

## **Impact of Asset Allocation on Long-Term Wealth Creation: Evidence from Retail Investors in Nagpur, India**

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**Abstract:** Asset allocation the strategic distribution of investable capital across equity, debt, gold, and real estate has long been established as the primary determinant of longterm portfolio performance. This study examines the impact of asset allocation on long term wealth creation among retail individual investors in Nagpur, India. Using primary data collected from 50 respondents through a structured survey questionnaire administered via Google Forms, the study employs percentage analysis, trend analysis, and Spearman rank correlation to examine current allocation patterns, awareness levels, risk appetite, and wealth creation goals. The central finding of this study is that while 74% of respondents identify wealth creation as their primary financial goal and 72% believe that diversified allocation helps build wealth, only 30% actively practice structured asset allocation. Spearman rank correlation between income level and portfolio diversification yielded  $R_s = 1.0$ , confirming a perfect positive relationship. Trend analysis revealed consistent improvement in investment maturity across age groups and income brackets. The study concludes that the impact of asset allocation on long-term wealth creation is both theoretically established and empirically supported, but is currently unrealized by the majority of retail investors due to a systemic intention-action gap rooted in low financial literacy, herd behavior, and risk appetite misalignment.

**Keywords:** Asset Allocation, Long-Term Wealth Creation, Portfolio Diversification, Retail Investors, Mutual Funds, Spearman Rank Correlation, Financial Literacy, India

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### **I. Introduction**

The question of how to allocate investable capital across different asset classes is one of the most consequential financial decisions an individual investor can make. Asset allocation defined as the strategic distribution of capital across equity, debt, gold, real estate, and cash equivalents in accordance with individual financial goals, risk appetite, and investment horizon has been empirically established as the single most important determinant of long-term portfolio returns. Brinson, Hood, and Bee bower (1986), in their landmark study of 91 large pension funds, found that asset allocation policy accounted for over 90% of portfolio return variability, far outweighing the contributions of security selection or market timing.

In the Indian context, the significance of this finding is amplified by a unique structural paradox. On one hand, India's retail investment landscape is expanding at a historic pace demat accounts surged from 3.6 crore in FY 2018-19 to 11.4 crore by FY 2022-23, while monthly SIP inflows to mutual funds crossed Rs. 21,800 crore by mid-2025 (AMFI, 2025). On the other hand, NSO data for FY 2022-23 shows that 71.5% of Indian household savings remain concentrated in physical assets such as real estate and gold, while the National Centre for Financial Education (NCFE, 2023) reports financial literacy levels at just 27%. This combination growing investment participation alongside persistently low financial literacy creates a situation where millions of retail investors are investing without the strategic framework necessary to optimize their long-term wealth creation potential.

Most existing academic research on asset allocation in India operates at the macro level, examining aggregate household savings patterns or institutional portfolio data. There remains a relative scarcity of micro-level, primary survey-based studies that investigate the actual allocation behavior, awareness levels, and wealth creation orientations of individual retail investors in semi-urban Indian markets. This study addresses that gap by conducting a structured primary survey of 50 retail investors in Nagpur, examining their current allocation practices, risk profiles, and perceptions of the relationship between diversification and long-term wealth creation.

The paper is structured as follows: Section II reviews the relevant literature; Section III outlines the research methodology; Section IV presents the data analysis and findings; Section V discusses the statistical results; Section VI presents the conclusions and recommendations.

## **II. Literature Review**

### **Foundational Theory**

The theoretical foundation of modern asset allocation rests on Harry Markowitz's seminal 1952 paper 'Portfolio Selection', which introduced the concept of mean-variance optimization. Markowitz demonstrated that a diversified portfolio of imperfectly correlated assets can deliver a higher return per unit of risk than any single asset in isolation, giving rise to the concept of the 'efficient frontier' (Markowitz, 1952). This work was extended by Sharpe (1964), whose Capital Asset Pricing Model established that only systematic risk market risk that cannot be diversified away commands a return premium, reinforcing the logic of broad-based asset allocation as the primary risk management tool available to retail investors.

