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The Influence of Risk Perception on Portfolio Choice Among Mauritian Retail Investors

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ABSTRACT

This study addresses the growing significance of comprehending behavioral aspects on investment decision-making by examining the impact of risk perception on portfolio choice among Mauritian retail investors. The study's importance stems from its contribution to both scholarly literature and real-world financial decision-making, especially in emerging markets where investor behavior is still little understood. A structured questionnaire was used to gather primary data from a sample of 52 respondents, utilizing a quantitative research methodology. The questionnaire covered demographic characteristics, investment patterns and Likert-scale items measuring risk perception and portfolio choice. The data was analyzed using statistical techniques such as descriptive statistics, Pearson correlation, Cronbach's alpha reliability testing and multiple regression. The findings illustrate moderate levels of risk perception and portfolio choice among respondents. Reliability analysis demonstrates high internal consistency for both constructs. A very strong positive relationship has been revealed by Pearson correlation between the dependent and independent variable. Regression analysis shows a statistically significant positive connection with risk perception catering for a substantial proportion of the variation in portfolio choice. The results further confirm the validity of key financial theories. The study recommends that, to enhance investment decisions, investors should be better educated and financial information should be simplified and made more accessible. Additionally, financial advisors could better align investment plans with clients' risk attitudes by incorporating behavioral data.

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INTRODUCTION

The global expansion of financial markets with availability of a wide range of investment securities, accompanied by different risk level, has made investment decision-making for retail investors more complex. Risk shows the possibility of loss of an investment. The way people interpret and assess the degree of risk involved in an investment is known as risk perception. Depending on their own attitudes, experiences, knowledge and emotional reactions, investors may interpret the same financial data in different ways. The way investors distribute their financial resources across different asset classes namely equities, bonds, mutual funds, fixed deposits and other alternative assets, is referred to as portfolio choice. As per theory of (Markowitz, 1952), investors seek to maximise returns while minimising risk through diversification. However, in real circumstances, retail investors do not always adhere strictly to strategies of rational portfolio selection. In this perspective, the investors view the riskiness in the assets chosen and the diversification of their portfolios so as to strike a balance between risk and return (Kahneman, 1979).

Fig No.1 Investment Securities (Dhole, 2019)



Theoretically, investors are assumed to show rational behavior thereby making decisions based on risk-return concept whereas behavioral finance emphasizes that psychological elements play a fundamental part in molding investment choices (Barberis, 2003). Most of the literature on risk and investment behavior has been focused on developed countries. However, there is some interest in countries like Mauritius, which has an emerging financial market and an increasing number of investors. In the African region, being anchored by institutions like Stock Exchange of Mauritius (SEM) and supervised by Financial Services Commission (FSC) regulating securities market and investor protection frameworks, Mauritius has emerged into a substantial financial services hub (Financial Commission - FSC, 2025). In the Mauritian investment landscape, despite the retail investors have access to equity securities and collective investment schemes through SEM, the main problem is the poor rate of participation of individuals in diversified capital market portfolios, often related with limited financial education and conservative risk attitudes thereby showing preference for familiar "safe" instruments like savings accounts or property (Organisation for Economic Co-operation and development - OECD, 2024) and (Stock Exchange of Mauritius - SEM, 2025).

The research questions are listed below.

- To what degree does risk perception determine how retail investors allocate their investments across different asset classes such as equities, debt, fixed income, mutual funds and even cryptocurrencies?
- To what extent can psychological risk attitudes influence portfolio diversification across various asset classes in developing financial market like Mauritius?

While many international research have bridged the gap concerning the relationship between risk perception and investment behavior, the same study in Mauritius is limited. Financial institutions, investment advisors and legislators can create better investment products, accompanied by investor education initiatives which will provide better understanding of how retail investors can invest. Through proper identification of how investors perceive the different risk levels, investors' risk-return trade-offs can be determined.

Hence, this thesis will help to fill in a significant loophole in Mauritian context by examining the influence of risk perception on the investment choices and to determine the extent to which these investors, in their investment decisions, are encouraged to take high risks, or opt for low risks, thereby classifying them as conservative, balanced, or aggressive investors.

Fig No.2 Risk Tolerance (Ticker, 2024)



It is vital to recognize certain limitations even though the research aims to offer significant insights into the relationship between risk perception and portfolio choice in Mauritian setting. Furthermore, external factors including market developments, interest rate fluctuations and economic conditions frequently impact investment decisions in the country which can be impactful at time of data collection. Finally, time and resource limitations could restrict the study's breadth.

LITERATURE REVIEW

This chapter emphasizes on the existing literature of influence of risk perception on portfolio choice, focusing on conceptual framework, theoretical backgrounds and empirical findings in Mauritius. Financial markets are currently quite competitive, just like other markets. Developers of novel investment securities, marketers of financial products or advisors to prospective purchasers, are working to match the financial instruments with the right clientele (Selim Aren, 2019). The increasing involvement of private investors in financial markets has drawn more attention to investment decision-making in both academic and practical finance. Risk perception representing how investors perceive and react to uncertainty, is one of the most important factors influencing the choices of investing (Aren, 2016). Behavioral finance emphasizes that investors are impacted by psychological biases, emotions and subjective judgement whereas traditional finance presumes rational behavior (Kahneman, 1979). Understanding this relationship is even more crucial in emerging financial hub like Mauritius where market participation and financial literacy are still developing.

