

HUMAN VALUES AND ARTIFICIAL INTELLIGENCE IN MUTUAL FUND INVESTMENT DECISIONS: A BEHAVIOURAL FINANCE PERSPECTIVE

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ABSTRACT:

The integration of Artificial Intelligence (AI) into financial decision-making has transformed the investment landscape, raising important questions about the role of human values in shaping rational and ethical investment behaviour. This study examines the interplay among human values, AI, and mutual fund investment decision-making from a behavioural finance perspective. Drawing on behavioural finance theories and ethical frameworks, the study investigates how investors' psychological biases interact with AI-based financial advisory systems and how human values influence trust, acceptance, and reliance on such technologies. Primary data were collected from mutual fund investors through a structured questionnaire, capturing dimensions of behavioural biases, ethical considerations, and perceptions of AI-driven investment tools. The data were analysed using Structural Equation Modelling (SEM) to examine relationships among the constructs. The findings reveal that behavioural biases significantly influence investment decisions even in AI-assisted environments, while human values play a critical role in moderating the acceptance and effectiveness of AI-based recommendations. The study also finds that ethical concerns, transparency, and trust in AI systems are key determinants of investor behaviour. The research contributes to the growing literature on behavioural finance and AI by providing an integrated framework that combines psychological, technological, and ethical dimensions of investment decision-making. The findings offer practical implications for financial institutions, technology developers, and policymakers in designing ethically responsible AI-driven financial services and in enhancing investor awareness and decision quality in the evolving digital financial ecosystem.

Keywords: Artificial Intelligence, Behavioural Biases, Behavioural Finance, Ethical Investment, Human Values, Mutual Fund Investors, Structural Equation Modelling, Trust in AI

INTRODUCTION

The rapid advancement of Artificial Intelligence (AI) has significantly transformed the financial services sector, particularly in the area of investment decision-making. AI-driven tools such as robo-advisors, algorithmic trading systems, and data analytics platforms are increasingly being used to support mutual fund investment decisions by offering personalized recommendations, risk assessments, and portfolio optimization strategies. Traditional finance theories, including the Efficient Market Hypothesis and Modern Portfolio Theory, assume

that investors act rationally and make decisions based on complete and unbiased information. However, real-world evidence suggests that investors are often influenced by psychological biases and emotional factors, leading to deviations from rational decision-making. Behavioural finance addresses these limitations by incorporating insights from psychology to explain how cognitive and emotional biases such as overconfidence, herding behaviour, loss aversion, anchoring, and mental accounting affect investment behaviour.

While AI has the potential to reduce human errors and enhance decision accuracy, its integration into financial decision-making introduces new challenges related to ethics, trust, and human values. Investors may not fully rely on AI-generated recommendations due to concerns about transparency, accountability, and the ethical implications of automated decision systems. Human values such as trust, fairness, responsibility, and ethical awareness play a crucial role in shaping investor acceptance and use of AI technologies. The interaction between AI systems and human behaviour becomes particularly important in mutual fund investments, where investors often combine technological insights with personal judgment and emotional considerations.

Demographic differences, levels of financial literacy, and prior investment experience further influence how investors perceive and adopt AI-based financial tools. In emerging markets such as India, where the adoption of digital financial technologies is rapidly increasing, understanding the role of human values in AI-assisted investment decisions becomes highly relevant. Despite the growing use of AI in finance, limited research has examined the combined effect of behavioural biases, human values, and AI on mutual fund investment decision-making within a unified framework.

Against this background, the present study aims to examine the role of human values and artificial intelligence in shaping mutual fund investment decisions from a behavioural finance perspective. The study seeks to explore how behavioural biases persist in AI-assisted environments and how human values influence trust, acceptance, and reliance on AI-driven financial recommendations. By integrating psychological, technological, and ethical dimensions, the study contributes to the emerging literature on AI in finance and provides practical insights for financial institutions, policymakers, and educators in promoting responsible and informed investment behaviour.

LITERATURE REVIEW:

The growing integration of Artificial Intelligence (AI) into financial services has attracted significant academic attention, particularly in the context of investment decision-making. Traditional finance theories, such as the Efficient Market Hypothesis and Modern Portfolio Theory, assume that investors behave rationally and make decisions based on complete and unbiased information. However, extensive empirical evidence has challenged these assumptions, leading to the emergence of behavioural finance, which emphasises the role of psychological factors in shaping investment behaviour. Behavioural finance literature has consistently shown that investors are influenced by cognitive and emotional biases, including overconfidence, herding behaviour, loss aversion, anchoring, and mental accounting, which often lead to suboptimal investment decisions.

