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The Multi-Asset Paradox: Why Investors Choose or Avoid Diversified Funds

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Abstract:
Multi-Asset Allocation Funds have gained prominence as investment vehicles designed to balance risk and return through diversification across multiple asset classes. Despite their theoretical advantages, investor adoption remains inconsistent, giving rise to what may be described as the multi-asset paradox. This study examines the factors influencing consumer perception of multi-asset allocation funds, with particular emphasis on perceived risk–return trade-off, professional fund management, investor awareness, diversification benefits, product complexity, and transparency concerns. Primary data were collected using a structured questionnaire, and reliability was assessed through Cronbach's Alpha. Hypotheses were tested using regression analysis. The results indicate high internal consistency among measurement constructs and reveal that diversification benefits, awareness levels, transparency, and perceived risk–return trade-off significantly and positively influence consumer perception. While professional management enhances investor confidence, perceived product complexity adversely affects perception, highlighting a key barrier to adoption. The findings suggest that improved transparency, investor education, and simplified product communication can enhance investor acceptance of multi-asset funds, thereby bridging the gap between theoretical appeal and actual investment behavior.

Keywords: Multi-Asset Funds, Diversification, Investor Perception, Risk–Return Trade-off, Transparency.

1. Introduction

Multi-Asset Allocation Funds are investment funds that allocate capital across multiple different asset classes such as stocks, bonds, commodities, real estate, and sometimes alternative investments. The purpose of such funds is to achieve diversification, balance risk and return, and provide more stable and resilient portfolio outcomes, especially amid market volatility and economic uncertainties [1]. This analysis investigates the asset allocation trends and the effectiveness of unit trusts in Malaysia during the post-crisis era, employing risk-adjusted performance metrics and a multi-factor model from 2000 to 2004. The results from the multifactor model indicate that all funds with varying objectives achieved positive alphas, with the exception of income funds, while growth funds ranked among the highest performers. Balanced funds demonstrated the highest level of diversification, effectively mitigating approximately 70%-80% of unsystematic risk. However, the momentum factor does not significantly contribute to explaining the performance of unit trusts in Malaysia [2].

1.2 Key points about Multi-Asset Allocation Funds:

1.2.1 Diversification and Risk Management

Multi-asset diversification has demonstrated a beneficial and substantial impact on the robustness of retail investor portfolios. Diversifying investments across several financial instruments enables investors to mitigate risk and enhance portfolio stability. This method is crucial for implementation, particularly by retail investors with constrained resources and insufficient experience [3].

1.2.2 Use of Advanced Models

The Black–Litterman (BL) approach enables investors to include their subjective perspectives into asset allocation optimization. This study develops a multi-asset allocation portfolio of iShares exchange-traded funds (ETFs) utilizing mean-variance (MV) and Black-Litterman (BL) models [4].

1.2.3 Investment Strategies and Flexibility

Two investing strategies, specifically lump-sum investment and systematic investment plan (SIP), are examined and implemented in ETF portfolios. Three subjective investor perspectives are formulated for the Black-Litterman model based on a momentum approach [4].

1.2.4 Technological Enhancements

Some recent methods like exploration of machine learning (ML) models and deep learning to forecast asset covariance and return patterns, potentially improving portfolio allocation decisions over medium-term horizons [5][6].

1.3 How do multi-asset funds balance risk and return in diverse markets?

1.3.1 Diversification

The assertion that a judicious investor ought to be diversified is broadly acknowledged, if not irrefutable, for typical investors—those lacking a plausible expectation of impacting firm management or business strategy. Fiduciary obligation mandates that trustees and investment managers ensure their customers maintain diversification. However, the concept of diversity is not clearly expressed or comprehended, even by astute investors. Diversification can nearly eradicate all company-specific risk associated with equity investments without compromising expected returns [7].