Risk Perception

Risk perception has been extensively studied as a crucial factor in investment decision-making. Studies including that of (Slovic, 1987) have showed that investors do not depend on only statistical risk measurement but rather their risk analysis are shaped by experiences, judged personally and external influences. Demographic traits, prior investment experiences and financial literacy influence how risk is perceived. Due to its subjective nature, two investors exposed to the same financial data may have different perceptions of risk thereby resulting into different portfolio selections. According to (Lusardi, 2014), those who are more knowledgeable about finance, are less likely to overestimate dangers and are better at interpreting financial data. Since they are generally better positioned to assess actual risk, they are more prone to participate in financial markets with created diversified portfolios. During market downturns, emotional reactions like anxiety can further skew perceptions of risk thereby leading into poor decisions like panic selling. As per (Malmendier, 2011), people who have gone through unfavorable economic events like stock market downturns, are more risk averse and are less inclined to trade stocks. According to researcher (Ramnath, 2021), in emerging countries like Mauritius, limited access to financial literacy and market knowledge may raise perceived risk thereby discouraging investors from engaging in stock market activities. The researcher also mentioned that social impacts such as peer pressure as well as media coverage can potentially raise or lower perceived risks.

Portfolio Choice

Choosing a portfolio, entails distributing investments among several asset groups to achieve specific objectives such as return maximization and risk minimization without necessarily lowering returns (Markowitz, 1952).Bonds are comparatively safer but still vulnerable to interest rate and credit risk (Fabozzi, 2013) whereas stocks are typically seen as high-risk and high-return assets (Bodie, 2018). Fixed deposits give low-risk returns while mutual funds offer the advantages of diversification. Cryptocurrencies are regarded as speculative and extremely volatile (Baur, 2018). Empirical evidence by the researcher suggested that risk tolerance played a significant role in asset allocation decisions. Researcher

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(Lusardi, 2014) elaborated on the subject that financially astute individuals are more likely to invest in varied portfolios comprising of equities, bonds and other financial securities whereas less experienced investors tend to concentrate their capital in conservative assets with lowest risks which illustrated that a lot of knowledge is needed to make intelligent portfolio decisions. The researcher also pointed out that a bigger percentage of households do not participate in stock market activities despite the potential of returns. This low participation leads to less long-term wealth building and an inefficient portfolio allocation (Campbell, 2006).

The different investments securities which can be ranked in escalating order of risk. Bonds have small default risk whereas fixed deposits give assured returns with little risk. Mutual funds maintain their market dependence while lowering risk through diversification. Liquidity and market risk concerns are associated with real estate. Cryptocurrency is the most speculative while stocks are extremely volatile since they depend on company performance. Prospect Theory (Kahneman, 1979) states that investors select assets as per their perceptions of risk. The figure below illustrates the investment securities in descending order.

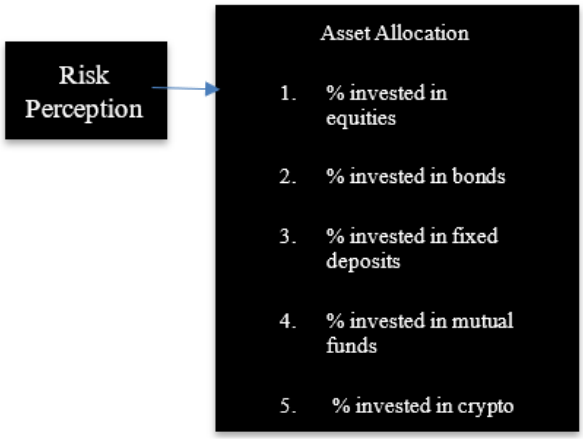
Fig No.3 Descending order of risk profile of investment options by the researcher



Conceptual Framework

This research focuses on the relationship between risk perception (independent variable) and portfolio choice (dependent variable) (Slovic, 1987). The researcher (Bodie, 1992) has emphasized on a strong correlation between portfolio choice and demographic parameters like age, income and education. Younger investors are typically more willing to allocate a larger portion of their portfolios to high-risk, high-return assets due to their longer investment horizon. On the other hand, older investors tend to shift towards safer assets to preserve wealth as they approach retirement. The researcher also mentioned that investors with greater levels of education are more likely to invest in sophisticated and higher-yielding assets because they are more often better positioned to understand financial assets as well as risk-return trade-offs. The diagram below presents the conceptual framework for the study by the researcher.

