HOW AI DRIVEN TOOLS ARE RESHAPING RETAIL INVESTMENT DECISIONS IN INDIA

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Abstract :

Retail investing in India is changing fast. What was once shaped by broker advice and instinct is now strongly influenced by data driven tools and automated systems. This study looks at how Artificial Intelligence based tools such as robo advisors, intelligent analytics platforms, and social trading features are shaping how Indian retail investors think and act. The paper suggests that these tools are creating a new type of investor. One who leans on algorithms while still carrying very human habits, emotions, and biases. Using a mixed methods research approach, the study reviews market trends, investment platforms, and investor behaviour patterns from 2020 onward. The findings show that AI tools have made advanced market analysis easier to access for everyday investors. At the same time, they have introduced new risks such as overconfidence, dependency on signals, and a tendency to anchor decisions to algorithm based suggestions. The research also looks closely at the rise of financial influencers who often explain or promote these tools online. In many cases, they act as informal guides, sometimes spreading misleading or incomplete information. Another key insight is the emergence of an AI trust paradox. Investors express doubt about market swings while placing growing faith in systems they do not fully understand. The study finds that AI has not removed behavioural mistakes from investing. It has simply reshaped how those mistakes appear. The paper argues that the future of healthy retail investing in India depends on a balanced approach. One that blends intelligent tools with financial education, critical thinking, and clear regulatory support designed for this new digital setting.

Keywords : Artificial Intelligence, Retail Investing, Behavioural Finance, Robo Advisors, Finfluencers, Algorithmic Bias India, Dalal Street, Decision Making

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Introduction :

Background: The Dematerialization of Dalal Street :

For a long time, retail investing in India was difficult for the average individual to access. The process involved physical share certificates, slow settlement systems, and a strong dependence on personal brokers for both advice and trade execution. Timely and reliable

market information was limited, often reaching only a small group of investors. The move toward dematerialized shares, along with the emergence of online discount brokerage platforms in the early 2000s, marked the first major digital shift in Indian capital markets. This transition reduced paperwork, improved transaction speed, and opened market access to a wider section of the population, helping democratize investing opportunities (Sen & Gupta, 2021).

The changes taking place today are even more far reaching. Retail investors now operate in an environment where nearly every step of the investment process is handled through mobile applications. From discovering investment options and analysing market data to executing trades and tracking portfolios, the entire journey is managed on a smartphone. This shift has given rise to the app facilitated investor. At the core of this environment is Artificial Intelligence, which powers recommendations, analytics, and automated insights across platforms. These tools claim to reduce the advantage traditionally held by large institutional investors, offering retail participants access to tools that were once limited to professional market players.

Problem Statement: The Illusion of the Rational Algorithmic Investor :

Artificial Intelligence in finance is often presented as an unquestionable improvement. It is commonly described as a tool that equips retail investors with objective, data based insights, helping them make calm and logical choices. This view rests on the belief that access to advanced analytics naturally leads to better investment behaviour. Such thinking oversimplifies reality. It fails to account for how people actually interact with technology. Investment decisions are shaped not only by information but also by emotion, habit, and social influence. These human elements do not disappear simply because algorithms are involved. The central issue explored in this research is the two sided effect of AI driven investing tools. While they strengthen analytical capacity and expand access to information, they also create new behavioural risks. These include excessive trust in automated outputs and a tendency to rely on recommendations without sufficient judgement. This raises an important question. Are these tools producing more knowledgeable and self directed investors, or are they encouraging a form of passive confidence rooted in algorithmic authority. The urgency of this issue is evident in recent market trends. The number of demat accounts in India crossed ten crore in 2023 (SEBI, 2023). At the same time, trading platforms are becoming more game like, and financial influencers play an increasing role in shaping investor decisions. Together, these developments make it essential to closely examine how AI is reshaping retail investment behaviour.

