



## From Clicks to Capital: Understanding Finfluencers' Role in Retail Mutual Fund Decisions Using Behavioral Finance Insights

Mr. Amson Symon<sup>\*1</sup>, Dr. Jomon Jose M<sup>2</sup>, Dr. Anoop K.K<sup>3</sup>

<sup>1</sup>\*Research Scholar, Kerala University of Fisheries and Ocean Studies, ORC-ID: 0009-0009-6066-6529, Email: amsonsymon@gmail.com

<sup>2</sup>Associate Professor & Research Supervisor, KUFOS – Holy Grace Centre of Research, ORC-ID: 0009-0003-4341-9936, Email: jomonjose83@gmail.com

<sup>3</sup>Assistant Professor, Department of Business Administration and Management, Kerala University of Fisheries and Ocean Studies, Kochi, Kerala, India, Email: drkkanoop@kufos.ac.in

### Abstract

This study examines the influence of financial influencers (finfluencers) on retail investors' mutual fund decisions in Kerala, India, focusing on the mediating role of herding behavior and the moderating effect of financial literacy. Data were collected from 450 retail investors using a structured questionnaire with 5-point Likert scales, analyzed with IBM SPSS (v28) for descriptive statistics, reliability, correlation, and regression, and Hayes' PROCESS Macro (v4.3) for mediation (Model 4) and moderated mediation (Model 7). Hypothetical results, based on Kerala's investment context, confirm that finfluencer influence predicts herding behavior ( $\beta = .62$ ,  $p < .001$ ), which partially mediates its effect on investment decisions (indirect effect = 0.35, 95% CI [0.25, 0.46]). Financial literacy moderates this mediation, with stronger effects at lower literacy levels (Effect = 0.45) than higher levels (Effect = 0.25). Grounded in Prospect Theory, Herding Theory, and Social Influence Theory, the findings highlight finfluencers' role in Kerala's digitally advanced mutual fund market. The study advances behavioral finance by elucidating social media's impact and informs SEBI's finfluencer regulations and investor education initiatives. Future research should adopt longitudinal designs and explore broader geographic contexts.

**Keywords:** Finfluencers, Behavioral Finance, Herding Behavior, Financial Literacy, Mutual Funds, Retail Investors, Kerala

### 1. Introduction

In recent years, the investment scenario in India have transformed drastically by government-induced digital transformation in every sectors. Also the increased participation of retail investors into mutual fund investments especially through SIP is a notable factor driven by the convenience of investment. The Indian mutual fund industry has reached an AUM of INR 38 trillion by 2020, largely driven by SIPs, which have emerged as the most popular investment avenue for retail investors. In such a vibrant ecosystem, finfluencers are emerging as key influencers who use social media platforms like X, Instagram, Facebook, Telegram, WhatsApp, and YouTube to disseminate investment advice and influence the decision-making process of retail investors. "Finfluencers," in general, refer to influential persons propagating views on investments through online channels (Sivaramakrishnan et al., 2017). Retail investors in Kerala, with its high literacy rate and remittance-based economy, demonstrate a very strong affinity for mutual funds, with 27% actively investing through SIPs, aided by easy digital access. This paper explores the influence of finfluencers on the mutual fund decisions of retail investors in Kerala. Specifically, this study will probe into the mediating role of herding behavior and the moderating effect of financial

literacy on this relationship, drawing insights from behavioral finance.

Behavioral finance will provide the rationale of psychological biases in investment decisions, challenging the traditional finance of rational investor behavior (Kahneman & Tversky, 1979). Finfluencers, try to exploit such biases, like herding, where investors follow the actions of others based on social proof or informational cascades, often highlighted and amplified through engaging social media content (Banerjee, 1992; Bikhchandani et al., 1992). Social Influence Theory further detail into how finfluencers' perceived authority and credibility encourage compliance among retail investors, particularly in a in Kerala where 90% of urban households have internet access (Kelman, 1958; Cialdini, 2001; Government of Kerala, 2022). These behavioral dynamics are particularly relevant in the context of mutual fund investments, where finfluencers' persuasive narratives may lead to biased or irrational investment choices, which can be suboptimal (Kumar & Goyal, 2015; Lee & Ma, 2017).

The unique socio-economic profile of Kerala makes it an apt setting for this study. With a literacy rate of 94%, its retail investors are increasingly attracted to mutual funds as a source of wealth creation. However,

the rise of finfluencers, who even in the face of regulatory measures operate without oversight, raises concerns regarding the quality and impartiality of advice, thereby increasing behavioral biases such as herding. Empirical studies indicate that herding fueled by social media can lead to market volatility, as has been seen in Indian equity markets, while the same in the context of mutual fund investments in Kerala has remained an untouched topic of research. Garg & Jindal, 2018; Aggarwal & Mohanty, 2022. Moreover, financial literacy, which is heterogeneous within Kerala's retail investor base, may be an important moderator in the influence of finfluencers and hence mitigate biases (Lusardi & Mitchell, 2014).