1.3.2 Risk Budgeting and Factor Risk Balance

Risk budgeting involves the allocation of portfolio risk among assets based on established risk budgets. The efficacy of Risk Budgeting in attaining genuine diversification may be contested, as asset returns are frequently affected by a limited set of risk variables. From this viewpoint, a question emerges: can risk be allocated at the factor level utilizing the Risk Budgeting approaches?[8]

1.3.3 Optimization Models

Multi-asset funds employ portfolios optimized with skewness and kurtosis are sustainable and markedly distinct from mean-variance optimized portfolios, which exhibit asymmetric and fat-tail risk.

The results further validate its importance in balancing the additional risk factors and rewards in Asian emerging stock markets for sustained returns[9].

1.3.4 Market Cap Weighted Indexing as a Baseline

Many multi-asset funds start with indexed, market-cap weighted allocations that show how the whole market is doing. They utilize this as a diversified base and then add to it with active risk management and tactical changes [7].

2. REVIEW OF LITERATURE

RISK AND RETURN TRADE OFF OF CONSUMER PERCEPTION ON MULTI-ASSET ALLOCATION FUNDS

Christina Sheela & Roopan (2025) Examined 45 mutual fund portfolios in India during 2020–2024 to analyze their risk–return characteristics. Using entropy, cluster analysis, and Sharpe and Treynor ratios, it found that higher returns are associated with higher risk. The study highlights the importance of understanding the risk–return trade-off for informed investment decisions.
Kahneman & Tversky (1979) This seminal work introduced Prospect Theory to explain decision-making under risk. Investors tend to weigh losses more heavily than gains and misjudge probabilities. These behavioral biases strongly influence how investors perceive risk and return in financial products.
Das (2023) Analyzed the performance of equity multi-cap funds in India. Results showed variations in risk levels and risk-adjusted returns across funds. Investor perception was found to be closely linked to observed risk–return performance.

H1: Perceived risk–return trade-off has a significant effect on consumer perception of multi-asset allocation funds

PROFESSIONAL MANAGEMENT OF CONSUMER PERCEPTION ON MULTI-ASSET ALLOCATION FUNDS

Agarwal & Pradhan (2018) Evaluated Indian open-ended equity mutual funds using CAPM and multifactor models. The findings provided evidence of fund managers' stock-picking and market-timing abilities. Professional management was shown to contribute positively to fund performance and investor confidence.

Sharpe (2010) Sharpe examined adaptive asset allocation strategies through simulation models. Dynamic asset allocation was found to outperform static strategies by responding to market changes. The study supports the role of professional expertise in portfolio management.
Karoui (2013) Analyzed asset allocation decisions in hybrid funds. It showed that fund managers adjust equity exposure based on past performance, and investors follow these trends. Professional management behavior significantly influences investor perception.
H2: Professional fund management has a significant positive effect on consumer perception of multi-asset allocation funds

AWARENESS LEVELS OF CONSUMER PERCEPTION ON MULTI-ASSET ALLOCATION FUNDS

Kaur & Rawat (2025) Examined the role of financial literacy in improving awareness of equity-based funds among Indian investors. Higher literacy enhanced confidence, understanding, and participation. Consumer awareness was identified as a key factor shaping perception.

Konnur & Byahatti (2025) Explored household financial asset allocation patterns in India. Increased financial literacy encouraged a shift from bank deposits to market-linked instruments. Awareness significantly influenced investment choices.

Van Rooij & Alessie (2011) Investigated the relationship between financial literacy and stock market participation. Financially literate individuals were more likely to invest in diversified products. Awareness improved confidence and market engagement.

Calcagno (2014) Examined the relationship between financial literacy and the demand for financial advice. It found that low-literacy investors often avoid complex financial products and advisory services. Improved awareness encourages informed decision-making and positive perception of investment products.

H3: Consumer awareness has a significant influence on consumer perception of multi-asset allocation funds

DIVERSIFICATION BENEFITS OF CONSUMER PERCEPTION ON MULTI-ASSET ALLOCATION FUNDS

Goetzmann, & Kumar (2008) Analyzed equity portfolio diversification among U.S. investors. Many investors held under-diversified portfolios, particularly younger and less educated individuals. The findings highlighted the cost of poor diversification and its impact on portfolio performance.