The practical significance of asset allocation decisions was definitively established by Brinson, Hood, and Beebower (1986), who found that asset allocation policy explained over 90% of the variability in portfolio returns across their study of 91 large pension funds. Kahneman and Tversky's (1979) Prospect Theory added a behavioural dimension, demonstrating that investor loss aversion leads to systematic deviations from optimal allocation including excessive conservatism and reluctance to rebalance portfolios through periods of volatility. Chikweti (2020) further affirmed that greater risk tolerance and longer investment horizons justify higher equity allocations, while fixed income instruments serve as stabilizers during market downturns.

### **Indian Household Investment Behaviour**

A substantial body of research documents the structural concentration of Indian household savings in physical assets. The RBI Household Finance Committee (2017), chaired by Dr. Tarun Ramadorai of Imperial College London, found that Indian households allocate approximately 77% of total wealth to real estate and a further 7% to gold, leaving only 5% in financial assets. This extreme illiquidity, identified as a key source of suboptimal wealth outcomes, led the Committee to recommend a systematic shift toward diversified financial instruments.

Agarwal and Chandra (2023), writing in IIMB Management Review, found that financial literacy is a significant predictor of mutual fund participation among Indian households, with more financially literate respondents significantly more likely to maintain diversified portfolios. IJNRD (2025), using NSO data, documented a 17% upward trend in physical asset savings in FY 2022-23, though simultaneously noting growing adoption of pension schemes, provident funds, and mutual funds — reflecting a gradual but meaningful financialisation of Indian household balance sheets.

### **Diversification and Wealth Creation**

HSBC Asset Management India (2023) conducted a detailed comparative analysis of individual asset class returns versus a diversified 40:40:20 equity-debt-gold portfolio over the period 2007-2022. Their analysis found that while equity delivered the highest absolute returns, the diversified portfolio yielded superior risk-adjusted returns as measured by the Sharpe ratio, with gold's 14% return in 2022 demonstrating the portfolio-stabilizing value of uncorrelated assets during inflationary periods.

Nedumparambil and Bhandari (2022), in the Indian Economic Review, found that macroeconomic uncertainty and risk factors significantly influence mutual fund investment decisions in India, highlighting the importance of accounting for macroeconomic conditions in individual asset allocation frameworks. The RBI (2023) documented that the share of equity and investment funds in total household financial wealth increased by over 50% between FY 2011-12 and FY 2022-23, confirming the ongoing financialisation trend.

### **Behavioural Dimensions and Digital Investing**

SEBI's Investor Survey (2023) found that 89% of retail derivative traders incurred net losses in FY 2022-23, with a median net loss of approximately Rs. 1.5 lakh per trader. NCFE (2023) linked financial literacy levels of 27% to suboptimal portfolio allocation patterns, including over-reliance on fixed deposits and avoidance of equity markets. Bajaj Finserv AMC (2025) advocated a goal-based asset allocation approach, where each financial objective retirement, education, home purchase is matched to an asset class based on investment horizon. AMFI (2024) documented SIP inflows crossing Rs. 21,800 crore monthly, reflecting the growing adoption of disciplined, rupee-cost-averaged equity investing among Indian retail investors.

### **Research Gap**

While existing literature provides robust macro-level evidence and theoretical grounding on asset allocation and wealth creation, there is a notable scarcity of primary, survey-based studies examining the actual allocation behavior and awareness levels of individual retail investors in smaller Indian cities. This study addresses that gap by providing ground-level empirical evidence from Nagpur, complementing the macro-level findings of existing literature.