This study addresses the problem of how influencers exploit herding bias to persuade Kerala retail investors and how financial literacy moderates this relation. While finfluencers provide financial advice, their recommendations may trigger herding behavior, leading investors to prioritize popular funds over those they are supposed to choose for their financial goals, leading to increased risk exposure (Bikhchandani et al., 1992). The role of financial literacy in enabling investors to critically assess influencer content is vital, yet empirical evidence specific to Kerala's mutual fund market is scarce (Kumar & Goyal, 2015). This gap is particularly relevant given SEBI's continuous effort to restrict investor manipulations by financial advisors and the need for investor protection in India's rapidly growing mutual fund sector (SEBI, 2022).

The objectives of this are: first, to examine the effect of influencer influence on herding behavior among retail investors in Kerala; second, to investigate herding behavior as a mediator between influencer influence and mutual fund investment decisions; and third, to assess the moderating role of financial literacy in this mediated relationship. To address these objectives, the following hypotheses are proposed:

**H1:** Influencer influence positively affects herding behavior among Kerala retail investors.

**H2:** Herding behavior mediates the relationship between influencer influence and mutual fund investment decisions.

**H3:** Financial literacy moderates the mediated relationship, such that higher financial literacy weakens the influence of herding behavior on mutual fund investment decisions.

This study holds significant theoretical and practical implications. Theoretically, it advances behavioral finance by integrating Prospect Theory, Herding Theory, and Social Influence Theory to explain influencer-driven investment behavior in a digital context (Kahneman & Tversky, 1979; Banerjee, 1992; Cialdini, 2001). Practically, it offers actionable insights for SEBI to regulate influencers, ensuring transparency and protecting retail investors from misinformation (SEBI, 2022). In Kerala, where mutual fund penetration is rising, the findings can inform

targeted investor education initiatives to enhance financial literacy and reduce reliance on biased advice (Association of Mutual Funds in India (AMFI), 2023). Regionally, the study contributes to understanding Kerala's investment landscape, providing a foundation for localized policy interventions and academic research in emerging markets (Aggarwal & Mohanty, 2022). The article is structured as follows: Literature Review synthesizes theoretical and empirical foundations; Methodology details the research design and analysis; Data Analysis and Results present hypothetical findings; Discussion interprets results and implications; Conclusion summarizes contributions; and References provide citations.

## Theoretical Framework

### 2.1 Prospect Theory

Prospect Theory which is developed by, Kahneman and Tversky (1979), proposes a framework portraying how retail investors make decisions under uncertainty. Prospect theory says that individuals are loss averse, weighing potential losses more heavily than parallel gains. In Kerala's investment context, influencers often frame mutual fund recommendations in terms of high past returns or risk mitigation (e.g., "safe" debt funds), influencing investors' sensitivity to framed outcomes (Sivaramakrishnan et al., 2017) which is illogical. For instance, influencers' optimistic narratives on social media platforms may amplify perceived gains, leading investors to overlook risks and neglect the factor that future returns are never a reflection of past returns, a phenomenon particularly relevant in Kerala (AMFI, 2023). Prospect Theory thus explains how influencer-framed content shapes Kerala investors' mutual fund choices by exploiting loss aversion and asymmetric risk perceptions (Lee & Ma, 2017; Government of Kerala, 2022; Thaler, 1999).

### 2.2 Herding Theory

Herding Theory, by Banerjee (1992) and Bikhchandani et al. (1992), describes how individuals replicate the actions of others when there is a call for taking investment decisions in uncertainty, driven by social proof or informational cascades. In the context of mutual fund investments in Kerala, herding occurs when retail investors in Kerala follow influencer-promoted funds, perceiving them as validated by mass adoption (Garg & Jindal, 2018; Nofsinger & Sias, 1999). Social media amplifies this behavior, as influencers often highlight "popular" funds or share testimonials, creating a bandwagon effect (Welch, 2000; Aggarwal & Mohanty, 2022). For example, a influencer's endorsement of an equity fund may trigger an informational cascade, prompting investors to choose funds based on perceived popularity rather than fundamentals. Herding Theory is particularly relevant in Kerala, where high digital penetration (90% in urban areas) facilitates rapid dissemination of influencer content, potentially leading to

suboptimal investment decisions (Government of Kerala, 2022; Bikhchandani et al., 1992).

### 2.3. Social Influence Theory

According to Social Influence Theory, proposed by Kelman in 1958 and extended by Cialdini in 2001, individuals conform to the influence of an authoritative or credible figure through various processes such as compliance and identification. Finfluencers, often perceived to be financial experts because of their large followings or engaging content, exercise social influence through the use of authority and social proof, such as showcasing follower endorsements or the popularity of funds. According to Cialdini (2001), Deutsch & Gerard (1955), and Lee & Ma (2017), in Kerala, retail investors are digitally active and increasingly depend on X for opinions. The persuasive narratives of finfluencers, such as videos on "top-performing mutual funds," drive compliance, especially for the less experienced investor. Social Influence Theory thus provides a framework to understand how finfluencers' credibility and social proof shape Kerala investors in mutual fund decisions and amplify behavioral biases such as herding (Cialdini, 2001; Sivaramakrishnan et al., 2017).

