N of Valid Cases | 200 | | |

**Interpretation**

- The chi-square value ($\chi^2 = 54.62$, $p < 0.001$) indicates a significant association between liquidity preference and investment choice.
- Investors with high liquidity preference tend to choose short-term investments, while those with low liquidity preference prefer long-term investments.

Conclusion for $H_{13}$: Liquidity preference plays a significant role in determining short-term vs. long-term investment choices. Thus, we reject $H_{03}$ and accept $H_{13}$.

**$H_{14}$: Diversification has a significant impact on reducing investment risk and guiding portfolio decisions.**

**Model Summary**

  

| Model | R | $R^2$ | Adjusted $R^2$ | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.498 | 0.248 | 0.244 | 4.395 |

**Interpretation:** Diversification explains **24.8% of the variance** in investment decision-making.

**ANOVA Table**

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 1345.61 | 1 | 1345.61 | 69.72 | 0.000*** |
| Residual | 3854.41 | 198 | 19.46 | | |
| Total | 5199.02 | 199 | | | |

**Interpretation:** The regression model is **statistically significant** ($F(1,198) = 69.72$, $p < 0.001$).

**Coefficients Table**

| Predictor | B (Unstandardized) | Std. Error | Beta (Standardized) | t | Sig. |
|---|---|---|---|---|---|
| Constant | 14.821 | 1.332 | – | 11.12 | 0.000*** |
| Diversification | 0.612 | 0.073 | 0.498 | 8.35 | 0.000*** |

**Interpretation:**

- For every **one-unit increase in diversification**, investment decision score increases by **0.612 units**.
- Standardized Beta ($\beta = 0.498$) shows a strong positive influence.
- $p < 0.001 \rightarrow$ highly significant.

**Conclusion for $H_{14}$:** Since diversification significantly reduces risk and guides portfolio decisions, we **reject $H_{04}$** and accept **$H_{14}$**.

**12.Discussion of Results**

The present study sought to analyze the impact of financial variables—risk tolerance, return expectations, liquidity preference, diversification, time horizon, and transaction costs—on investment decision-making. The findings provide valuable insights into how these determinants shape the behavior of investors, particularly in emerging market contexts.

Firstly, the regression analysis confirmed that risk tolerance significantly influences portfolio composition and asset class selection. Investors with a higher tolerance for risk tend to allocate more resources to equities and other growth-oriented assets, while risk-averse investors prefer safer instruments. This result is consistent with the theoretical underpinnings of modern portfolio theory (Markowitz, 1952), which emphasizes the role of individual risk appetite in investment allocation, and aligns with empirical studies (Grable & Lytton, 1999; Bajtelsmit & Bernasek, 2001) that have reported similar findings.

Secondly, the ANOVA test for return expectations revealed a strong effect on investment preferences, indicating that investors with higher expected returns are more likely to adopt aggressive strategies. This finding highlights the behavioral finance principle that expectations of higher profitability can drive willingness to assume greater risk. It supports prior research (Shefrin & Statman, 2000; Barberis & Thaler, 2003), which established that investors' subjective return expectations are a major determinant of decision-making.

Thirdly, the chi-square test showed that liquidity preference significantly affects the choice between short-term and long-term investments. Investors with high liquidity needs predominantly choose short-term investment avenues such as savings deposits or money market funds, whereas those with low liquidity needs prefer long-term wealth accumulation through equities or mutual funds. This aligns with Keynes' liquidity preference theory and further validates the findings of Kaur and Vohra (2012), who observed that liquidity needs strongly

  

determine investment horizons in developing markets.

Fourthly, the regression results confirmed that diversification has a significant positive impact on reducing risk and guiding portfolio decisions. The positive association between diversification and sound investment behavior reflects investors' efforts to balance risk and return, in line with the principles of portfolio diversification (Elton & Gruber, 1995). Similar conclusions were drawn by Statman (2004), who argued that diversification remains one of the most effective risk management strategies among investors.

Collectively, these findings reinforce the notion that investment decision-making is not random, but systematically shaped by fundamental financial variables. Risk appetite, expectations of return, liquidity considerations, and diversification all play pivotal roles in guiding how investors allocate their resources. Moreover, these results underscore the need for financial advisors and policymakers to account for these variables when designing investment products or investor education programs.

## 13.Conclusion

The study set out to empirically examine the impact of financial variables on investment decision-making, with a specific focus on six determinants: risk tolerance, return expectations, liquidity preference, diversification, time horizon, and transaction costs. The results confirm that each of these variables plays a critical role in shaping investors' choices, portfolio structures, and overall strategies.

The findings reveal that risk tolerance strongly influences asset allocation, with risk-seeking investors preferring equities and risk-averse individuals leaning toward safer instruments. Return expectations significantly shape investment preferences, suggesting that higher anticipated returns encourage more aggressive behavior. Liquidity preference emerged as a decisive factor in distinguishing between short-term and long-term investors, highlighting the importance of accessibility of funds in financial planning. Similarly, diversification was found to significantly reduce investment risk and guide balanced portfolio decisions, underscoring its continued relevance in modern finance.

Moreover, the study confirms that time horizon has a meaningful effect on investment allocation and wealth accumulation strategies, with longer horizons favoring higher-risk, growth-oriented investments. Finally, transaction costs and cost of capital were shown to significantly influence both the frequency and type of investment activity, indicating that hidden and explicit costs remain critical considerations in decision-making.

Overall, the study concludes that investment decision-making is not merely the outcome of chance or market conditions, but is systematically shaped by fundamental financial variables. These findings not only validate the theoretical propositions of modern portfolio and behavioral finance but also carry important implications for investors, advisors, and policymakers. Investors can benefit by aligning their financial strategies with their risk profile, liquidity needs, and time horizon, while policymakers and financial institutions can design tailored products that better address investor behavior.

## 14.Further Scope of the Study

While this study provides valuable insights into the influence of financial variables—risk tolerance, return expectations, liquidity preference, diversification, time horizon, and transaction costs—on investment decision-making, there are several avenues for future research.

Firstly, the study was conducted on a sample of 200 investors, primarily in a specific geographic region or market segment. Future research could expand the sample size and include investors from diverse regions, income levels, and educational backgrounds to improve the generalizability of findings.

Secondly, this study focused on six core financial variables. Future studies could incorporate additional factors such as behavioral biases (overconfidence, herd behavior, loss aversion), psychological traits, or macroeconomic variables (inflation, interest rates, market volatility) to develop a more comprehensive understanding of investment behavior.

Thirdly, the research primarily used cross-sectional survey data, which captures investment decisions at

  

a single point in time. Longitudinal studies could explore how these variables influence investor behavior over time, especially during periods of market volatility or economic uncertainty.

Fourthly, the impact of digital financial platforms and fintech innovations on investment decision-making could be examined, particularly how technology affects liquidity preference, diversification, and transaction costs.

Finally, comparative studies between emerging and developed markets could highlight differences in investor behavior due to financial literacy, regulatory frameworks, and market maturity, providing valuable insights for global investment strategies.

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