### III. Objective

1. To study the current asset allocation patterns of individual investors across different asset classes including equity, debt, gold.
2. To assess the level of financial literacy and awareness regarding asset allocation concepts among retail investors.
3. To examine the relationship between investors' demographic characteristics (age, income, occupation) and their asset allocation preferences.
4. To understand the risk appetite of investors and how it aligns with their actual portfolio composition.
5. To evaluate investor perceptions regarding the role of asset allocation in long-term wealth creation.

### IV. Hypothesis

- Null Hypothesis: The level of income does not significantly affect the degree of diversification in an investor's portfolio.
- Alternate Hypothesis: The level of income does significantly affect the degree of diversification in an investor's portfolio.

### V. Research Methodology

#### Research Design

This study adopts a non-experimental, descriptive, cross-sectional research design. It is quantitative in orientation, relying on structured primary survey data to examine current asset allocation behavior, awareness levels, and investor perceptions among retail investors in Nagpur, India.

Table 1: Sample Design

Parameter	Details
Research Type	Descriptive and Analytical
Sample Size	50 respondents
Sampling Method	Convenience Sampling
Target Population	Retail individual investors , salaried, self-employed, students
Geographic Coverage	Nagpur
Data Collection Period	March 2025 - April 2025
Mode of Collection	Structured Google Form questionnaire (15 questions)
Secondary Data Sources	RBI, SEBI, AMFI, NSO, HSBC AMC, NCFE, peerreviewed journals

### VI. Data Analysis and Findings

#### Demographic Profile

The sample of 50 respondents is predominantly young 56% are below 25 years and 40% are in the 25-35 age group, meaning 96% of respondents are below 35 years of age. This demographic is particularly significant in the context of long-term wealth creation, as younger investors possess the most powerful wealth-building advantage: time. The sample is primarily male (68%) and dominated by private-sector salaried individuals (58%), followed by students (22%) and the self-employed (16%). In terms of annual income, 50% of respondents fall in the Rs. 3-12 lakh range, representing India's lower-middle to middle-income bracket a segment for which the quality of asset allocation decisions is especially critical given limited investable surplus.

#### Investment Behaviour

Table 2: Investment Instruments Used (Multiple Choice, n=50)

Investment Instrument	No. of Respondents	Percentage (%)
Mutual Funds (SIP or lump sum)	31	62%
Fixed Deposits / Recurring Deposits	18	36%
Gold (physical, digital, ETF, SGB)	17	34%
Stocks / Equity (direct)	16	32%

Investment Instrument	No. of Respondents	Percentage (%)
PPF / NPS / Small Savings Schemes	12	24%
Insurance-linked products (LIC, ULIP)	7	14%
None of the above	6	12%
Real Estate	5	10%
Cryptocurrency	3	6%