Fig No.4 Conceptual framework by the researcher



Theoretical Frameworks

The chosen theoretical frameworks for the study are Modern Portfolio Theory and Prospect Theory. As per Modern Portfolio theory developed by (Markowitz, 1952), it offers a basic outline for choosing a portfolio. Therefore, risk perception is expected to be related with portfolio choice behavior as investment risk perceptions may affect an investor willingness to choose different asset classes or level of diversification. It makes the assumption that investors are risk-averse and logical, aiming to optimize expected return for a specific degree of risk. Diversification is emphasized in the idea as a way to minimize unsystematic risk which is the percentage of total investment risk that is special to a given business, sector or asset as opposed to the market as a whole. In a well-diversified portfolio, the negative performance of one asset can be balanced by the favorable performance of other securities thereby minimizing or eliminating unsystematic risk. However, it makes the assumption that investors rely on objective risk assessments, which could not accurately reflect conduct in the real life situation

where subjective impressions lead. Below graph shows the ideal portfolio with minimal risk.

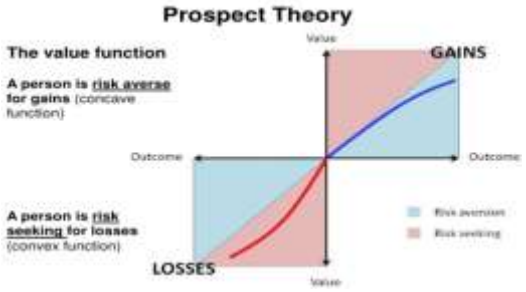
Fig No.5 Modern Portfolio theory (TOTLA, 2025)



Portfolio A below the curve illustrates too much risk with small return where another portfolio with different asset mix for same risk could witness higher returns. Portfolio B is well balanced where the investment is yielding a balanced return. Portfolio C above the curve shows a higher return than optimum portfolio return for same risk level which is not realistic.

Prospect Theory developed by (Kahneman, 1979) in behavioral finance explains a behavioral perspective by signifying that individuals evaluate gains and losses relative to a reference point which may respond differently to potential gains and losses. Subsequently, investors' perceptions of potential losses may affect their investment preferences and portfolio choice behavior. Investors typically experience losses more strongly than gains, which causes them to act risk averse in unpredictable circumstances. In other words, losses are felt more severe than equivalent gains. This theory explains why investors prefer safer assets rather than investing in risky ones due to fear of losses. Prospect theory offers a more practical framework for comprehending investor conduct. The graph below shows Prospect theory.

Fig No.6 Prospect Theory (ASYMMETRY Capital Partners®, Global Tactical Rotation® , 2018)



While Modern Portfolio Theory establishes a risk-return framework for understanding portfolio choice, Prospect Theory explains the reason behind different investors' responsiveness to perceived gains and losses. Together, these theories provide a theoretical basis for examining the relationship between risk perception and portfolio choice.

Critical Reviews

The behavioral finance literature has extensively examined the connection between risk perception and portfolio selection. However, existing research provides both important limitations and useful insights. For example, (Lusardi, 2014) presented compelling evidence that financial education enhanced investors' capacity to evaluate risk and make well-informed portfolio decisions. Although their work is important in showing that knowledge lessened the misperception of danger, it tends to presume that greater literacy always results in sensible action. This viewpoint might ignore the fact that behavioral biases still exist among knowledgeable investors, which would reduce the study's capacity to explain the phenomena. This assumption is refuted by (Barber, 2001) which demonstrated that even reasonably knowledgeable investors frequently display overconfidence, resulting in excessive trading and poor portfolio performance, suggesting that only financial education might not be sufficient to address the biased risk perception. The research work of (Malmendier, 2011) offered a more dynamic viewpoint, indicating that risk aversion is more common among those who have experienced adverse economic conditions. Even while the study provided useful longitudinal data, it has been criticized for laying too much emphasis on macroeconomic experiences while failing to sufficiently account for individual level aspects like personality and cultural background. As per (Greenwood, 2014), investors often make incorrect risk estimates because they base

their expectations on current market patterns. This study advances our understanding of behavioral patterns; however, it made the assumptions that investors mostly rely on historical returns which may undervalue the influence of professional financial advice and forward-looking analysis on portfolio choices. While these studies were useful in identifying negative trends, they frequently used a life-cycle methodology which was not enough to capture the investors behavior in different socioeconomic and cultural contexts, particularly in developing countries. The models were performing well with the assumption of keeping risk preferences constant over a particular time period while ignoring anomalies and unanticipated economic shocks which may significantly alter investors risk bearing.

RESEARCH METHODOLY

The research implements a thorough and rigorous quantitative methodology to investigate how Mauritian retail investors' perceptions of risk affect their choice of portfolios. The approach incorporates accepted research principles to guarantee validity, reliability and in-depth analysis since the study is behavioral in nature. The study is based on positivist research philosophy which holds that reality is objective and measurable through observable and quantifiable data. As per (Saunders, 2019), positivist philosophy aims to produce consistent data, generalize findings and ultimately minimize researcher bias. Since the research uses statistical analysis to test the relationship between precisely defined variables namely risk perception and portfolio choice, positivism is relevant.

The objectives of the study are listed.

