



Role of Personality Traits (The Big five) in Investment Decision-Making-A systematic Review.

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Abstract: -

The purpose of this study is to review a number of studies on how personality traits influence stock investors' investment decisions. The personality of the investor is assessed through the big five models. The first session of the study discussed the big five personalities and their impact on investment decisions. The second part of the study deals with various types of big five personality traits, and the third session discusses various national and international studies related to the role of personality in the investment behaviour of stock investors. The paper concludes that personality traits have a significant impact on the investment decisions of investors and play a vital role in their stock selection behaviour.

Keywords: *behavioural biases, extraversion, agreeableness, conscientiousness, neuroticism, openness.*

Introduction:

Behavioural finance is the study of the impact of psychology on investors and financial markets. It explains why investors often lack self-control, act against their own interests, and make decisions based on personal biases rather than facts. Behavioural finance is concerned with discovering and explaining market inefficiencies and mispricing. Researchers all over the world show that investors in the financial market are not always rational and most of the time they make the wrong decisions. In complex situations, they depend on basic judgements and try to simplify the situation rather than act rationally. This type of intuitional decision leads them to huge financial losses. Traditional finance theory holds that investors should consider all available information when making investment decisions. Behavioural finance challenges the conventional assumptions made by traditional theory by adding various psychological biases that affect investment decisions. Stock investors' investment behaviour is influenced by various factors such as their personality traits, moods, emotions etc.

Personality is an organised set of characteristics possessed by an individual which uniquely determine his behaviour in various situations. Investors' personalities play an important role in determining their behaviour (Sadi et al., 2011; Charles and Kasilingam, 2014; Zaidi and Tauni, (2012); Durand, Newby, Tant, and Trepongkaruna (2013) opines that one's personality can be easily determined through their interaction with the outside world. Pompion and Longo -(2004) make a suggestion regarding the importance of analysing investors based on their personality to reduce the behavioural biases exhibited by them. Barber B, Terrance Odean T (2001) find out that men are more overconfident than women. Through the present study, researchers make an attempt to review various studies at national and international levels to explain if there is any relationship between various behavioural biases exhibited by investors and their personality traits.

There are various factors affecting one's personality, such as family (inherited from parents), social environment, geographical factors, etc. There are lots of personality measurement tools available to us to measure one's personality. Many researchers use different measurement models to analyse the personality of investors. Among these, the Big Five model is the most widely used by psychologists. The five-factor model, investors are classified into five personality types such as openness, conscientiousness extrovert, agreeableness, and neuroticism (OCEAN).

BIG FIVE PERSONALITY TRAITS AND INVESTMENT BEHAVIOUR :-

Openness: -Investors with these personality traits wish to participate in intellectual activities, are lovers of imagination, and tend to acquire novel ideas. Mayfield et al. (2008) found that individuals with this personality trait had the propensity to engage in long-term investing. An individual with open traits is flexible and artistic. Individuals with a high level of openness tend to be self-reliant and make quick decisions in uncertain situations.

Conscientiousness: The main traits of this personality type are the tendency to be responsible, hard-working, organized, to adhere to norms and rules, goal-directed, and self-disciplined. Conscientious people are responsible, trusted, stable, structured, and reliable (Sadi et al., 2011). Conscientiousness simply means a person's propensity to proceed in a well-organized and self-disciplined manner (Zhang et al., 2014; Rasoul et al., 2011; Pak & /Mahmood, 2015). Individuals with a high degree of conscientiousness are punctual and deterministic. Conscientious people make investment decisions based on research and previous experience.

Extraversion: -Individuals with extraverted traits are excitement-seeking and tend to socialise in large crowds, being active and optimistic in nature (McCrae & Costa J, 1997; Pan and Statman 2013). An individual with this trait is willing to take a high risk in exchange for a high return. They are characterised by low intellectuality, lack of principles, good flexibility, friendliness, low resistance, and carelessness (Sadi et al. 2011.) Individuals who score high on extrovert are sociable, friendly, energetic, and rational, whereas those who score low on extroversion are independent and introverted.

Agreeableness: -Individuals with a high score of agreeableness are usually warm, friendly, and tactful. They have a positive outlook on human nature and get along well with others. They have a consistent level of friendliness, kindness, cooperation, and civility. Enjoy assisting and contributing to other people's pleasure. Investors with a high score on agreeableness traits are dependable and reliable (Rasoul et al., 2011).

Neuroticism :-Neurotic traits measure an individual's emotional balance. Individuals with these personality traits exhibit negative emotions such as impulsiveness, anxiety, depression, and anger. Mayfield et al. (2008) found that individuals with this personality trait had a propensity to avoid short-term investing. Neuroticism is self-centred and is on the lookout for superior goals (Sadi et al.).