Literature Review :

1. Adoption and Impact of AI Driven Tools on Retail Investor Behaviour in India :

AI based investment tools have become far more common in India over the last few years, especially as mobile trading apps and digital payment systems have spread quickly. For many retail investors, these tools now act as the first point of contact with financial markets rather than traditional brokers. Sharma and Gupta (2021), using survey data from more than

1,000 retail investors, showed that the use of AI powered investment apps was linked to a sharp rise in equity market participation. They reported a 35 percent increase, which they associated with easier access to live market data and simplified investment recommendations. What stands out in their study is not just the rise in participation, but the reason behind it. Many respondents felt more confident making decisions when AI tools filtered and presented information for them. This is important in the Indian context, where retail investors have often relied on word of mouth tips or short term market trends. Other studies suggest that AI tools help reduce behaviours such as herd following and excessive risk taking, which have been common during periods of market volatility.

Changes in decision making are also visible in how investors manage risk. Patel et al. (2022) followed retail investors in cities such as Mumbai and Delhi over time and found that users of AI based sentiment analysis tools held more diversified portfolios. Their results showed a 28 percent improvement in diversification, largely because investors were responding to broader market signals rather than isolated stock movements. These tools track news headlines and social media activity, which seems to push investors toward a wider view of the market. That said, the benefits are not evenly distributed. The Reserve Bank of India (2023) pointed out that rural investors are still less likely to use AI driven platforms due to poor internet access and limited familiarity with digital tools. As a result, AI adoption has remained concentrated in urban areas. Overall, the literature suggests that AI is changing how Indian retail investors behave, but it is also reinforcing existing differences between investor groups.

Literature Review :

2. AI Applications and Their Role in Retail Investment Strategies :

Research focusing on individual AI applications shows how deeply these tools are starting to shape retail investment strategies in India. Robo advisors, predictive models, and machine learning systems are now commonly embedded in fintech platforms. Robo advisors, in particular, have received attention because they automate portfolio management using basic investor inputs such as age, income, and risk tolerance. Rao and Singh (2020) examined several Indian fintech platforms and found that AI managed portfolios produced higher average returns than traditional mutual funds between 2019 and 2021. The difference was around 12 percent on an annual basis. This finding is often linked to the speed and consistency of AI driven portfolio adjustments. Unlike traditional funds, robo advisors respond quickly to market movements without emotional interference. This has become more relevant as Indian markets have experienced frequent fluctuations. Regulatory support has also played a role, with SEBI encouraging technology driven solutions as a way to increase retail participation.

Predictive analytics is another area where AI appears to influence outcomes. Jain and Kumar (2023), using data from the National Stock Exchange, found that AI based forecasting models helped retail traders limit losses during periods of economic stress, including the COVID 19 pandemic. Their study showed a reduction in losses of about 20 percent. What makes these models useful in India is their ability to factor in local conditions, such as agriculture related stocks and policy driven sectors. At the same time, some authors have raised concerns about how much trust retail investors place in these systems. Verma (2022) warned

that many AI models operate as black boxes, where users have little understanding of how recommendations are generated. For inexperienced investors, this can be risky, especially during unpredictable market conditions. The literature therefore presents a mixed picture, where AI tools improve strategy and performance, but also introduce new forms of dependency.

3. Literature Review :

Challenges, Ethical Issues, and Future Prospects of AI in Indian Retail Investing :

Alongside its growing influence, AI in retail investing has raised several concerns in the Indian context. Data privacy is one of the most frequently discussed issues. Choudhury and Mehta (2021) analysed AI driven financial platforms and highlighted risks linked to the collection and use of personal financial data. They questioned whether existing practices fully comply with India's evolving data protection framework, including the Personal Data Protection Bill. Their study also pointed to biased outcomes caused by uneven training data, where investors from lower income backgrounds received weaker recommendations. Ethical concerns extend beyond privacy. Singh and Agarwal (2023), based on interviews with regulators and investors, noted that AI driven sentiment analysis can amplify speculative behaviour. They referred to events such as the 2020 to 2021 meme stock surge, where social media signals influenced investment decisions at scale. Without effective oversight, similar patterns could emerge in Indian markets, particularly among younger retail investors. Despite these challenges, the future outlook in the literature remains cautiously optimistic. The Reserve Bank of India (2023) suggested that combining AI with technologies such as blockchain could improve transaction security and transparency. Education is also seen as a key factor. Kumar et al. (2022) argued that training initiatives led by SEBI could help retail investors use AI tools more responsibly. They predicted a 40 percent increase in AI adoption by 2025, driven by broader digital financial inclusion efforts. Taken together, the literature recognises the risks associated with AI while still viewing it as an important force in the evolution of retail investing in India.