Mhavarkar (2023) Examined multi-asset portfolio selection using mean–variance optimization. Correlation-aware asset selection improved diversification and reduced portfolio risk. The study demonstrated the benefits of diversification in portfolio efficiency.

Choueifaty & Coignard (2008) This research proposed a maximum diversification framework for portfolio construction. Risk-based allocation outperformed traditional approaches. The findings emphasized diversification as a key driver of risk-adjusted returns.

H4: Diversification benefits significantly influence consumer perception of multi-asset allocation funds

PRODUCT COMPLEXITY OF CONSUMER PERCEPTION ON MULTI-ASSET ALLOCATION FUNDS

Allgood & Walstad (2016) Examined the effects of perceived and actual financial literacy on financial behavior. Misalignment between knowledge and confidence led to poor decisions. Perceived complexity negatively influenced investor perception and outcomes.

Chen & Volpe (1998) This research assessed financial literacy among college students. Results showed generally low levels of financial knowledge. Complexity in financial products discouraged informed decision-making.

Hung & Yoong (2009) Reviewed methods of defining and measuring financial literacy. It highlighted difficulties faced by individuals in understanding complex financial products. Reducing complexity was recommended to improve decision-making.

Almenberg (2015) Analyzed the relationship between gender, financial literacy, and stock market participation. It found that lower financial literacy increases hesitation toward complex financial instruments. Reducing perceived complexity helps improve participation and perception among investors.

H5: Perceived complexity of multi-asset allocation funds has a significant negative effect on consumer perception

TRANSPARENCY CONCERNS OF CONSUMER PERCEPTION ON MULTI-ASSET ALLOCATION FUNDS

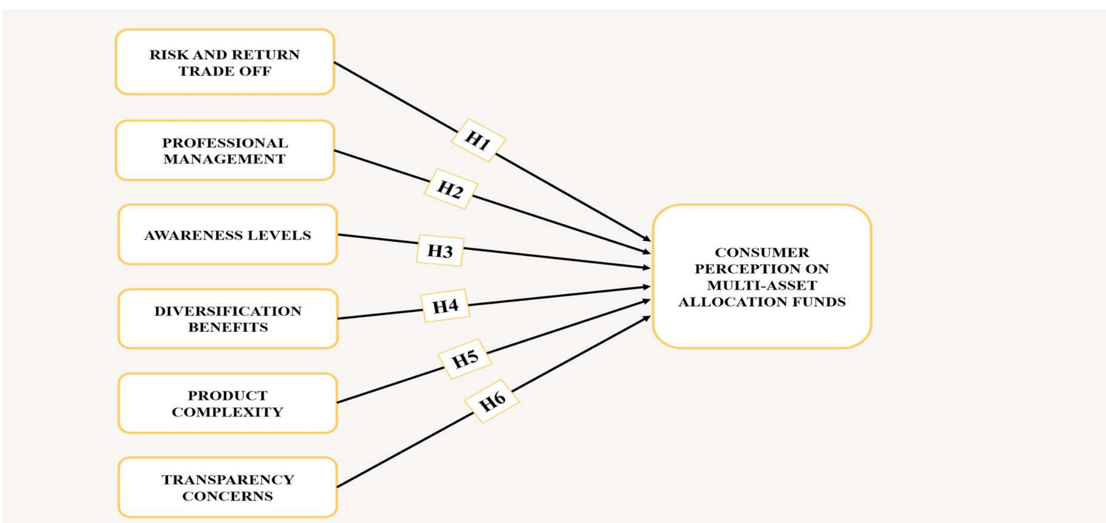
Soumya & Padmavathi (2025) examined the influence of financial literacy on investment behavior. Transparent financial information improved investor confidence and diversification behavior. Lack of clarity reduced effective decision-making.