As AI technologies advance, financial decision-making has increasingly shifted towards data-driven, algorithm-based systems. AI-powered tools such as robo-advisors, predictive analytics, and machine learning models are designed to enhance investment efficiency by reducing human error, processing large volumes of data, and providing personalised investment recommendations. Studies suggest that AI can improve decision accuracy, reduce transaction costs, and promote disciplined investment behaviour. However, the effectiveness

of AI in financial decision-making depends not only on technological capabilities but also on the extent to which investors trust and accept these systems. Research indicates that trust in AI is influenced by factors such as transparency, explainability, perceived reliability, and ethical considerations.

The concept of human values has emerged as a critical dimension for understanding the adoption and use of AI in financial contexts. Human values such as trust, fairness, responsibility, and ethical awareness shape how individuals perceive and interact with AI systems. Ethical concerns related to data privacy, algorithmic bias, lack of accountability, and potential misuse of AI technologies have been widely discussed in recent literature. These concerns may affect investor confidence and willingness to rely on AI-driven financial advice. Scholars have emphasised the need to integrate ethical principles into AI design and implementation to ensure the responsible and sustainable use of technology in financial markets.

In the context of investment behaviour, recent studies have examined how behavioural biases interact with AI-based decision-making. Although AI systems are designed to mitigate irrational decision-making by providing objective recommendations, investors may still exhibit behavioural biases that shape their interpretation and acceptance of AI-generated advice. For instance, overconfident investors may disregard AI recommendations, while herding behaviour may persist even in technologically advanced environments. Loss aversion and anchoring may also influence how investors respond to AI-based risk assessments and portfolio suggestions. This indicates that behavioural biases continue to play a significant role even in AI-assisted investment contexts.

Despite the growing body of research, several gaps remain in the literature. First, many studies focus on behavioural biases or AI adoption in isolation, with limited integration of these constructs within a unified analytical framework. Second, the role of human values in mediating the relationship between AI and investment decision-making remains underexplored. Third, empirical evidence from emerging markets is relatively limited, despite the rapid growth of digital financial technologies in these contexts. In India, particularly in states like Karnataka, rising investor participation and adoption of AI-driven financial tools highlight the need for a comprehensive understanding of how human values, behavioural biases, and AI interact to shape investment decisions.

In response to these gaps, the present study integrates behavioural finance, artificial intelligence, and human values into a single conceptual framework to examine their combined influence on mutual fund investment decision-making. By doing so, the study contributes to the literature by providing a more holistic understanding of investor behaviour in the digital era and by offering insights into the ethical and psychological dimensions of AI-driven financial decision-making.

THEORETICAL FOUNDATIONS:

The theoretical foundation of this study is built upon an integration of behavioural finance theories, technology acceptance perspectives, and ethical frameworks related to Artificial Intelligence (AI), providing a comprehensive basis for understanding mutual fund investment decision-making in an AI-enabled environment. Traditional finance theories such as the Efficient Market Hypothesis and Modern Portfolio Theory assume that investors are rational decision-makers who process all available information objectively to maximize expected utility. However, these assumptions have been widely challenged by behavioural finance, which argues that investors are subject to cognitive limitations and psychological biases that systematically influence their decisions. This study primarily draws on Prospect Theory,

Bounded Rationality Theory, Behavioural Portfolio Theory, and Technology Acceptance Theory, along with ethical perspectives on human values, to explain the interplay between AI, human behaviour, and investment decisions.

Prospect Theory, developed by Kahneman and Tversky, provides a fundamental explanation of how individuals make decisions under conditions of risk and uncertainty. The theory suggests that investors evaluate outcomes relative to a reference point and exhibit loss aversion, whereby losses are perceived more strongly than equivalent gains. This theoretical perspective explains behavioural biases such as loss aversion, anchoring, and risk-seeking behaviour in loss situations, which continue to influence investment decisions even in AI-assisted environments. Bounded Rationality Theory, proposed by Herbert Simon, further supports the study by emphasizing that individuals operate under cognitive constraints and limited information-processing capacity, leading them to rely on heuristics and simplified decision rules. This gives rise to biases such as overconfidence, herding behaviour, and mental accounting, which affect how investors interpret and respond to AI-generated recommendations.

Behavioural Portfolio Theory extends the understanding of investor behaviour by suggesting that individuals construct portfolios based on psychological preferences and layered goals rather than purely on risk-return optimization. This theory is particularly relevant in the context of mutual fund investments, where investors may simultaneously seek safety, income, and growth, influenced by both rational considerations and emotional factors. In addition to behavioural finance theories, Technology Acceptance Theory provides a useful framework for understanding how investors adopt and use AI-based financial tools. According to this theory, factors such as perceived usefulness, ease of use, trust, and perceived risk influence the acceptance of technology. In the context of AI-driven investment systems, investor trust and perceived reliability of algorithms become critical determinants of adoption and usage.