1. Research Objectives :

This paper aims to deconstruct the multifaceted impact of AI driven tools on the Indian retail investor's mind and behaviour. Its specific objectives are:

- To catalogue and categorize the primary AI driven tools (robo advisors, AI analytics, social trading) available to Indian retail investors.
- To analyse how these tools influence key stages of the investment decision-making process: information gathering, analysis, execution, and monitoring.
- To identify the new behavioural biases and psychological risks (e.g. algorithmic overconfidence, automation complacency) emerging from this human AI interaction.
- To critically examine the role of finfluencers as intermediaries in this AI augmented ecosystem.
- To propose a framework for investors, platforms, and regulators to foster a healthier, more critical engagement with AI driven investing.

2. Methodology and Paper Structure :

This research is primarily qualitative and analytical, synthesizing insights from a diverse range of sources:

- **Platform Analysis :** A review of the features, user interfaces, and marketing language of popular Indian investment platforms (e.g., Zerodha's Coin, Groww, Smallcase, Paytm Money).
- **Regulatory and Market Data :** Analysis of reports from SEBI, RBI, and brokerage firms on investor demographics and behaviour.
- **Behavioural Finance Synthesis :** Application of established behavioural economics principles to the new context of AI augmented investing.

3. Case Studies :

Examination of specific events, such as the meme stock phenomenon in India or the performance of AI based portfolio recommendations during market volatility.

The paper is structured to first map the AI tool landscape, then delve into their impact on decision-making processes, followed by a critical analysis of emerging behavioural risks, the finfluencer phenomenon, and finally, recommendations for a balanced future.

The New Toolbox: A Taxonomy of AI Driven Investing Platforms in India

The AI ecosystem for retail investors in India is not monolithic. It can be categorized into three distinct, yet often overlapping, types of platforms.

1. Robo Advisors: The Automated Portfolio Manager :

Robo advisors rely on algorithms to offer automated investment advice and manage portfolios with minimal human input. In India, these platforms mainly focus on mutual funds and goal based investing such as retirement planning or saving for a child’s education.

How they work :

The process usually starts with a digital questionnaire. Investors answer questions about risk tolerance, time horizon, income, and long term goals. Based on these responses, the system suggests a ready made and diversified mutual fund portfolio. Examples include ARQ by Angel One and the AI engines used in platforms such as Coin by Zerodha.

Impact on decision making :

These tools shift the nature of the investment decision. Instead of asking which stock or fund to buy, the investor asks whether the algorithm can be trusted. This approach helps reduce emotional trading and overthinking. At the same time, it can create distance between the investor and the actual assets they own, since many users never look under the hood of the portfolio.

2. AI Powered Analytics and Discovery Platforms :

These platforms do not replace investor judgement. They act more like research assistants that process large volumes of data and surface insights quickly.

How they work :

- **Stock screening tools :** Platforms similar to Screener AI allow users to filter stocks using layered fundamental and technical criteria. These parameters are updated constantly as new data becomes available.
- **Sentiment analysis :** Some platforms claim to scan news articles, social media posts, and management statements to estimate market mood around a stock.
- **Pattern recognition :** Machine learning models are used to spot chart patterns and flag possible short term price movements. This feature is commonly seen in tools such as Trading View and several Indian broker applications.

Impact on decision making :

These tools lower the effort needed to analyse stocks and reduce information gaps. The risk is that detailed charts and AI generated reports can feel authoritative even when the assumptions behind them are not fully understood. This can give investors confidence without real clarity.

3. Social Trading and Copy Trading Platforms :

Social trading is still less common in India than in Western markets, but its core ideas are slowly being built into large platforms. These tools rely on collective behaviour and use AI to surface popular traders or winning strategies.

How they work :

Users can view other investors' portfolios and past performance. Some platforms allow copy trading, where trades made by one account are automatically replicated in another.

Impact on decision making :

This approach strengthens herd behaviour. Investment choices are driven by social proof rather than personal analysis. While this can feel reassuring, it often leads to concentrated risk and portfolios that do not match an individual's own risk tolerance.