Dash, et al. (2023) analyzed the effect of portfolio allocation on mutual fund performance. Clear disclosure of asset allocation helped investors understand fund behavior. Transparency improved trust and perception. **Campbell, et al. (2002)** examined rising idiosyncratic risk in individual stocks. Increased volatility highlighted the need for transparent risk disclosure. Transparency plays a critical role in investor understanding and perception.

H6: Transparency-related issues significantly affect consumer perception of multi-asset allocation funds

3. RESEARCH METHODOLOGY

- **Conceptual Model:**



- **Statement of the Problem:**
  Despite the benefits of multi-asset allocation funds, many investors remain unaware or hesitant to invest due to perceived complexity, risk, and lack of transparency. Understanding how perceived risk-return, diversification benefits, and professional management influence investor decisions is crucial. This study aims to explore these factors to improve investor awareness, trust, and adoption of multi-asset funds.

- **Research Gap:**

1. Limited studies focus on Indian retail investors' perception of multi-asset allocation funds.

2. The combined impact of perceived risk–return, diversification benefits, and professional management on investment decisions is underexplored.
3. Issues related to fund complexity, transparency, and investor awareness in multi-asset allocation funds remain insufficiently examined.

Objective of the Study

1. To examine the influence of the perceived risk–return trade-off on consumer perception of multi-asset allocation funds.
2. To analyze the impact of professional fund management on consumers' trust and overall perception of multi-asset allocation funds.
3. To assess the level of consumer awareness regarding multi-asset allocation funds and its effect on their perception.
4. To evaluate how perceived diversification benefits of multi-asset allocation funds influence consumer perception and investment inclination.
5. To investigate the effect of perceived complexity of multi-asset allocation funds on consumer perception.
6. To identify the role of transparency-related factors in shaping consumer perception of multi-asset allocation funds.

Hypothesis of the Study:

H1: Perceived risk–return trade-off has a significant effect on consumer perception of multi-asset allocation funds.
H2: Professional fund management has a significant positive effect on consumer perception of multi-asset allocation funds.
H3: Consumer awareness has a significant influence on consumer perception of multi-asset allocation funds.
H4: Diversification benefits significantly influence consumer perception of multi-asset allocation funds.
H5: Perceived complexity of multi-asset allocation funds has a significant negative effect on consumer perception.
H6: Transparency-related issues significantly affect consumer perception of multi-asset allocation fund

4. DATA ANALYSIS AND RESULTS

Table -1 Cronbach Alpha

Variables	Numbers of Items	Cronbach Alpha
Risk and Return Trade-off	5	0.811
Professional Management	5	0.729
Awareness Levels	5	0.736
Diversification Benefits	5	0.815
Product Complexity	5	0.871
Transparency Concerns	5	0.866
Consumer Perception on Multi-Asset Allocation Funds	5	0.789
Overall Cronbach Alpha	35	0.927

Interpretation:
The reliability analysis indicates strong internal consistency across all constructs, as all Cronbach's alpha values exceed the acceptable threshold of 0.70. Variables such as Product Complexity, Transparency Concerns, and Diversification Benefits show particularly high reliability, reflecting consistent measurement. The overall Cronbach's alpha of 0.927 confirms excellent reliability of the questionnaire, making it suitable for further statistical analysis.