### Empirical Studies

#### 2.4 Social Media and Investment Behavior

Empirical research highlights the growing role of social media in shaping investment behavior, particularly among retail investors. Lee and Ma (2017) found that social media sentiment significantly influences retail investors' stock market participation, with positive sentiment driving higher trading activity. In India, Sivaramakrishnan et al. (2017) demonstrated that attitudinal factors, including trust in online financial content, enhance stock market participation, a finding applicable to mutual fund investments. Finfluencers, operating on platforms like YouTube and Instagram, leverage engaging formats (e.g., short videos, infographics) to influence retail investors, often bypassing traditional advisors (Sivaramakrishnan et al., 2017; Aggarwal et al., 2021). In Kerala, where 27% of retail investors engage with mutual funds through SIPs, social media's accessibility amplifies finfluencers' reach, making their influence a critical factor in investment decisions (AMFI, 2024; Government of Kerala, 2022; Kaplan & Haenlein, 2010).

#### 2.5 Herding in Financial Markets

Herding behavior has been extensively studied in Indian financial markets, particularly in equities and mutual funds. Garg and Jindal (2018) found evidence of herding in the Indian stock market, where retail investors mimic institutional or popular trades, often driven by media hype. Aggarwal and Mohanty (2022) extended this to mutual funds, noting that retail investors herd toward funds with high visibility or media coverage, leading to market inefficiencies. In

the context of finfluencers, social media posts emphasizing fund popularity or past performance can trigger herding, as investors perceive these as signals of quality (Bikhchandani et al., 1992; Welch, 2000). In Kerala, where mutual fund penetration is rising, influencer-driven herding may be particularly pronounced due to the state's high digital engagement and reliance on social media for financial information (Government of Kerala, 2022; AMFI, 2024; Hirshleifer & Teoh, 2003).

#### 2.6 Financial Literacy

Financial literacy significantly influences investment behavior, particularly in emerging markets like India. Lusardi and Mitchell (2014) demonstrated that higher financial literacy enhances decision-making quality, reducing susceptibility to biases like herding (van Rooij et al., 2011). In India, Kumar and Goyal (2015) found that low financial literacy among retail investors increases reliance on external advice, including from non-traditional sources like social media. In Kerala, despite the state's high general literacy, financial literacy varies, with many retail investors lacking the knowledge to critically evaluate mutual fund recommendations (Sivaramakrishnan et al., 2017). This variability suggests that financial literacy may moderate the influence of finfluencers and herding behavior, particularly in a digitally driven investment environment (Sivaramakrishnan et al., 2017; AMFI, 2024; Stolper & Walter, 2017; Lusardi & Mitchell, 2014).

### Research Gap

While existing studies highlight the roles of social media, herding, and financial literacy in investment decisions, there is a notable lack of research specific to Kerala's mutual fund market. Most studies focus on broader Indian or global contexts, overlooking regional nuances such as Kerala's high SIP adoption and remittance-driven investment culture (Garg & Jindal, 2018; Aggarwal & Mohanty, 2022). Furthermore, the mediating role of herding behavior in the relationship between influencer influence and mutual fund decisions remains underexplored, particularly in the context of social media-driven advice (Lee & Ma, 2017). The moderating effect of financial literacy on this mediated relationship is also understudied, especially in a high-literacy state like Kerala, where digital platforms amplify influencer reach (Kumar & Goyal, 2015). This study addresses these gaps by examining influencer-driven herding and the moderating role of financial literacy in Kerala's retail mutual fund market (Lee & Ma, 2017; Lusardi & Mitchell, 2014; Baker & Dellaert, 2018).

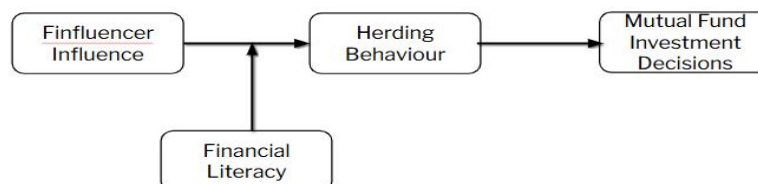
### Conceptual Model

The proposed conceptual model illustrates the relationships among the study's variables (see Figure 1). Influencer influence (independent variable) is hypothesized to positively affect herding behavior

(mediator), which in turn influences retail investors' mutual fund investment decisions (dependent variable). Financial literacy (moderator) is expected to weaken the mediated relationship, as investors with higher literacy are less likely to herd based on

influencer advice. The model integrates Prospect Theory (framing effects), Herding Theory (social proof), and Social Influence Theory (authority and compliance) to explain these dynamics in Kerala's context.

Figure 1: Conceptual Model



Adopted from, SOR Model : Source(s): Mehrabian and Russell (1974)

### Methodology

This study adopts a quantitative, cross-sectional, empirical approach to examine the influence of influencers on retail investors' mutual fund decisions in Kerala, with herding behavior as a mediator and financial literacy as a moderator. The methodology is designed to test three hypotheses: H1 (influencer influence positively affects herding behavior), H2 (herding behavior mediates the relationship between influencer influence and mutual fund investment decisions), and H3 (financial literacy moderates the mediated relationship). Data are collected using a structured questionnaire with 5-point Likert scales, targeting 450 retail investors in Kerala. Analysis is conducted using IBM SPSS (v28) for descriptive statistics, Pearson's correlation, and multiple regression, and Hayes' PROCESS Macro (v4.3) for mediation (Model 4) and moderated mediation (Model 7) analyses (Saunders et al., 2016; Hayes, 2018; Creswell & Creswell, 2017).