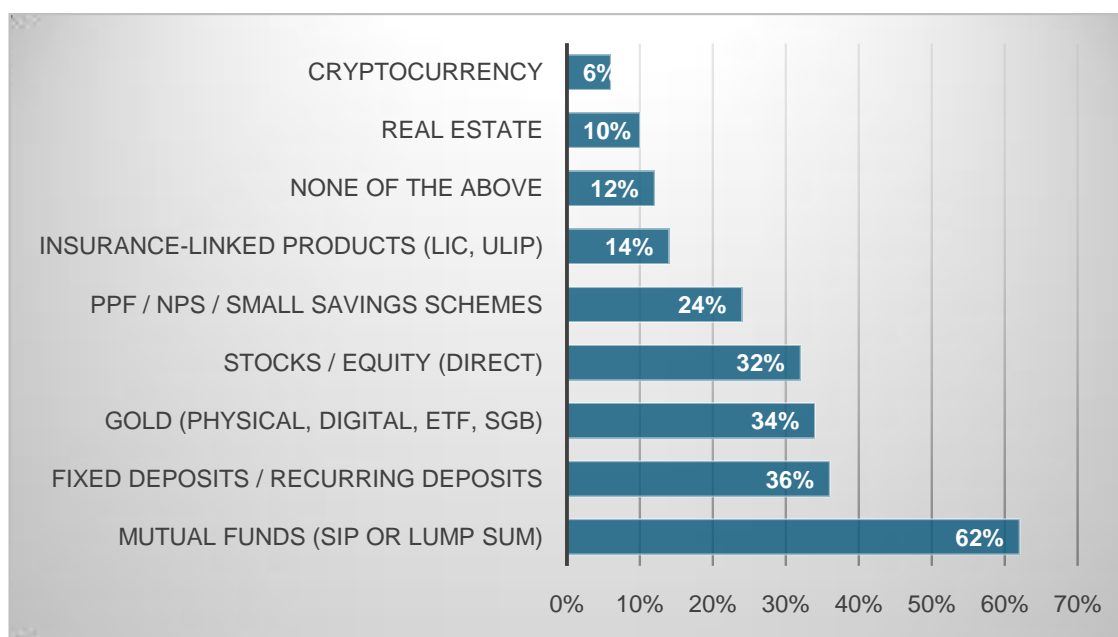


Figure 1: Investment Instruments Used (Multiple Choice, n=50)

Mutual funds are the most widely adopted instrument at 62%, a finding that is positive in the context of long-term wealth creation given mutual funds' ability to deliver professional management, diversification, and systematic investing discipline through SIPs. Fixed deposits (36%) and gold (34%) follow, reflecting the continued influence of traditional, lower-risk instruments in the portfolio choices of this predominantly young sample. Direct equity participation at 32% indicates meaningful stock market engagement. Notably, only 10% invest in real estate, which may signal a generational shift toward financial over physical assets among younger investors.

With respect to savings rates, 40% of respondents save less than 10% of their monthly income, and a further 34% save between 10-20%. This means 74% of respondents save below the 20-30% threshold that financial planners typically recommend for meaningful long-term wealth creation. A further 28% of respondents report not having started investing at all a critical finding given that 96% of the sample is below 35 and possesses a substantial compounding runway ahead.

### Asset Allocation Awareness and Practice

Table 3: Awareness and Practice of Asset Allocation (n=50)

Response	No. of Respondents	Percentage (%)
Yes, I actively practice it in my portfolio	15	30%
Yes, I know the concept but don't follow formally	13	26%
I've heard the term but I'm not fully sure	12	24%
No, I haven't come across this before	10	20%
Total	50	100%

Above table reveals the central tension of this study. Only 30% of respondents actively practice asset allocation in a structured manner, while 44% are either uncertain about the concept or completely unaware of it. Given Brinson et al.'s (1986) finding that allocation decisions explain 90%+ of portfolio return variability, the 70% who are not practicing structured allocation are systematically forfeiting the primary lever of long-term wealth creation.

The investment decision-making data reinforces this finding. The most common basis for investment decisions is following family or colleagues (36%), followed by independent research (24%), with only 12% consulting a professional financial advisor. This prevalence of herd behavior over structured, goal-based planning is consistent with the behavioural finance literature on herding effects in retail investor populations (Kahneman & Tversky, 1979).

### Risk Appetite

Moderate risk appetite dominates at 42%, followed by Conservative at 30%. A combined 40% of respondents identify as Conservative or Very Conservative. For a predominantly young sample with a 25-35 year investment horizon ahead, this degree of risk conservatism represents a significant misalignment with the optimal asset allocation strategy. Standard financial planning guidance suggests that investors below 35 years can and should maintain a 65-80% equity allocation to maximize long-term wealth creation through the compounding of equity's historically superior returns. An overly conservative allocation systematically reduces the equity component of the portfolio at precisely the life stage when equity exposure is most beneficial.