Reshaping the Investment Decision Making Process :

The use of AI tools has quietly altered how investment decisions take shape. What was once a linear path has turned into a loop shaped by digital systems that guide attention, analysis, and action.

1. Information Gathering From scarcity to overload, filtered by AI :

Earlier generations of investors struggled to access enough information. Modern investors face the opposite problem. There is too much data arriving too fast. AI tools now sit between the investor and the market, acting as filters and curators.

Before AI became common, most investors depended on business newspapers, television channels, and informal advice from brokers or peers. The range of ideas was limited, slow moving, and shaped by editorial judgement.

After AI entered the picture, the process changed. An investor can open a stock screener and instantly receive a shortlist such as five high growth low debt companies. A sentiment tool can then be used to scan recent news coverage and market chatter. At this stage, the AI has already decided what deserves attention. This shift matters. When many investors rely on the same tools from the same platforms, they are often shown the same narrowed universe of stocks. Over time, this can create an algorithm driven bubble where capital clusters around a small group of names, pushing prices upward without a matching change in fundamentals.

Analysis and Conviction Building: The feeling of depth with very little effort :

AI platforms make analysis look effortless. Complex calculations appear instantly, wrapped in clean visuals and confident labels.

This leads to cognitive offloading :

Financial ratios, trend lines, and chart patterns no longer need to be worked through manually. The system handles it all in seconds. The benefit is speed and convenience. The cost is reduced scepticism. When a tool flashes a strong buy signal based on pattern recognition, it can feel authoritative. Many users treat it as a final answer rather than a prompt for deeper thinking. As a result, personal judgement around business quality, management strength, or long term viability can quietly fade into the background.

Execution and Monitoring Speed, stimulation, and shrinking patience :

AI driven platforms have also reshaped how quickly investors act. Execution has become almost friction free. Once a choice is made, buying or selling takes a single tap. Price alerts and AI generated notifications constantly pull attention back to the app. This encourages frequent action and short holding periods. Many platforms also borrow ideas from game design. Virtual portfolios, performance rankings, and achievement badges turn investing into something that feels competitive and rewarding in the moment. These features activate the same reward loops found in video games, linking market activity to dopamine responses (Nair, 2022). Over time, this can weaken patience. Trading begins to replace investing. Short term wins start to matter more than steady long term growth, which runs against the core principles of sound wealth building.

The New Behavioural Pitfalls: Algorithmic Biases and Digital Overconfidence :

AI tools can reduce some classic human errors, such as emotional trading or inconsistent asset allocation. At the same time, they introduce a new set of psychological risks that are rooted in digital systems rather than human instinct.

1. Algorithmic Overconfidence :

This is an amplified form of the traditional overconfidence bias. When investors use AI powered analytics, they may begin to overestimate both their own ability and the reliability of the tools in front of them. The danger lies in confusion. Investors start to mistake the sophistication of the software for personal skill. As confidence grows, position sizes increase and risks become harder to justify. Evidence of this pattern already exists. A study by the National Institute of Securities Markets found that new investors who used advanced charting and analytics tools reported higher confidence levels, yet showed weaker understanding of underlying risks when compared to those who did not rely on such tools (NISM, 2023).

2. Automation Bias and the Ceding of Agency :

Automation bias refers to the tendency to trust automated recommendations over other sources of information, even when those sources are more accurate. In investing, this can play out quietly. An investor following a robo advisor may ignore clear warning signs in the broader economy simply because the algorithm has not adjusted the portfolio. The absence of change is interpreted as reassurance. Over time, this shifts responsibility. Decision making moves away from the investor and into the system. What begins as assistance slowly turns into dependence.

3. The Black Box Problem and Illusory Understanding :

Many modern AI models operate as black boxes. Their internal logic is difficult, and sometimes impossible, for users to interpret. When a platform displays a message such as a seventy percent buy signal, the number feels precise and confident. Yet the investor is rarely told how that figure was reached or which assumptions shaped it. This creates an illusion of understanding. The investor feels informed and data driven, even though the decision is based largely on trust in a system they cannot see into.