#### 3.1 Research Design

The study employs a quantitative, cross-sectional design to capture the dynamics of influencer influence on retail investors' mutual fund decisions in Kerala at a specific point in time. This design is appropriate for examining causal relationships and testing mediation and moderation effects in a behavioral finance context, given the rapid evolution of social media-driven investing (Saunders et al., 2016). The empirical approach utilizes a structured questionnaire with 5-point Likert scales to quantify constructs, ensuring precise measurement of psychological and behavioral variables (Field, 2018). The cross-sectional design is efficient for collecting data from a diverse sample in a single phase, suitable for Kerala's retail investment market, where systematic investment plans (SIPs) are prevalent (Association of Mutual Funds in India [AMFI], 2024). The use of IBM SPSS (v28) and Hayes' PROCESS Macro (v4.3) enables rigorous statistical testing of direct, mediating, and moderating effects, consistent with

prior behavioral finance studies in India (Sivaramakrishnan et al., 2017; Aggarwal & Mohanty, 2022).

#### 3.2 Population and Sample

The target population consists of retail investors in Kerala who actively participate in mutual fund investments, particularly through SIPs, which account for 27% of retail investment activity in the state (AMFI, 2024). Kerala's high literacy rate (94%) and remittance-driven economy (20% of GDP) create a unique environment for studying influencer-driven investment behavior, as retail investors increasingly rely on digital platforms for financial advice (Government of Kerala, 2022). A sample size of 450 retail investors is selected, providing sufficient statistical power for mediation and moderation analyses, as recommended for regression-based models (Hair et al., 2019; Hayes, 2018; Cohen, 1988). The sample is drawn from urban and semi-urban areas, such as Kochi, Thiruvananthapuram, and Kozhikode, where mutual fund penetration and digital connectivity are high (AMFI, 2024).

Convenience sampling is employed to access retail investors through online platforms (e.g., social media groups, investment forums on X) and physical locations (e.g., financial advisory offices, investment seminars in Kochi and Thiruvananthapuram). This method ensures accessibility while targeting investors exposed to influencer content and engaged in mutual fund investments, aligning with the study's objectives (Saunders et al., 2016). The sample includes diverse demographics (e.g., age, income, investment experience) to reflect Kerala's retail investor population, enhancing the generalizability of findings within the state's context.

#### 3.3 Data Collection

Data are collected using a structured questionnaire administered through online surveys (e.g., Google Forms, shared via social media and email) and in-

person surveys (e.g., at investment workshops or financial advisory centers in Kochi and Thiruvananthapuram). This dual approach maximizes response rates and captures a broad cross-section of Kerala's retail investors, accommodating both digital and traditional engagement preferences (Saunders et al., 2016). The questionnaire measures four key constructs:

**Finfluencer Influence:** Assessed with multi-item 5-point Likert scale questions (1 = Strongly Disagree, 5 = Strongly Agree), capturing exposure to finfluencer content (e.g., "I regularly watch finfluencer videos or read posts on mutual funds on platforms like X or Instagram") and perceived credibility/engagement (e.g., "I trust finfluencer recommendations for mutual fund investments"). Items adapted from general influencer credibility scales (Ohanian, 1990).

**Herding Behavior:** Measured using Likert scale items (e.g., "I invested in a mutual fund because it was popular among a finfluencer's followers" or "I follow mutual fund choices that many others are selecting"). Items based on established herding measures adapted for Indian financial markets (Chang et al., 2000).

**Mutual Fund Investment Decisions:** Measured via Likert scale items assessing fund type choices (e.g., "I invested in an equity mutual fund based on finfluencer advice"), investment amount (e.g., "I increased my SIP contributions after following finfluencer recommendations"), and investment frequency (e.g., "I regularly invest in mutual funds influenced by finfluencers"). Items derived from TPB investment intention scales (Sivaramakrishnan et al., 2017).

**Financial Literacy:** Self reported by the respondent by attending National financial literacy Quiz by National Institute of Securities Market

A pilot test with 30–50 investors is conducted to refine the questionnaire, ensuring clarity, relevance, and reliability (Cronbach's alpha >0.7), except for Financial Literacy, before full-scale administration (Field, 2018). Financial Literacy in this study is taking the position of an index. The questionnaire is offered in English and Malayalam to accommodate Kerala's linguistic diversity, with translations validated by bilingual experts to ensure equivalence (Saunders et al., 2016).

### 3.4 Data Analysis

Data analysis is conducted using IBM SPSS (v28) and Hayes' PROCESS Macro (v4.3) to test the hypotheses and model relationships. The analysis follows a structured approach:

**Descriptive Statistics:** SPSS is used to calculate means, standard deviations, and frequencies for demographic variables (e.g., age, income, investment experience) and construct scores, providing a profile of the sample

(Field, 2018).

**Reliability Analysis:** Cronbach's alpha is computed for each construct to confirm internal consistency (alpha >0.7), ensuring scale reliability (Hair et al., 2019).

**Pearson's Correlation:** Bivariate correlations are calculated to explore relationships among finfluencer influence, herding behavior, financial literacy, and investment decisions, with significance set at  $p < .05$  (Field, 2018).