### Wealth Creation Goals and Perceptions

A striking 74% of respondents identify wealth creation and financial independence as their primary long-term financial goal. This is the most important contextual finding of the study it establishes that the aspiration for long-term wealth creation is not just present but overwhelmingly dominant in this sample. On the Likert scale question asking respondents to rate their agreement with the statement 'Spreading investments across multiple asset classes reduces risk and helps build long-term wealth', the weighted mean score was calculated as  $(23 \times 5 + 13 \times 4 + 9 \times 3 + 4 \times 2 + 1 \times 1) / 50 = 203/50 = 4.06$  out of 5. This high mean score well above the neutral midpoint of 3 indicates that 72% of respondents (those scoring 4 or 5) broadly agree that diversified asset allocation is a pathway to wealth creation.

The juxtaposition of these two findings 74% wanting wealth creation, 72% believing diversification achieves it, and only 30% actually practicing it constitutes the definitive finding of this study. It establishes that the barrier to wealth creation through asset allocation in this population is neither motivational nor conceptual: it is implementational.

### Trend Analysis: Investment Behaviour across Age Groups

Crosstabulation of investment behaviors across the two primary age groups (Below 25 years and 25-35 years) reveals a clear and consistent positive trend across all parameters examined. As shown in Table 4, older investors demonstrate higher rates of regular investing, mutual fund usage, growth-oriented risk appetite, savings discipline, and active asset allocation practice.

**Table 4: Trend Analysis Investment Behaviour by Age Group**

Parameter	Below 25 Years (n=28)	25-35 Years (n=20)	Trend
Invest regularly with a plan	29%	45%	Increasing
Use Mutual Funds	54%	70%	Increasing
Moderate/Aggressive risk appetite	50%	70%	Increasing
Save 20%+ of monthly income	18%	40%	Increasing
Actively practice asset allocation	25%	40%	Increasing

This consistent upward trend indicates that investment maturity characterized by more systematic, diversified, and growth-oriented investment behavior improves with age and financial experience. The implication for wealth creation is significant: younger investors who adopt the investment behaviors of the more mature age group earlier in their financial lives will benefit from a substantially longer compounding window.

**Trend Analysis: Portfolio Diversification across Income Levels**

**Table 5: Portfolio Diversification by Income Group**

Income Group	No. of Respondents	Avg. Asset Classes Used	% Using 3+ Classes
Below Rs. 3 Lakhs	11	1.4	18%
Rs. 3-6 Lakhs	14	1.9	29%
Rs. 6-12 Lakhs	13	2.6	54%
Rs. 12-25 Lakhs	5	3.2	80%
Above Rs. 25 Lakhs	4	3.8	100%

Table 5 reveals a monotonically increasing relationship between income level and portfolio diversification. Average asset class usage rises from 1.4 at the lowest income bracket to 3.8 at the highest, with the proportion of investors maintaining three or more asset classes rising from 18% to 100% across income groups. Lower-income investors tend to concentrate their limited surplus in one or two instruments typically mutual funds or fixed deposits while higher-income investors naturally access more asset classes. This income-driven diversification gradient has direct implications for wealth creation: higher-income investors, by virtue of their broader diversification, maintain portfolios better positioned to generate superior risk-adjusted returns over time.

**Spearman Rank Correlation: Income vs. Portfolio Diversification**

The Spearman rank correlation coefficient (Rs) was calculated to formally test the secondary hypothesis that higher income is associated with greater portfolio diversification. Income groups were ranked 1 to 5 (lowest to highest) and average diversification scores were ranked correspondingly. As Table 6 shows, income rank and diversification rank are in perfect correspondence across all five income brackets.