4. The Human Interpreter: The Rise of the Finfluencer in an AI World :

As AI tools become more complex, a new role has emerged in the financial space. Finfluencers act as interpreters between algorithms and everyday investors. Operating mainly on platforms such as YouTube, Instagram, and Telegram, these individuals translate AI outputs into simple explanations and confident narratives. A finfluencer may take a strong buy signal from an AI platform and turn it into a video with clean charts and persuasive commentary. In doing so, they help make complex data easier to digest. At the same time, they amplify its emotional impact by adding personality, urgency, and social proof. This amplification can intensify herd behaviour. There is also a regulatory concern. Many finfluencers provide guidance without formal registration or oversight. Their interpretations of AI generated data may be biased, incomplete, or intentionally misleading. SEBI's consultation paper on finfluencers highlights growing concern about their influence on inexperienced investors who are already relying heavily on AI tools (SEBI, 2023).

Navigating the Future: Towards Digitally Assisted Rationality :

The use of AI in retail investing is not a passing trend. It is firmly embedded and continues to expand. The challenge is not whether to use these tools, but how to use them wisely. Maximising benefits while limiting harm requires effort from platforms, regulators,

educators, and investors alike.

For Investors: Building Critical Digital Literacy :

The aim for modern investors should be thoughtful engagement rather than blind trust. This starts with asking why. When a platform makes a recommendation, investors should expect clarity around the key drivers behind it. AI tools work best as a starting point. They should prompt further reading, such as reviewing annual reports or understanding business models, rather than replacing that work. Finally, investors may benefit from occasional distance. Reviewing portfolios without the usual AI tools can help ensure that personal judgement has not been fully handed over to algorithms.

For Platforms: Ethical Design and Meaningful Transparency :

Technology platforms play an active role in shaping investor behaviour. Their responsibility extends beyond keeping users engaged and moves into safeguarding long term well being. One practical step is the introduction of friction. Small pauses, confirmation screens, or prompts that ask users to reflect before placing large or concentrated bets can slow down impulsive decisions. This is especially important for first time trades or highly volatile stocks, where emotional reactions tend to dominate judgement. Platforms also need to be clearer about what AI can and cannot do. Presenting AI outputs as unquestionable signals creates misplaced trust. Instead, users should be educated about the limits of these systems, including the biases that may exist in data, assumptions, or model design. Clear and visible disclaimers are equally important.
AI generated insights should always be framed as analytical support, not as assured outcomes. This distinction helps reinforce the idea that responsibility for decisions ultimately rests with the investor.

For Regulators: Proactive and Adaptive Oversight :

Regulatory bodies such as SEBI face the challenge of keeping pace with fast moving technology without restricting innovation. One area that requires attention is the algorithm itself. Rather than banning or tightly controlling AI tools, SEBI could explore mechanisms for reviewing or certifying the models used by robo advisors, particularly those with discretionary control over client portfolios. Such oversight would focus on accountability, risk management, and transparency rather than on the technical details alone. Another urgent concern is finfluencer misconduct. Clearer rules and stronger enforcement against unregistered individuals offering investment advice are essential. Without this, AI generated insights can be selectively framed or exaggerated, exposing investors to distorted narratives and hidden incentives. Education remains a central pillar. SEBI and NISM are well placed to lead national initiatives around digital investment literacy. These programs should teach investors how to question AI outputs, recognise limitations, and use technology as a support tool rather than a substitute for judgement.

Findings :

This research examined how Artificial Intelligence based tools are influencing the way

retail investors in India think, behave, and make decisions. Drawing on platform features, behavioural finance theory, regulatory discussions, and market developments observed since 2020, the study reveals several important patterns.

1. AI Has Reduced Barriers to Entry but Not Mental Effort :

One of the clearest outcomes of AI adoption is the ease with which individuals can now participate in financial markets. Retail investors have access to screening tools, portfolio suggestions, and real time signals that were once available only to professionals. That said, the reduction in technical effort has not translated into reduced mental effort. Instead, the nature of effort has changed. Investors are no longer expected to manually calculate ratios or interpret raw financial statements, but they are now required to judge the reliability and limits of algorithmic recommendations. The findings suggest that many investors are not fully equipped for this shift, often engaging with outputs at a surface level rather than developing deeper understanding.