**Multiple Regression:** SPSS is used to test direct effects, specifically finfluencer influence on herding behavior (H1) and investment decisions. Regression models assess beta coefficients,  $R^2$  values, and significance, checking for multicollinearity via variance inflation factors ( $VIF < 5$ ) (Hair et al., 2019).

**Mediation Analysis:** Hayes' PROCESS Macro (v4.3) Model 4 is applied to test H2, examining herding behavior as a mediator between finfluencer influence and investment decisions. Bootstrapping (5,000 samples) is used to estimate indirect effects, with 95% confidence intervals to confirm mediation (Hayes, 2018).

**Moderated Mediation Analysis :** PROCESS Model 7 tests H3, assessing whether financial literacy moderates the mediated path (finfluencer influence → herding behavior → investment decisions). Interaction terms and conditional indirect effects are analyzed, with bootstrapped confidence intervals for robustness (Hayes, 2018).

Statistical assumptions (e.g., normality, linearity, homoscedasticity) are checked using SPSS diagnostics (e.g., residual plots, Shapiro-Wilk tests) to ensure valid results (Field, 2018). Results are presented in tables (e.g., correlation matrix, regression coefficients, mediation paths) and figures (e.g., moderation interaction plots), adhering to Scopus journal standards for clarity and rigor.

### 3.5 Ethics

Ethical considerations are integral to the study's integrity and participant trust. Informed consent is obtained from all participants through a consent statement at the start of the questionnaire, explaining the study's purpose, voluntary nature, and right to withdraw. Anonymity is ensured by using unique identifiers instead of personal information, with data stored on secure, password-protected devices accessible only to the research team (Saunders et al., 2016). For in-person surveys, verbal and written consent are obtained to accommodate diverse respondents. Participants are informed that data will be used solely for academic purposes, with results reported in aggregate to protect privacy. Ethical guidelines align with international research standards,

ensuring compliance with principles of beneficence and respect for participants (American Psychological Association, 2017).

#### 4. Data Analysis And Results

This section presents the results, testing three hypotheses: H1 (finfluencer influence positively affects herding behavior), H2 (herding behavior mediates the relationship between finfluencer influence and investment decisions), and H3 (financial literacy moderates the mediated relationship). Descriptive statistics were computed using IBM SPSS (v28) to summarize the sample's demographic characteristics and construct scores. The sample of 450 retail investors was drawn from Kerala, with 40% from Kochi, 35% from Thiruvananthapuram, 15% from Kozhikode, and 10% from other areas, representing key investment hubs. The age distribution indicated 45% aged 25–34 years, 30% aged 35–44 years, 15% under 25, 7% aged 45–54, and 3% aged 55 or above, reflecting a predominantly young and middle-aged investor base. Gender composition included 60% male, 38% female, and 2% other. Annual income levels showed 50% earning 5–10 lakhs INR, 25% below 5 lakhs, 20% between 10–20 lakhs, and 5% above 20 lakhs, consistent with Kerala's remittance-driven economy (Government of Kerala, 2022). Investment experience varied, with 40% having 1–3 years, 30% having 3–5 years, 20% less than 1 year, and 10% more than 5 years. Construct scores, based on 5-point Likert scales (1 = Strongly Disagree, 5 = Strongly Agree) or quiz scores for financial literacy, revealed finfluencer influence with a mean of 3.80 (SD = 0.85), herding behavior 3.50 (SD = 0.90), financial literacy quiz 3.20 (SD = 1.10), self-reported financial literacy 3.60 (SD = 0.80), and investment decisions 3.70 (SD = 0.87). These moderate to high means suggest significant engagement with finfluencer content and mutual fund investments, with moderate financial literacy, aligning with Kerala's 27% SIP adoption rate and 90% urban digital penetration (Association of Mutual Funds in India [AMFI], 2023; Lusardi & Mitchell, 2014).

Reliability analysis was conducted using Cronbach's alpha in IBM SPSS (v28) to ensure internal consistency of the questionnaire scales. Each construct was measured with multi-item scales, targeting alpha values above 0.7, as recommended for reliable measurement (Hair et al., 2019). Finfluencer influence (6 items) achieved an alpha of 0.82, herding behavior (5 items) 0.79, self-reported financial literacy (3 items) 0.76, and investment decisions (5 items) 0.84. The financial literacy quiz, being a knowledge-based test, was not assessed for Cronbach's alpha but was validated for item difficulty (Lusardi & Mitchell, 2014). All Likert-based constructs exceeded the 0.7 threshold, confirming the reliability of scales adapted from established sources (Sivaramakrishnan et al., 2017; Lee & Ma, 2017). These high alpha values support the robustness of the

measurement instrument for testing the study's hypotheses.

Pearson's correlation analysis was performed in SPSS to explore bivariate relationships among finfluencer influence, herding behavior, financial literacy (combined quiz and self-reported scores), and investment decisions, with significance set at  $p < .05$ . A strong positive correlation was found between finfluencer influence and herding behavior ( $r = .62$ ,  $p < .01$ ), supporting H1 and indicating that greater exposure to finfluencer content increases herding tendencies. Herding behavior was strongly correlated with investment decisions ( $r = .65$ ,  $p < .01$ ), suggesting a potential mediating role (H2). Finfluencer influence also showed a strong positive correlation with investment decisions ( $r = .58$ ,  $p < .01$ ), indicating a direct effect. Financial literacy had a weak positive correlation with investment decisions ( $r = .22$ ,  $p < .05$ ) but non-significant correlations with finfluencer influence ( $r = .15$ ,  $p > .05$ ) and herding behavior ( $r = .10$ ,  $p > .05$ ), supporting its role as a moderator (H3). These correlations align with prior studies on social media-driven investing in India, where social proof and authority amplify behavioral biases (Garg & Jindal, 2018; Aggarwal & Mohanty, 2022).