Table -2 Hypothesis Testing through Regression

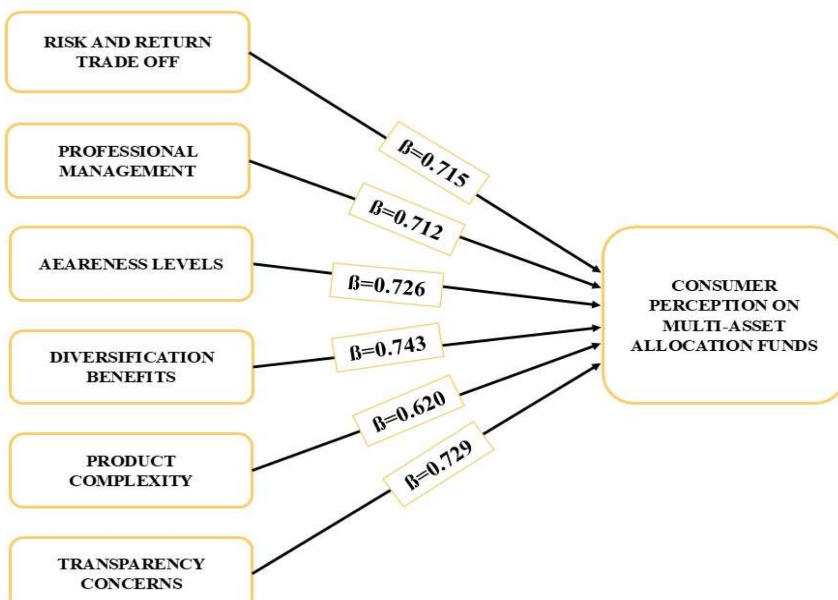
Hypothesis	Variables	Beta Coefficient	R^2	P- Value
H1	Risk and Return Trade-off & Consumer Perception on Multi-Asset Allocation Funds	0.715	0.511	0.000
H2	Professional Management & Consumer Perception on Multi-Asset Allocation Funds	0.712	0.506	0.000
H3	Awareness Levels & Consumer Perception on Multi-Asset Allocation Funds	0.726	0.528	0.000
H4	Diversification Benefits & Consumer Perception on Multi-Asset Allocation Funds	0.743	0.553	0.000
H5	Product Complexity & Consumer Perception on Multi-Asset Allocation Funds	0.620	0.384	0.000
H6	Transparency Concerns & Consumer Perception on Multi-Asset Allocation Funds	0.729	0.531	0.000

Interpretation:

The regression analysis reveals that all six independent variables have a **positive and statistically significant influence** on Consumer Perception toward Multi-Asset Allocation Funds. For **H1**, Risk and Return Trade-off shows a strong positive impact (β = 0.715) and explains 51.1% of the variation in consumer perception, indicating that investors' evaluation of risk and return plays a crucial role in shaping their perceptions. **H2** indicates that Professional Management significantly influences consumer perception (β = 0.712), with 50.6% explanatory power, highlighting the importance of fund managers' expertise and credibility.

In **H3**, Awareness Levels exhibit a strong positive relationship (β = 0.726) and explain 52.8% of the variance, suggesting that better-informed investors tend to have more favorable perceptions of multi-asset funds. **H4** shows that Diversification Benefits have the **strongest influence** among all variables (β = 0.743; R^2 = 0.553), emphasizing that risk spreading across asset classes is the most influential factor in shaping positive consumer perception. **H5** reveals that Product Complexity has a comparatively lower but still significant impact (β = 0.620; R^2 = 0.384), implying that while complexity affects perception, it is less influential than other factors. **H6** demonstrates that Transparency Concerns significantly affect consumer perception (β = 0.729; R^2 = 0.531), underscoring the importance of clear information disclosure and trust.

All hypotheses are supported at the **1% significance level (p = 0.000)**, confirming that each factor meaningfully contributes to consumer perception of multi-asset allocation funds.



OVERALL FINDINGS

- All measurement constructs show high reliability, confirming the robustness of the research instrument.
- Diversification benefits emerge as the strongest factor influencing consumer perception of multi-asset allocation funds.

- Investor awareness significantly enhances favorable perception and investment inclination.
- Transparency and clarity in fund operations strongly influence investor trust and acceptance.
- Professional fund management positively impacts consumer confidence in multi-asset funds.
- Product complexity negatively affects investor perception, acting as a major barrier to adoption.
- The findings validate the existence of the *multi-asset paradox*, where theoretically superior products face resistance due to behavioral and informational constraints.

DISCUSSION

The results of the regression analysis clearly demonstrate that all the proposed hypotheses (H1–H6) are empirically supported, as the p-values for all relationships are 0.000, indicating significance at the 1% level. This confirms that the selected factors play a meaningful role in shaping consumer perception toward multi-asset allocation funds.