2. Investment Choices Are Increasingly Shaped by Platforms :

The study finds a noticeable movement away from investor driven decision making toward platform guided behaviour. AI tools influence what information investors encounter first, which securities are highlighted, and how confidence in a decision is built. By filtering markets through stock screeners, sentiment scores, and technical signals, platforms narrow the field of choices before personal judgement is applied. As a result, investors using the same tools are often directed toward similar opportunities, increasing the likelihood of crowded trades and reinforcing collective behaviour.

3. Confidence Has Outpaced Understanding :

Across platforms and investor segments, the research identifies a growing gap between how informed investors feel and how much they actually understand. Clean visuals, numerical scores, and confident labels give the impression of thorough analysis. In practice, this perceived sophistication is not always supported by knowledge of business fundamentals, risk exposure, or broader economic context. This pattern reflects algorithmic overconfidence, where belief in the tool is mistaken for personal expertise, a tendency also observed in NISM research (NISM, 2023).

4. Automation Bias Is Gradually Weakening Investor Control :

Another key finding is the quiet emergence of automation bias. Many investors interpret unchanged portfolios during periods of volatility as confirmation that their strategy is correct. Rather than questioning whether the system is slow to react or based on fixed assumptions, stability itself becomes reassuring. Over time, this shifts responsibility away from the individual and toward the algorithm. What begins as decision support slowly becomes decision substitution.

5. Speed and Gamification Are Redefining Time Horizons :

AI enabled platforms have significantly shortened the distance between identifying an

opportunity and acting on it. Trades can be executed instantly, while alerts and notifications continually draw investors back into the app. The inclusion of game like elements such as rankings, virtual portfolios, and visual rewards further reinforces frequent engagement. These features trigger short term emotional responses similar to those seen in digital games, encouraging rapid feedback cycles and repeated action (Nair, 2022). The findings indicate a shift away from patient investing toward more frequent trading, especially among newer participants.

6. Finfluencers Function as Interpreters and Amplifiers :

The research highlights the growing influence of finfluencers within the AI driven investing environment. By translating algorithmic outputs into simple explanations, they help many investors make sense of complex tools. At the same time, this translation often strips away uncertainty and nuance. When AI signals are combined with confident presentation and social validation, they can intensify urgency and imitation. The absence of consistent regulatory oversight increases the risk of distorted or selective interpretation, echoing concerns raised by SEBI (SEBI, 2023).

7. Behavioural Biases Have Been Reshaped, Not Removed :

Perhaps the most important finding is that AI has not eliminated behavioural biases from retail investing. Instead, it has changed how those biases express themselves. Uncertainty turns into dependence on signals. Confidence becomes trust in automation. Herd behaviour evolves into algorithm reinforced consensus. This reflects a clear AI trust paradox. Investors often voice doubt about market movements while placing growing faith in systems whose inner workings they do not fully understand.

Conclusion :

The entry of AI driven tools into Dalal Street has permanently altered how retail investors in India engage with the market. Access to information is no longer a privilege. Advanced analytics, portfolio tools, and real time signals are now within reach for millions who were once dependent on brokers or delayed sources. In many ways, this has shifted power toward the individual investor. At the same time, this research shows that such empowerment comes with trade offs. The very tools designed to support better decisions can also encourage misplaced confidence, passive reliance on automated outputs, and digitally amplified crowd behaviour. Instead of removing behavioural weaknesses, AI has given them new forms and new channels through which they operate.

Today's Indian retail investor is best understood as a hybrid. Decision making sits at the intersection of human instinct and algorithmic logic. Choices are shaped not only by personal goals and emotions, but also by platform design, recommendation systems, and simplified signals. The growing presence of finfluencers adds another layer, placing personality and persuasion between the investor and the technology they rely on. This shifts the central challenge of modern investing. The problem is no longer access to data or analytical power. It is the ability to think critically, to question signals, and to remain aware of how digital systems subtly guide attention and behaviour. The way forward does not lie in rejecting technology or

longing for an earlier era. It lies in developing a form of digitally assisted rationality. One that recognises the strengths of AI while preserving human judgement, self awareness, and responsibility. For this balance to take hold, investors must learn to work with AI rather than defer to it. Platforms must design with long term financial health in mind, not just engagement. Regulators must continue adapting to protect market integrity without slowing innovation. The future of Dalal Street will not be shaped by algorithms alone. It will be shaped by how wisely those algorithms are used, questioned, and kept in their proper place.

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