- To determine how retail investors in Mauritius consider risk and how it influences their choice of financial assets such as stocks, bonds, mutual funds, fixed deposits, and even cryptocurrencies.
- To determine how these investors make investment decisions and consider which risk level they are comfortable with, whether low, moderate, or high risk.

Research Approach

The research employs a deductive research paradigm, ensuring dependability, objectivity and replicability while focusing on numerical data and statistical analysis to test hypotheses. The hypotheses are listed below.

Hypothesis 1:

- **Ho:** Perception of risk does not influence portfolio selection in a significant way for Mauritian retail investors.
- **H1:** Perception of risk influences portfolio selection in a significant way for Mauritian retail investors.

Hypothesis 2:

- **Ho:** There is no significant relationship between the asset categories (stocks, bonds, mutual funds, fixed deposits and others) chosen by Mauritian retail investors and their level of risk aversion (conservative, balanced and aggressive).
- **H1:** There exists significant relationship between the asset categories (stocks, bonds, mutual funds, fixed deposits and others) chosen by Mauritian retail investors and their level of risk aversion (conservative, balanced and aggressive).

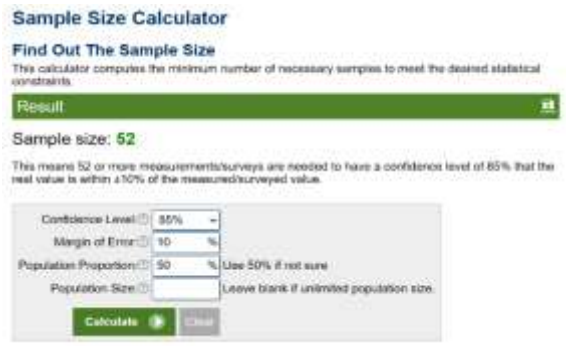
Research Design

This study adopted a quantitative, cross-sectional research design to determine the relationship between risk perception and portfolio choice among Mauritian retail investors. To effectively gather primary data from a large number of respondents, a survey-based research technique is used while meeting the study's eligibility criteria. Since surveys may record attitudes, opinions and behaviors in a standardized way, they are frequently employed (Bryman, 2016). This method works well for analyzing correlations between variables without the need of long-term observation. Convenience sampling, a non-probability sampling technique, is used to choose respondents based on their availability and willingness to take part. This method is useful and economical for study with limited access to a complete sample despite it restricts the generalizability of results. Moreover, the study is supported not just by primary data.

Sampling Method

To guarantee sufficient representation of the retail investor in Mauritius, the sample size for the research work was established by using a conventional sample size calculator. Higher confidence level of 90% produced a bigger sample size which was impractical because of time and resource limitations. Thus, the parameters were customized to confidence level of 85% and margin of error to 10%, resulting into a sample size of 52 respondents.

Fig No.7 Sample Size Calculator (Calculator.net, n.d.)



Although the unlimited sample size, this method improves the findings' dependability, leading to a convenience sample of 52 respondents being selected for the thesis. The limited size and non-random nature of the sample restrict the results from generalizing the wider community of retail investors in Mauritius. Hence, the outcomes should be read as evidence of associations within the sampled respondents rather than as representative estimates of all Mauritian retail investors. The respondents are mainly investment professionals, students doing internships in wealth management companies, people who invest with or without financial knowledge. For the purpose of the study, retail investors are defined as individuals making investment decisions using their personal funds and not managing investments on behalf of institutional clients including investment professionals where they reported making investment decisions for their own personal investment portfolios and their professional investment endeavors were excluded from the dependent variable. Despite this sample size is not ideal for generalization, it is sufficient for exploratory quantitative analysis and offers a starting point for future research.

Questionnaire Design

A structured questionnaire is used as the main study tool to gather data, separated into sections addressing multiple choice questions on demographic information of respondent and investment behavior, Likert-scale questions on a scale of 1 being strongly disagree to 5 being strongly agree, on risk perception and portfolio choice, and lastly short answer paragraph on impact of risk perception on portfolio choice. Risk perception was measured using 9 questions assessing respondents' perceptions regarding investment uncertainty, potential losses, volatility and perceived financial risk. In the other hand, portfolio choice was quantified through 6 items concerning respondents' preferences and allocation decisions across various investment strategies, as shown below.

Risk Perception (RP1–RP9)

RP1: I am comfortable taking financial risks when investing my money.
RP2: I prefer investments that offer high returns even if they are risky.
RP3: I believe that higher financial risk leads to higher financial reward.
RP4: I am willing to accept short-term losses for long-term investment gains.
RP5: I feel confident making investment decisions in uncertain market conditions.
RP6: I enjoy investing in financial markets even when outcomes are unpredictable.
RP7: I consider myself a risk-taker in financial decisions.
RP8: I avoid investment opportunities that have uncertain returns. *(reverse coded)*
RP9: I am willing to invest in volatile financial instruments such as stocks or cryptocurrency.

Portfolio Choice (PC1–PC6)

PC1: I prefer investing in stocks because of their high return potential.
PC2: I allocate part of my savings to government bonds or treasury bills for safety.
PC3: I invest in mutual funds to diversify my investment risk.
PC4: I prefer keeping money in fixed deposits for financial security.
PC5: I invest in real estate as a long-term wealth-building strategy.
PC6: I am willing to invest in cryptocurrency despite its volatility.