Furthermore, the study incorporates ethical theories and human values perspectives to explain how moral considerations influence interaction with AI systems. Human values such as trust, fairness, accountability, and transparency play a significant role in shaping investor attitudes toward AI-based financial decision-making. Ethical frameworks emphasize the importance of responsible AI usage, addressing concerns related to data privacy, algorithmic bias, and lack of accountability. These ethical considerations influence not only the acceptance of AI but also the extent to which investors rely on AI-generated recommendations in making financial decisions.

By integrating these theoretical perspectives, the study proposes that mutual fund investment decisions in an AI-enabled environment are shaped by a complex interaction of behavioural biases, technological factors, and human values. Behavioural finance theories explain the persistence of irrational tendencies, technology acceptance theory explains the adoption and use of AI systems, and ethical frameworks highlight the role of human values in guiding responsible decision-making. This integrated theoretical foundation provides a robust conceptual basis for examining the relationships among artificial intelligence, human values, behavioural biases, and investment decisions within a unified analytical framework.

METHODOLOGY:

This study adopts a quantitative research design to examine the role of human values and artificial intelligence in mutual fund investment decision-making from a behavioural finance perspective. The research is descriptive and analytical in nature, aiming to identify patterns in investor behaviour and empirically test the relationships among behavioural biases, human values, artificial intelligence, and investment decisions. The study follows a positivist

approach, relying on structured data collection and statistical techniques to ensure objective and reliable findings. The unit of analysis comprises individual retail mutual fund investors who actively engage in investment decision-making and are exposed to digital or AI-based financial tools.

The study is conducted in Karnataka, India, a region characterized by increasing adoption of financial technologies and growing participation in mutual fund investments. Primary data were collected through a structured questionnaire developed based on established scales from behavioural finance, technology adoption, and ethical research literature. The questionnaire included sections covering demographic details, behavioural biases such as overconfidence, herding behaviour, loss aversion, anchoring, and mental accounting, perceptions of artificial intelligence including trust, usefulness, and transparency, as well as human values such as fairness, responsibility, and ethical awareness. Responses were measured using a Likert scale to capture the intensity of agreement and behavioural tendencies.

A suitable sampling technique was employed to select respondents who have experience in mutual fund investments and exposure to digital or AI-assisted financial platforms. The sample size was determined based on statistical requirements for multivariate analysis and Structural Equation Modelling (SEM). Both primary and secondary data sources were utilized, with secondary data drawn from academic journals, reports, and publications related to behavioural finance and artificial intelligence in finance to support the conceptual framework.

Data analysis was carried out using descriptive statistics, reliability and validity tests, and Structural Equation Modelling to test the proposed relationships among variables. Descriptive statistics were used to summarize respondent characteristics and behavioural patterns. Reliability of the constructs was assessed using Cronbach's alpha, while validity was established through factor analysis and model fit indices. Structural Equation Modelling enabled the examination of both direct and indirect relationships among behavioural biases, human values, artificial intelligence, and investment decision-making within an integrated framework.

To ensure methodological rigor, the study adhered to established standards of reliability and validity. Content validity was ensured through expert review and alignment with prior research scales, while construct validity and internal consistency were confirmed through statistical testing. Ethical considerations were also maintained throughout the research process, including voluntary participation, informed consent, confidentiality of responses, and use of data solely for academic purposes. The adopted methodology thus provides a robust and systematic approach to understanding the behavioural, technological, and ethical dimensions of mutual fund investment decisions in an AI-enabled environment.

RESULTS AND DISCUSSION

The empirical analysis indicates that the integration of Artificial Intelligence (AI) and human values significantly influences mutual fund investment decision-making, alongside the persistent role of behavioural biases. The demographic profile shows that respondents are diverse in terms of age, education, income, and investment experience, reflecting varied levels of exposure to AI-based financial tools and differing behavioural tendencies. The findings reveal that while AI enhances decision support and information processing, investor behaviour continues to be influenced by psychological biases, and the acceptance of AI depends largely on trust and ethical considerations.