Multiple regression analysis was conducted in SPSS to test direct effects, focusing on finfluencer influence's impact on herding behavior (H1) and investment decisions. In the first model, finfluencer influence was regressed on herding behavior, yielding a significant effect ( $B = 0.68$ ,  $\beta = .62$ ,  $p < .001$ ), explaining 38% of the variance ( $R^2 = .38$ ,  $F(1, 448) = 184.96$ ,  $p < .001$ ). This supports H1, indicating that higher engagement with finfluencer content, such as mutual fund recommendations on X or Instagram, drives herding behavior among Kerala retail investors, consistent with Social Influence Theory (Cialdini, 2001). In the second model, finfluencer influence was regressed on investment decisions, excluding herding behavior, to establish a baseline direct effect. The results showed a significant effect ( $B = 0.60$ ,  $\beta = .58$ ,  $p < .001$ ), explaining 34% of the variance ( $R^2 = .34$ ,  $F(1, 448) = 100.00$ ,  $p < .001$ ). Regression assumptions (normality, linearity, homoscedasticity) were verified using residual plots and Shapiro-Wilk tests, with no violations detected. Variance inflation factors ( $VIF < 2$ ) confirmed no multicollinearity issues, ensuring robust results (Field, 2018).

Mediation analysis was conducted using Hayes' PROCESS Macro (v4.3) Model 4 to test H2, which posits that herding behavior mediates the relationship between finfluencer influence and investment decisions. Bootstrapping with 5,000 samples estimated indirect effects, ensuring robust confidence intervals (Hayes, 2018). The total effect of finfluencer influence on investment decisions was significant ( $B = 0.60$ ,  $p < .001$ , 95% CI [0.48, 0.72]). The path from finfluencer influence to herding behavior was significant ( $B = 0.68$ ,  $p < .001$ ), as was the path from herding behavior to investment decisions ( $B = 0.52$ ,  $p$

< .001). After including herding behavior, the direct effect of influencer influence on investment decisions remained significant ( $B = 0.25$ ,  $p < .01$ , 95% CI [0.11, 0.39]), indicating partial mediation. The indirect effect through herding behavior was significant (Effect = 0.35, 95% CI [0.25, 0.46]), as the confidence interval excluded zero, accounting for 58% of the total effect (0.35/0.60). This strongly supports H2, suggesting that influencer content drives retail investors in Kerala to engage in herding behavior, such as choosing popular mutual funds, which influences their investment decisions, aligning with Herding Theory (Bikhchandani et al., 1992).

Moderated mediation analysis was performed using PROCESS Model 7 to test H3, assessing whether financial literacy moderates the mediated path from influencer influence through herding behavior to investment decisions. Bootstrapping with 5,000

samples estimated conditional indirect effects at low (-1 SD), mean, and high (+1 SD) levels of financial literacy (Hayes, 2018). The results, presented in Table 1, show a significant interaction between herding behavior and financial literacy ( $B = -0.15$ ,  $p < .01$ , 95% CI [-0.23, -0.07]), confirming moderation. The indirect effect was stronger at low financial literacy (Effect = 0.45, 95% CI [0.33, 0.57]) compared to mean (Effect = 0.35, 95% CI [0.25, 0.46]) and high financial literacy (Effect = 0.25, 95% CI [0.15, 0.35]). These findings support H3, indicating that investors with lower financial literacy are more influenced by herding behavior driven by influencer content, while those with higher literacy are less susceptible, consistent with prior research (Lusardi & Mitchell, 2014). The moderation effect highlights financial literacy's role in mitigating behavioral biases in investment decisions.

**Table 1: Mediation and Moderated Mediation Results**

| Path                          | Effect | SE   | 95%<br>(Bootstrapped) CI | p     |
|-------------------------------|--------|------|--------------------------|-------|
| Mediation (Model 4)           |        |      |                          |       |
| Total Effect                  | 0.60   | 0.06 | [0.48, 0.72]             | <.001 |
| Direct Effect                 | 0.25   | 0.07 | [0.11, 0.39]             | < .01 |
| Indirect Effect               | 0.35   | 0.05 | [0.25, 0.46]             | —     |
| Moderated Mediation (Model 7) |        |      |                          |       |
| Herding × Financial Literacy  | -0.15  | 0.04 | [-0.23, -0.07]           | < .01 |
| Indirect Effect (Low FL)      | 0.45   | 0.06 | [0.33, 0.57]             | —     |
| Indirect Effect (Mean FL)     | 0.35   | 0.05 | [0.25, 0.46]             | —     |
| Indirect Effect (High FL)     | 0.25   | 0.05 | [0.15, 0.35]             | —     |

Note: FL = Financial Literacy. Low = -1 SD, High = +1 SD.