Composite scores were calculated through an average of the questions for each construct. The questionnaire is designed to be impartial and clear in order to minimize measurement errors. A pilot survey with 9 participants was carried out to evaluate the instrument's dependability and clarity. Feedback from the pilot survey is used to refine and increase the effectiveness of the questionnaire. After refined, structured and objective questionnaire was released to the population, data collection occurred and tabulated for best interpretation.

Data Analysis Techniques

Data analysis is performed using Excel, for assessment of the data. The study objectives and hypotheses are addressed using a number of statistical tests, each of which has a distinct function. First, descriptive statistics namely mean and standard deviations are employed to provide an overview of respondents' investment activity and risk perception levels as well as to describe demographic variables. Secondly, Pearson correlation is applied to determine the strength and direction of the linear relationship between the dependent and independent variables, assuming that the variables are continuous and normally distributed. On third position, multiple regression is used to evaluate how risk perception affects portfolio choice (Hair, 2019). Regression analysis lowers the possibility of omitted variable bias thereby improving the validity of the results. Lastly, reliability and consistency testing using Cronbach's Alpha is employed for a set of items in a questionnaire, especially those using Likert-scales. It assesses the degree to which a set of measures analyze the same underlying construct such as portfolio choice and risk perception. A coefficient of 0.7 or higher is typically regarded as acceptable while values greater than 0.8 signify good dependability (Hair, 2019). Together, these

statistical tests provide a comprehensive and systematic approach to data analysis, ensuring the reliability and importance of the study's findings.

Ethical Considerations

This study has ethical concerns on the research and the respondents, ensuring the study is conducted with respect, transparency and honesty. Participants are fully informed about the purpose of the study, the nature of the questions and how the data will be used. People are also told that participation is entirely voluntary and that quitting at any moment, would not have any negative consequences. This makes sure that individuals are not coerced instead they are fully informed about their involvement (Saunders, 2019). Throughout the whole research process, confidentiality and anonymity are strictly maintained. By not requesting respondents to divulge personal identifiers like name or contact details, the survey is completely anonymous. Protecting participant identity is advantageous where it promotes truthful responses and ultimately builds trust. The information will not be shared with outside parties and no unauthorized access is allowed. Furthermore, data will only be kept for as long as is required to finish the study before being safely disposed of. Sensitive or intrusive questions that could be uncomfortable or upsetting, are avoided in the questionnaire's design. For example, indirect questions are used to reduce the likelihood of embarrassment or unwillingness to respond while discussing financial matters such as income levels. There has been no fabrication of data or dishonesty in the presentation of results, and every attempt has been made to avoid plagiarism.

FINDINGS AND ANALYSIS

This segment of the study seeks to describe and interpret the outcomes of the survey of the level of risk awareness and the subsequent investment choices of Mauritian retail investors. The primary objective is to transform the collected raw data into the most meaningful insights to respond to the research questions and objectives. Data analysis was done using Ms. Excel and the various techniques to assess internal consistency. The findings are presented in tables and graphs for ease of interpretation. After cleaning the dataset, 52 out of 55 responses were deemed legitimate for analysis. Overall, by offering empirical evidence on how risk perception influence retail investors' investing decisions, this chapter serves a critical role in bridging the gap between data collection and conclusion.

Demographics Variables and Investment Behavior Analysis

Investment professionals and soon to be retail investors were asked to comment on demographic variables in section 2 with close-ended multiple-choice in section 3 with investment behavior and tick the box response options were provided where more than 1 answers can be obtained. The demographic variables and investment behavior of the participants are tabulated as follows.

Table No.1 – Demographic Variables

Demographic Variables	Response Option	Frequency	%
Gender	Male	26	50.0
	Female	26	50.0
	Total	52	100.0
Age	18-25	17	32.7
	26-35	19	36.5
	36-45	11	21.2
	46-55	5	9.6
	56 and above	0	0
	Total	52	100.0
Education Level	Secondary	9	17.3
	Diploma	2	3.8
	Bachelor's degree	29	55.8
	Master's degree	11	21.2
	Doctorate	1	1.9
	Total	52	100.0
Employment status	Full-time employed	46	88.5
	Part-time employed	0	0
	Student	3	5.8
	Retired	1	1.9
	Self-employed	2	3.8
	Total	52	100.0
After covering your expenses, how much of your income is usually available for savings or investment?	0%	0	0
	10%	7	13.5
	20%	14	26.9
	30%	11	21.2
	40%	6	11.5
	50%	11	21.2
	60%	0	0
	70%	1	1.9
	80%	0	0
	90%	1	1.9
	100%	1	1.9
	Total	52	100.0
Do you currently invest in financial assets?	Yes	24	46.2
	No	14	26.9
	I plan to invest in the future	14	26.9
	Total	52	100

To address potential gender bias in the findings, the study focused on 52 respondents with an almost equal gender split of 50% female and 50% male. 36.5% of respondents fell within the age bracket of 26 to 35, and 32.7% were aged 18 to 25. The majority of respondents were younger participants of the labor market. Percentages in the age ranges of 36-45 (21.2%) and 46-55 (9.6%) were smaller. However, none of the respondents are older than 56. With 55.8% of the sample having a bachelor's degree and 21.2% having a master's degree, they demonstrated a high degree of financial literacy.