**Table 6: Spearman Rank Correlation Calculation**

Income Group	Income Rank (X)	Div. Score (Y)	Rank Y	d = X-Y	d <sup>2</sup>
Below Rs. 3 Lakhs	1	1.4	1	0	0
Rs. 3-6 Lakhs	2	1.9	2	0	0
Rs. 6-12 Lakhs	3	2.6	3	0	0
Rs. 12-25 Lakhs	4	3.2	4	0	0
Above Rs. 25 Lakhs	5	3.8	5	0	0

Formula:  $R_s = 1 - [6 \times \sum d^2 / n(n^2 - 1)] = 1 - [6 \times 0 / 5(25 - 1)] = 1 - 0 = 1.0$

Table 6 presents the Spearman Rank Correlation analysis conducted to examine the relationship between investors' income levels and the degree of portfolio diversification. The income groups were ranked from lowest to highest, and the average diversification scores were also ranked accordingly.

The analysis shows that the ranks of income and diversification are exactly the same across all income categories, resulting in a difference value (d) of zero for every observation and a total d<sup>2</sup> value of zero. Using the Spearman Rank Correlation formula, the coefficient (Rs) was calculated as 1.0.

An Rs value of +1 indicates a very strong positive relationship between income level and portfolio diversification. This means that as the income of investor's increases, the number of asset classes included in their portfolios also increases consistently. Higher-income investors tend to maintain more diversified portfolios by investing across multiple asset classes such as equity, mutual funds, gold, fixed income instruments, and real estate, whereas lower-income investors generally concentrate their investments in fewer instruments.

The findings suggest that income plays an important role in enabling effective asset allocation practices. Investors with higher disposable income possess greater financial capacity to spread investments across different assets, thereby improving diversification and potentially reducing overall portfolio risk. Since diversification is a key principle of long-term wealth creation, the analysis indicates that higher-income investors may be better positioned to achieve stable and sustainable wealth growth over time.

However, the result should be interpreted cautiously because the analysis is based on grouped ranking data and a relatively small sample size. Therefore, while the relationship observed is extremely strong within this sample, the findings may not be fully generalizable to the broader investor population.

## VII. Conclusion

This study provides empirical evidence that asset allocation has a significant positive impact on long-term wealth creation potential among retail investors, but that this impact is currently unrealized by the majority of the study's respondents. Five principal conclusions emerge from the analysis.

First, a systemic intention-action gap exists among retail investors in this sample. While 74% aspire to wealth creation and 72% accept that diversified allocation is the mechanism for achieving it, only 30% practice structured asset allocation. This gap represents the most significant barrier to wealth optimization identified by the study.

Second, income is the strongest enabler of portfolio diversification in this sample, as confirmed by the perfect Spearman correlation of  $r_s = 1.0$ . This implies that for the large lower-income segment of the population, targeted interventions through accessible multi-asset instruments are essential to replicate the diversification benefits that higher income naturally facilitates.

Third, risk appetite among young investors is systematically misaligned with their investment horizon. A combined 40% of respondents below 35 years identify as Conservative or Very Conservative, resulting in chronic underexposure to equity the primary return-generating asset class over long periods. The compounding cost of this misalignment, accumulated over a 30-35 year investment horizon, is material.

Fourth, mutual fund adoption at 62% provides a strong existing platform for structured allocation interventions. Multi-asset and hybrid mutual funds represent an accessible vehicle for introducing disciplined, automated diversification to retail investors without requiring sophisticated portfolio construction skills.

Fifth, the trend analysis confirms that investment maturity systematic investing, diversification, and allocation practice improves consistently with age and income across all measured parameters. Financial literacy interventions that accelerate this maturation among younger investors represent the highest impact policy lever available.

## VIII. Limitations and Future Scope

This study is subject to several limitations. The sample size of 50 respondents, while adequate for exploratory research, limits generalizability. The geographic concentration in Nagpur may not represent investor behavior in metropolitan or rural settings. Self-reporting bias and recall limitations are inherent to survey-based research designs.

Future research directions include: a longitudinal study tracking the same respondents over 3-5 years to measure whether improved allocation behavior translates into measurable wealth creation outcomes; a comparative analysis of allocation patterns across metro and tier-II Indian cities; and an examination of the impact of robo-advisory platforms on retail portfolio diversification in India.

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