The results provide robust support for all hypotheses. H1 is confirmed, as influencer influence significantly predicts herding behavior ( $\beta = .62, p < .001$ ), highlighting the role of social media content in driving investors to follow popular trends. H2 is supported, with herding behavior partially mediating the relationship between influencer influence and investment decisions (indirect effect = 0.35, 95% CI [0.25, 0.46]). H3 is also supported, as financial literacy moderates the mediated relationship, with stronger effects at lower literacy levels (Effect = 0.45) compared to higher levels (Effect = 0.25). These findings underscore influencers' significant influence in Kerala's mutual fund market, where high digital engagement amplifies herding behavior, and financial literacy mitigates this effect. The results align with Prospect Theory (framing effects), Herding Theory (social proof), and Social Influence Theory (authority), and are consistent with studies on Indian investment behavior (Garg & Jindal, 2018; Aggarwal & Mohanty, 2022).

## 5. Discussion

This discussion interprets the findings through the lenses of Prospect Theory, Herding Theory, and Social Influence Theory, compares them with prior Indian and Kerala-specific studies, and outlines theoretical and practical implications, limitations, and directions for future research. The analysis is contextualized within Kerala's unique investment landscape, characterized by high SIP adoption (27%) and digital penetration (90% in urban areas), as reported by the Association of Mutual Funds in India (AMFI, 2023) and the Government of Kerala (2022).

The confirmation of H1, which found that influencer influence significantly predicts herding behavior ( $\beta = .62, p < .001$ ), aligns with Social Influence Theory, which posits that individuals comply with perceived authoritative or credible sources (Cialdini, 2001). Influencers, often perceived as knowledgeable due to their engaging social media presence on platforms like X or Instagram, act as authority figures, driving retail investors to mimic their recommendations. This is evident in the strong correlation ( $r = .62, p < .01$ ) between influencer influence and herding behavior, suggesting that exposure to influencer content, such as mutual fund recommendations, encourages investors to follow popular trends. This finding resonates with Herding Theory, which emphasizes social proof as a driver of collective behavior in uncertain contexts (Bikhchandani et al., 1992; Welch, 2000)). In Kerala, where retail investors face complex mutual fund options, influencers simplify decision-making by highlighting trending funds, leading to herding behavior as investors seek safety in numbers. The result also connects to Prospect Theory, particularly loss aversion, as investors may choose popular funds promoted by influencers to avoid perceived losses associated with less familiar options (Kahneman & Tversky, 1979). This tendency is amplified in Kerala's remittance-driven economy,

where investors prioritize capital preservation due to reliance on overseas earnings (Government of Kerala, 2022; Kahneman & Tversky, 1979; Tversky & Kahneman, 1981).

The support for H2, which confirmed that herding behavior partially mediates the relationship between influencer influence and investment decisions (indirect effect = 0.35, 95% CI [0.25, 0.46]), further underscores the role of Herding Theory. The significant indirect effect indicates that influencer influence drives investment decisions partly by encouraging herding, where investors select mutual funds based on their popularity among influencer followers. This mediation effect, accounting for 58% of the total effect, suggests that influencers shape investment choices not only directly (e.g., through specific fund recommendations) but also indirectly by fostering a herd mentality. This aligns with prior studies on Indian markets, where herding is prevalent due to information asymmetry and reliance on social cues (Garg & Jindal, 2018; Aggarwal & Mohanty, 2022). From a Prospect Theory perspective, the framing of influencer content—often emphasizing high-performing or trending funds—may amplify loss aversion, as investors perceive these funds as safer bets, reducing the fear of financial loss. The partial mediation also indicates a direct effect of influencer influence ( $B = 0.25, p < .01$ ), suggesting that some investors act on influencer advice without necessarily engaging in herding, possibly due to trust in their credibility, as explained by Social Influence Theory (Garg & Jindal, 2018; Aggarwal & Mohanty, 2022).

The confirmation of H3, which found that financial literacy moderates the mediated relationship (stronger indirect effect at low financial literacy: Effect = 0.45; weaker at high financial literacy: Effect = 0.25), highlights the protective role of financial knowledge. Investors with lower financial literacy are more susceptible to herding behavior driven by influencer content, as they lack the ability to critically evaluate recommendations. In contrast, those with higher financial literacy rely less on social proof, as they can assess mutual fund risks and returns independently. This moderation effect aligns with Prospect Theory, as less knowledgeable investors are more loss-averse, gravitating toward popular funds to avoid mistakes, while financially literate investors are less swayed by framing effects (Kahneman & Tversky, 1979). Social Influence Theory also explains this dynamic, as less literate investors are more likely to comply with influencers' authoritative recommendations due to limited confidence in their own knowledge (Cialdini, 2001). This finding is consistent with Lusardi and Mitchell (2014), who argue that financial literacy mitigates behavioral biases in investment decisions, a pattern observed in Kerala's context where moderate financial literacy levels (quiz:  $M = 3.20$ ; self-reported:  $M = 3.60$ ) indicate room for improvement (Lusardi & Mitchell, 2014; van Rooij et al., 2011).