Furthermore, 88.5% of respondents worked full-time, indicating stable finances and a steady source of income. Many respondents said they invest or save 20%, 30% or 50% of their income, although this shows only a modest financial capability. Finally, the different degrees of active investment are demonstrated by the fact that 46.2% of respondents are currently investing in financial assets, while the same proportion, 26.9%, is found in the groups of "do not invest" and "intend to invest in the future". This underscores the significance of risk perception in influencing portfolio decisions.

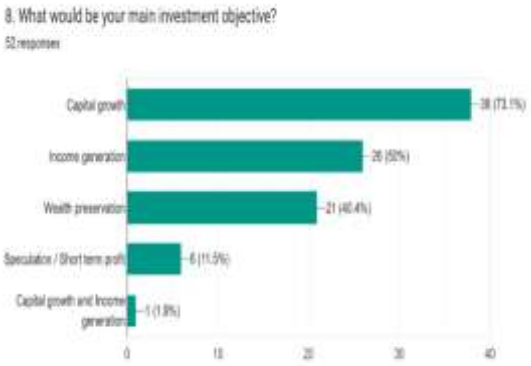
Table No.2 - Investment Behavior Variables

Investment Behavior Variables	Response Option	Frequency	%
How long have you been familiar investing in financial assets?	1-3 years	19	36.5
	4-7 years	4	7.7
	More than 7 years	11	21.2
	Not Familiar	18	34.6
	Total	52	100.0
How frequently do you review or plan to review your investment?	Weekly	6	11.5
	Monthly	20	38.5
	Quarterly	10	19.2
	Annually	8	15.4
	Rarely	8	15.4
	Total	52	100
How would you rate your financial knowledge?	Very low	5	9.6
	Low	6	11.5
	Medium	25	48.1
	High	12	23.1
	Very high	4	7.7
	Total	52	100
What is your typical investment horizon?	Short-term (Less than 1 year)	5	9.6
	Medium-term (1–5 years)	18	34.6
	Long-term (More than 5 years)	29	55.8
	Total	52	100
If your investment loses 10% of its value in a short period, what would you most likely do?	Sell immediately to avoid further losses	3	5.8
	Sell part of the investment	12	23.1
	Hold the investment and wait for recovery	24	46.2
	Invest more (buy additional units/assets)	13	25.0
	Total	52	100

Respondents' varied levels of financial participation and experience are reflected in their investment activity. Investment experience of a year to three years was reported by 36.5% of the participants. 34.6% stated they have never invested, therefore having no experience at all. Considering the fact that 21.2% of the participants have more than 7 years of investing experience, there may be some professional investors among the participants. Monthly reviews of their investment portfolio are done by 38.5% of participants while 19.2% do a quarterly review, which means that they have some commitment to managing their investments. While some respondents continued to indicate low knowledge, the majority of the participants ranked their financial knowledge at a medium level (48.1%), followed by high (23.1%) thereby indicating a generally adequate understanding of financial concepts. The results also indicate a forward-looking strategy to wealth building, with 55.8% of respondents favoring long-term investment perspectives and 34.6% favoring medium-term investments.

In addition, whether chosen alone or in combination with other objectives, capital expansion is the most frequently stated investment goal among participants, as illustrated in the chart below. A balanced approach to risk and return is demonstrated by the fact that a considerable number of respondents prioritize wealth protection and income generation. In contrast, only a small segment of the respondents considered short-term profits or speculation, indicating a lack of interest in high-risk strategies. In general, participants focus on the long-term financial security and growth.

Fig No.8 on Investment Behavior



Furthermore, respondents use a variety of sources to obtain information on investments and they strongly favor diverse channels to obtain investment information. The most popular sources which emphasizes a dependence on official and reliable information are financial news websites and banks/financial institutions. Also, some participants value advice from financial consultants, clearly seeing the benefit of professional advice. Finally, the findings suggest that investors, while making investment decisions, focus on a combination of channels to achieve the right degree of accessibility and reliability instead of choosing one single channel.

Fig No.9 on Investment Behavior



Descriptive Statistics

The table below illustrates the descriptive statistics.

Table No.3 – Descriptive statistics

Variables	N	Mean	Standard deviation
Risk Perception (RP)	52	3.38	0.92
Portfolio Choice (PC)	52	3.32	1.10

Among the 52 participants, the mean of risk perception being 3.38 and standard deviation of 0.92 suggests that investors have a balanced attitude toward risk instead of being extremely risk-averse or risk-taking. Even if the responses are not widely distributed, the comparatively moderate standard deviation indicates some variation in the perspective of risk viewing by the respondents. In the same wavelength, the average value of 3.32 for portfolio choice represents the moderate degree of participation in diverse investment decisions across the different asset classes. The standard deviation being slightly higher (1.10), it shows more unpredictability in the way the investors allocate their money. It is noticeable that even if the risk perception of investors is generally similar, their portfolio selections tend to differ more greatly thereby suggesting that other factor may also affect portfolio choice.