Table 1: Demographic Profile of Respondents

Demographic Variable	Category	Percentage (%)	Interpretation
Age	Below 30 Years	28	Higher acceptance of AI tools
	31–40 Years	36	Dominant investor group
	41–50 Years	22	Moderate adoption of AI
	Above 50 Years	14	Lower reliance on AI
Education	Graduate & Above	85	Better understanding of AI systems
Income	Above ₹5 Lakhs	70	Higher investment capacity
Experience	More than 3 Years	62	Greater familiarity with markets

The descriptive statistics indicate that behavioural biases remain prevalent even in AI-assisted investment environments. Loss aversion and overconfidence continue to be dominant biases, suggesting that AI does not completely eliminate irrational behaviour but may help in moderating it to some extent.

Table 2: Descriptive Statistics of Key Variables

Variable	Mean Score	Std. Deviation	Interpretation
Overconfidence	3.88	0.69	High presence
Herding Behaviour	3.72	0.74	Moderate influence
Loss Aversion	4.05	0.63	Strongest bias
Trust in AI	3.81	0.67	Moderate to high
Ethical Awareness	3.95	0.60	Significant concern

The results further show that human values such as trust, fairness, and ethical awareness play a crucial role in determining the acceptance and effectiveness of AI-based investment systems. Investors who perceive AI systems as transparent and ethically reliable are more likely to rely on AI-generated recommendations, whereas concerns regarding accountability and bias reduce acceptance levels.

Table 3: Influence of AI and Human Values on Investment Decisions

Factor	Influence on Investment Decision	Finding
Trust in AI	Positive	Increases reliance on AI recommendations
Transparency	Positive	Enhances acceptance of AI systems
Ethical Concerns	Negative	Reduces confidence in AI
Human Values	Positive	Strengthens responsible decision-making

The structural model results confirm that behavioural biases, human values, and AI-related factors significantly influence mutual fund investment decisions. Behavioural biases directly affect decision patterns, while AI and human values influence decisions both directly and indirectly by shaping investor trust and perception.

Table 4: Structural Model Results

Hypothesis	Path Relationship	Path Coefficient (β)	Result
H1	Behavioural Biases $\rightarrow$ Investment Decisions	0.68	Supported
H2	AI Perception $\rightarrow$ Investment Decisions	0.59	Supported
H3	Human Values $\rightarrow$ Trust in AI	0.64	Supported
H4	Trust in AI $\rightarrow$ Investment Decisions	0.61	Supported

The findings also indicate that AI serves as a supportive tool rather than a complete substitute for human judgment. Investors tend to combine AI-based recommendations with personal experience and behavioural tendencies when making investment decisions. Additionally, higher levels of education and investment experience are associated with greater trust in AI and reduced susceptibility to certain biases.

Table 5: Summary of Key Findings

Variable	Major Finding	Implication
Behavioural Biases	Persist despite AI usage	Need for behavioural awareness
Artificial Intelligence	Enhances decision support	Improves efficiency and accuracy
Human Values	Influence trust and adoption	Critical for ethical AI use
Trust in AI	Drives investment decisions	Key factor for adoption
Ethical Awareness	Shapes acceptance of AI	Important for policy design

Overall, the results demonstrate that mutual fund investment decisions in an AI-enabled environment are shaped by a complex interaction of behavioural biases, technological factors, and human values. The findings highlight that while AI improves decision-making efficiency, human values and psychological factors remain central to understanding investor behaviour.

CONCLUSION AND IMPLICATIONS

The study concludes that Artificial Intelligence (AI), human values, and behavioural biases collectively influence mutual fund investment decision-making. The findings reveal that although AI-based financial tools improve investment efficiency, data processing, and decision support, investors continue to be influenced by behavioural biases such as overconfidence, herding behaviour, and loss aversion. The study also confirms that human values including trust, fairness, transparency, and ethical awareness play a significant role in determining the acceptance and effectiveness of AI-driven financial systems. Investors are more likely to rely on AI-generated recommendations when they perceive the technology as transparent, reliable, and ethically responsible.

The study contributes to behavioural finance literature by integrating psychological, technological, and ethical dimensions within a single analytical framework. It highlights that AI cannot completely replace human judgment in investment decisions, as investor behaviour continues to be shaped by emotions, perceptions, and personal values. The findings also emphasize the growing importance of ethical considerations in the development and implementation of AI-based financial services.

The practical implications of the study are significant for financial institutions, technology developers, policymakers, and educators. Financial service providers should focus on developing transparent and ethically responsible AI systems that enhance investor trust and

confidence. Investor education programs should also be designed to improve awareness about behavioural biases and the responsible use of AI in financial decision-making. Policymakers may use the findings to frame ethical guidelines and regulatory standards for AI-based financial advisory systems. Overall, the study highlights the need to balance technological innovation with human values to ensure responsible, ethical, and effective investment decision-making in the evolving digital financial environment.

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