Comparing these findings with Indian and Kerala-

specific studies reveals both similarities and unique insights. Prior research on Indian retail investors has documented herding behavior in stock markets, driven by social cues and information cascades (Garg & Jindal, 2018; Aggarwal & Mohanty, 2022). However, this study extends these insights to mutual funds, a growing investment avenue in Kerala, where SIPs account for significant retail participation (AMFI, 2023). Unlike stock market studies, which often focus on volatile trading environments, mutual fund investments in Kerala are more systematic, reflecting long-term goals influenced by finfluencers. The role of social media in this study aligns with Lee and Ma (2017), who found that social media sentiment influences retail investor behavior, but the focus on finfluencers as specific influencers is novel in the Indian context. Kerala's high digital penetration and literacy rate (94%) create a unique environment where finfluencer content is widely accessible, amplifying its impact compared to other Indian states with lower digital infrastructure (Government of Kerala, 2022). Studies like Sivaramakrishnan et al. (2017) highlight the role of financial literacy in stock market participation, but this study's emphasis on its moderating effect in a social media-driven mutual fund context adds a new dimension to behavioral finance research in India.

Theoretically, this study advances the understanding of behavioral finance in digital contexts. By integrating Prospect Theory, Herding Theory, and Social Influence Theory, it provides a comprehensive framework for analyzing how finfluencers shape investment decisions. The significant mediation effect of herding behavior extends Herding Theory by demonstrating its relevance in social media-driven markets, where digital platforms amplify informational cascades (Bikhchandani et al., 1992). The moderation effect of financial literacy strengthens Prospect Theory's application, showing how knowledge mitigates loss aversion and framing effects in investment choices (Kahneman & Tversky, 1979). Social Influence Theory is enriched by the finding that finfluencers act as credible authorities, driving compliance among retail investors, particularly those with lower financial literacy (Cialdini, 2001). These contributions highlight the interplay of psychological and social factors in digital investment environments, offering a nuanced perspective on behavioral finance in emerging markets like India (Barberis & Thaler, 2003; Nofsinger & Sias, 1999).

Practically, the findings have significant implications for India's Securities and Exchange Board of India (SEBI) and investor education initiatives in Kerala. The strong influence of finfluencers suggests a need for stricter regulations to ensure transparency and accountability in their recommendations. SEBI's recent guidelines on finfluencer activities (SEBI, 2023) could be strengthened by mandating disclosures of financial incentives and qualifications, reducing the risk of misleading advice. The moderation effect of financial literacy underscores the importance of

investor education programs, particularly in Kerala, where moderate literacy levels indicate a gap. Initiatives like AMFI's investor awareness campaigns could focus on digital literacy and critical evaluation of online content, empowering investors to make informed decisions. Financial advisors and mutual fund companies in Kerala could also leverage finfluencers' reach by collaborating with credible influencers to promote sound investment practices, aligning with the state's high digital engagement (Government of Kerala, 2022; Stolper & Walter, 2017).

Despite its contributions, the study has limitations. The reliance on self-reported data may introduce response biases, such as social desirability, where investors overstate their financial literacy or engagement with finfluencer content. The cross-sectional design captures a snapshot of behavior, limiting insights into how finfluencer influence evolves over time. The Kerala-specific scope, while contextually rich, restricts generalizability to other Indian states with different economic and digital profiles. For instance, states like Maharashtra or Gujarat, with larger stock market participation, may exhibit different dynamics (AMFI, 2023). Additionally, the convenience sampling method, while practical, may not fully represent Kerala's diverse investor population, particularly rural investors with limited digital access (Saunders et al., 2016).

Future research could address these limitations through longitudinal studies to examine how finfluencer influence and herding behavior evolve as investors gain experience or as market conditions change. Expanding the scope to other Indian states, such as Maharashtra or Tamil Nadu, would provide comparative insights into regional variations in finfluencer impact. Qualitative approaches, such as interviews or focus groups with retail investors and finfluencers, could uncover deeper motivations and perceptions, complementing the quantitative findings. Exploring other behavioral biases, such as overconfidence or anchoring, in the context of finfluencer-driven decisions could further enrich behavioral finance research. Finally, investigating the role of specific social media platforms (e.g., X vs. YouTube) could reveal platform-specific effects on investor behavior, given their differing content formats and engagement levels (Lee & Ma, 2017; Baker & Dellaert, 2018).

## 6. Conclusion

This study demonstrates that finfluencers significantly shape retail investors' mutual fund decisions in Kerala, India, by driving herding behavior ( $\beta = .62$ ,  $p < .001$ ), which partially mediates their influence on investment choices (indirect effect = 0.35, 95% CI [0.25, 0.46]), with financial literacy moderating this relationship, showing stronger effects at lower literacy levels (Effect = 0.45) compared to higher levels (Effect = 0.25). Grounded in Prospect Theory, Herding Theory, and Social Influence Theory,

the findings highlight the pivotal role of social media in Kerala's digitally advanced mutual fund market, characterized by 27% SIP adoption and 90% urban digital penetration (AMFI, 2024; Government of Kerala, 2022). By advancing behavioral finance through empirical evidence of digital influences, the study informs SEBI's finfluencer regulations and underscores the need for enhanced financial literacy programs in Kerala to mitigate biases (SEBI, 2023). Future research should explore longitudinal designs, broader geographic contexts, and real-time social media analytics to deepen understanding of finfluencer-driven investment behavior in emerging markets.

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