Reliability Testing – Cronbach's Alpha

Table No.4 – Cronbach Alpha for Risk Perception and Portfolio Choice

Variables	N	Cronbach's alpha
Risk Perception (RP)	52	0.98
Portfolio Choice (PC)	52	0.99

The Cronbach's alpha of 0.98 presents a very high degree of internal consistency since it is higher than the threshold of 0.70. This suggests that the items are extremely dependable and consistently reflect investors' risk perception. The Cronbach's alpha for Portfolio Choice is 0.99, indicating a very high degree of internal consistency where the construct is consistently measured and the items used to evaluate the portfolio allocation decisions are quite reliable. The outcome demonstrates that the measurement tool is reliable and appropriate for further statistical analysis.

Pearson Correlation Analysis

Pearson correlation analysis was conducted to determine the strength and direction of the relationship between perceived risk and investment choices and the result is listed below.

Fig No.10 Pearson Correlation Result

	Risk Perception	*Portfolio Choice*
Risk Perception	1	
Portfolio Choice	0.98696876	1

With a correlation coefficient of r = 0.9869, the correlation study shows a very high positive association between risk perception and portfolio choice. The nearly perfect positive linear connection between the two variables is indicated this value, which is extremely near to +1. This implies that investors perceiving higher risk threshold, are liable to make more significant adjustments in terms of diversifications to their portfolio choices as the risk perception rises. The strength of this link suggests that respondents' investment conduct is significantly influenced by their sense of risk. The outcomes provide compelling evidence that risk perception influences portfolio choice of Mauritian retail investors. However, this finding should be cautiously interpreted because the cross-sectional research methodology precludes causal inference and the robustness of the correlation prompts enquires about possible construct overlap and common-method bias.

Multiple Regression Analysis

Fig No.11 Multiple Regression Result

Variable	B	Std. Error	Beta	t	p-value
Constant	-0.65998	0.09508	—	-6.94101	<0.001
Risk perception	1.17754	0.02715	—	43.37106	<0.001
R^2	0.9741				
Adjusted R^2	0.9736				
F-statistic	1881.0487				
Model p-value	<0.001				

The findings of the regression show that risk perception and portfolio selection have a very strong positive association. The R Square of 0.974 explains that risk perception accounts for about 97.4% of the variation in portfolio choice and thus implying that investing decisions are significantly predicted by risk perception. It is also consistent with Pearson correlation coefficient of 0.9869. However, the remarkably elevated degree of the correlation necessitates prudence since it may mirror overlapping between the dependent and independent variables. The F – statistics of 1881.05 and F – value of 0.00 being below the threshold of 0.05 are significant thereby supporting the validity of the model. This suggests that the regression model as a whole is statistically significant. According to positive risk perception's beta coefficient of 1.178, portfolio choice rises in tandem with risk perception. In particular, portfolio choice increases roughly by 1.18 units for every unit rise in risk perception. The statistical significance of this link is shown by the p – value of 0.000. Although this has limited practical interpretation, the intercept of -0.660 indicates that portfolio choice would be negative when risk perception is zero. Hence, the null hypotheses (Ho) are rejected thereby accepting the alternative hypotheses (H_1). This indicates that portfolio selection is statistically significantly impacted by risk perception where more decisions on portfolio selection are made when risk perception is higher. Also, it indicates that there is a greater interest in diversified or higher-yielding investment options when an increase in perceived risk is linked to a rise in portfolio allocation choices.

Findings

This study successfully approached the research challenge by focusing on the effect of risk perception on the portfolio choice of retail investors in Mauritius. According to the descriptive data, respondents have a balanced investment attitude with moderate levels of risk perception of 3.38 and portfolio choice with 3.32. This is consistent with the sample's demographic profile which is primarily made up of young, well-educated and financially engaged people. The constructs' reliability was further confirmed by the high Cronbach's alpha values for both variables. As per Pearson correlation, investors who perceive higher levels of risk are more likely to actively modify their portfolios, which is found to be a very strong positive relationship between risk perception and portfolio choice. The regression results which show that risk perception accounts for 97.4% of the variation in portfolio choice, support this conclusion. The positive and statistically significant coefficient confirms that higher risk perception is strongly associated with portfolio choice. These results align with Modern Portfolio theory (Markowitz, 1952), highlighting the significance of risk-return trade-offs in investing choices. The findings also corroborate Prospect Theory (Kahneman, 1979), emphasizing how investors' subjective assessments of risk greatly affect their actions when faced with uncertainty. It is also noticeable that balanced risk profile is basically related to a diversified portfolio from low to high-risk assets by investing in stocks for capital appreciation to show their readiness to bear some level of risk and allocate parts of their investments in bonds for steadiness and foreseeable returns. It provides balance to their portfolio which is definitely a rational investment concept under the Modern Portfolio Theory so as to achieve the maximum returns for the given risk level. The study is also in accordance with Prospect Theory where the respondents tend to move to safer assets whenever the economic situation is unfavorable or invest in risky assets when good opportunities are perceived.