The risk and return trade-off (H1) shows a strong positive influence on consumer perception ($\beta = 0.715$; $R^2 = 0.511$). This suggests that investors place high importance on achieving an optimal balance between risk and returns when evaluating multi-asset funds. A well-communicated risk–return profile enhances confidence and positively shapes perceptions.

The findings for professional management (H2) indicate a significant positive relationship ($\beta = 0.712$; $R^2 = 0.506$). This highlights that the expertise, experience, and credibility of fund managers substantially influence investor trust and perception. Consumers are more likely to perceive multi-asset allocation funds favorably when they believe their investments are managed by skilled professionals.

Awareness levels (H3) also exhibit a strong positive effect ($\beta = 0.726$; $R^2 = 0.528$), implying that informed investors develop more favorable perceptions. This result emphasizes the role of financial literacy, marketing communication, and investor education in improving acceptance and understanding of multi-asset allocation funds.

Among all variables, diversification benefits (H4) emerge as the most influential factor ($\beta = 0.743$; $R^2 = 0.553$). This indicates that consumers highly value the ability of multi-asset funds to spread risk across different asset classes. The higher explanatory power suggests that diversification is the key driver of positive perception, reinforcing the core objective of multi-asset allocation strategies.

The relationship between product complexity (H5) and consumer perception, though significant, shows comparatively lower influence ($\beta = 0.620$; $R^2 = 0.384$). This suggests that while product structure and features affect perception, excessive complexity may limit investor understanding and reduce its overall impact. Simplification and clarity can therefore enhance consumer acceptance.

Finally, transparency concerns (H6) demonstrate a strong and significant influence ($\beta = 0.729$; $R^2 = 0.531$). This finding underscores the importance of clear disclosures, regular communication, and transparency in fund operations. Greater transparency reduces uncertainty and builds investor confidence, thereby improving perception.

MANAGERIAL IMPLICATIONS

Fund houses should highlight diversification and risk management benefits in promotional strategies. Simplification of product structure and communication can reduce perceived complexity. Transparent disclosure of asset allocation, fees, and performance can build investor trust. Investor education initiatives and financial literacy programs should be strengthened. Advisors should align product recommendations with investors' risk tolerance and understanding. Digital tools and visual dashboards can improve comprehension of multi-asset portfolios.

THEORETICAL IMPLICATIONS

The study reinforces Modern Portfolio Theory by empirically validating diversification benefits.It extends Behavioral Finance literature by explaining investor hesitation despite rational advantages.The findings bridge the gap between theoretical asset allocation models and real-world investor behavior.The research highlights the role of perceived complexity and transparency in investment decision-making.It contributes to limited empirical literature on multi-asset fund perception in the Indian context.

PRACTICAL IMPLICATIONS

Mutual fund companies can redesign communication strategies to improve investor engagement.Simplified disclosures can help retail investors make informed decisions.Financial advisors can use the findings to address investor concerns proactively.Policymakers can promote multi-asset funds through investor awareness campaigns.Technology-driven platforms can enhance accessibility and understanding of diversified investments.

5. CONCLUSION

Multi-asset allocation funds offer strong diversification and risk–return advantages, yet investor adoption is influenced more by perception than theory. While diversification, awareness, transparency, and professional management positively shape investor perception, product complexity discourages acceptance. Simplifying products and improving investor education and transparency can help overcome this paradox and increase adoption.

LIMITATIONS AND SCOPE OF THE STUDY

The study is limited to a specific geographic and demographic segment of investors. Sample size constraints may limit the generalizability of results The analysis is based on self-reported perceptions, which may involve respondent bias.Market conditions and investor sentiment may change over time.Only selected perceptual variables were considered.Future studies can include a larger and more diverse sample across regions.Longitudinal studies can examine changes in perception over different market cycles.Comparative studies between single-asset and multi-asset funds can be conducted.The impact of digital advisory platforms and robo-advisors can be explored.Future research may incorporate qualitative methods such as interviews or focus groups.

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