CONCLUSION

This study examined the relationship between risk perception and portfolio choice among Mauritian retail investors. The research shows that among Mauritian retail investors, the perception of risk is moderate, which is why investors generally build their portfolios in a balanced manner and include both low and high risk. In addition to that, the aim of the study is also to test behavioral finance, and in particular, Prospect Theory and Modern Portfolio Theory. The findings show a very strong positive connection between the two variables, with a correlation of 0.9869 and R Square of 0.974, suggesting that risk perception is closely associated with reported portfolio choice behavior among the respondents included in the research. The outcomes support the theoretical perspectives that risk perception of investors may play a vital role I portfolio selection.

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Modern Portfolio Theory emphasizes the significance of risk considerations in investment decisions whereas Prospect Theory provide explanation on behaviors of investors pertaining to their responsiveness to gains and losses.

Nevertheless, the results should be interpreted within the limitations of the study. The sample comprised of 52 participants selected through convenience sampling thereby limiting the generalizability of the findings. The cross-sectional design allows the study to identify an association but does not lay causality. The exceptionally strong relationship between the two measures should also be interpreted cautiously since both variables were obtained through self-reported responses which may include bias.

Despite being active participants, variations in the portfolio choices made, are influenced by, or attributable to, other factors including financial literacy, experience and risk perception bias, and what is available in the environment, both immediate and remote. More notably, and one of the most important factors of this study, is that it has identified a gap in literature and addressed it, particularly in the nascent emerging economy. This thesis, therefore, concludes that risk perception plays a role in the investment decisions of the retail investors in Mauritius. Further studies may build on these findings using larger and more representative samples and further examining the distinction between investors' risk perception and their actual portfolio selection behavior.

LIMITATIONS

Despite the study has made great contributions to better understanding the association between risk perception and the choice of portfolios, and it is also important to recognize some of the shortcomings of the study which influence how the findings can be generalized and interpreted. The sample size and sampling technique is the most prominent limitation. Convenience sampling led to the study being based on a sample of 52 respondents, which was a useful strategy considering the time and resources available to this research; however, this sample is very small and limits the generalization of the findings to the larger population of retail investors in Mauritius. It is possible that the sample is not representative of the varying profiles of investors, especially the older investors, and those with varying levels of income and financial literacy. The study also has some limitations due to being cross-sectional. The data collection had to be limited to a single time frame which means that the risk perception and investment behavior could not be measured as they change. Surveys are subject to response bias where a participant could answer questions dishonestly, and this could happen most readily with sensitive financial questions. Despite the attempts to create a survey that was unambiguous and unbiased, there is no way to erase measurement error completely. Likert scale questionnaires and Cronbach's alpha statistics can create uniformity and rationality in a dataset, but they do not capture the full range of complexities involved in human responses. Lastly, a further important limitation is the very high correlation and R^2 values recorded in the analysis. Having strong relationships between risk perception and choices made in a portfolio is good, but these values can also suggest issues, including multicollinearity, overfitting, and lack of consideration of relevant variables. Other variables, including levels of income, understanding of finances, accessibility to markets, and behavioral biases, could further impact portfolio choices but were not sufficiently addressed.

RECOMMENDATIONS

The Mauritian retail investor financial study provided evidence-based insight which guided the formulation of implementable practical and policy-oriented solutions to improve investment decision-making, financial market participation, and portfolio allocation efficiency. To begin, significant improvements to retail investors' financial literacy is paramount and must be given the utmost priority. Risk perception is one of the variables that influence portfolio choice. As the study illustrates, misconceptions about risk can lead to poor decisions. Stakeholders such as financial institutions, educational institutions, and regulatory bodies must join forces and construct structured educational programs. Secondly, personalized investment advisory services that incorporate risk perception and risk profiling will better equip investors to understand their risk appetite. Digital services will further enhance the reach of advisory services to under-served investors at an affordable price. Developing more customer-friendly financial products and categorizing them based on risk would be ideal for the investors market. For customers who want investment funds but do not want to actively engage in the financial markets or deal with the complexities of asset allocation, the creation of lower entry barrier options like balanced mutual funds or target date funds would be appropriate. In Mauritius, the majority of investors are still rather conservative and prefer fixed deposits or property. Campaigns have to be designed to emphasize the positives of diversification and the negatives of system over-concentration in a single investment. Success stories, practical examples and

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studies have to be included in the campaigns to inspire and guide the required behavioral flexibility. Increased sample sizes, longitudinal studies, use of stochastic sampling and the consideration of additional variables would be highly beneficial in ensuring the accuracy and the overall comprehension of the study topic, making the conclusions more definite. These recommendations improve behavioral as well as structuring issues and provide an inclusive and active financial market.

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