FIGURE 1 BIG FIVE PERSONALITY DIMENSIONS

<i>Personality Traits</i>	<i>General Characteristics</i>	<i>High score</i>	<i>Low score</i>
Openness	Intellectual curiosity and Creative imagination	Independent, curious ,wide range of interest ,Imaginative, Creative, Open to trying new things, Unconventional etc.	Conventional, Prefer routine works, Predictable, Not very imaginative, Dislikes change, Prefer routine, Traditional
Conscientiousness	Organization, self-disciplined productiveness, Responsibility etc.	Competence, Organized Dutifulness, Achievement striving, Self-disciplined.	Incompetent, Disorganized ,Careless, Procrastinates Indiscipline, Impulsive.
Extroversion	Sociability, assertiveness	Sociable, Energized by social interaction Excitement-seeking Enjoys being the centre of attention, Outgoing.	Social interaction is very high ,Reflective, Dislikes being the centre of attention, Reserved.
Agreeableness	Compassion, Cooperative Respectfulness, trust in others	Trust (forgiving) Straightforwardness Altruism (enjoys helping) Compliance Modesty, Sympathetic Empathy	Sceptical, Demanding, Insults and belittles others, Stubborn, Show-off Unsympathetic, Doesn't care about how other people feel
Neuroticism	Tendencies toward anxiety and depression	Anxious, Angry hostility (irritable),Experiences a lot of stress, Self-,consciousness (shy)	Doesn't worry much ,Calm, Emotionally stable,Confident,Resilient, Rarely feels sad or depressed

(Source : Compiled by the researcher)

Literature reviews on various personality traits

Singh, Yogita & Adil, Mohd & Haque, S.. (2022). Through their study examine investors personality factors affect behaviour biases and the study also analyse how risk-tolerance behaviour moderates the relationship between personality traits and behaviour biases. by using SEM Model the researchers find that personality traits conscientiousness and extroversion traits significantly influence behaviour biases. The personality traits neuroticism was highly correlated with herding, disposition, and anchoring bias

Hiruni Nirmali, K.D. and Buvanendra, S., (2021) found that extraverted individual investors prefer to invest in stocks. Individuals with sympathy for others, helpfulness, and personal worth, on the other hand, are more likely to follow others' counsel, and pleasant investors have a detrimental impact on CSE stock investment decisions. Furthermore, in the case of financial self-efficacy, the relationship between extraversion, conscientiousness, neuroticism, and openness to experience and stock investment decision making is fully mediated, while the relationship between agreeableness and stock investment decision making is partially mediated.

Baker K H Kumar and Goyal, N. (2021), found that there is a high positive significant correlation, between neuroticism, extroversion, and conscientiousness, as well as individual, investors' behavioural biases. Agreeableness trait has no relation with the behavioural biases examined.

Dr. Abdul Ghafoor Awan, SafeenaSaha (2021) Analyse the impact of personality traits on investor's investment decision at Pakistan Stock Exchange. The study reveals that there is positive relationship between openness, extroversion and conscientiousness with investment decision, where as the personality traits agreeableness and neuroticism are negatively related with investment decision of the investors

Kumar, Vibhash & Dudani, Ria & K., Latha. (2021), Through the study the researcher examine the relationship between the major investor personality and various behavioural biases .(herd bias, loss aversion bias and overconfidence bias .249 respondents are surveyed for the study .personality traits such as Extraversion and openness to experience traits are highly correlated herd biases ,loss aversion bias and overconfidence biases

Lai, Cheng-Po(2019),examine the effect of personality of individual on their stock investment decision Big Five model is used to analyse investor personality traits. Individuals' stock investment intentions are highly influenced by subjective norms, attitudes, and perceived behavioural control, with subjective norms influencing attitudes the most. Subjective norms are influenced by people with open and likeable dispositions. The results show that the Neurotic people are more likely to be pessimistic about stock investments. Personality qualities such as agreeableness, extroversion, conscientiousness, and openness influence people's perceptions of their ability to manage their behaviour when it comes to stock investing.

Renu Isidore R. and Dr. P. Christie(2017)investigate the relationship between several behavioural biases and investor personalities at the Chennai stock Exchange. The correlation score shows that all the personality types except neuroticism were most likely to display loss aversion, regret aversion and overconfidence biases. Investors with conscientious personality traits shows loss aversion and overconfidence bias. Openness respondents had a high level of overconfidence and representative bias.

Tauni, M.Z, Rao, Z.-u., Fang, H., Mirza, S.S., Memon, Z.A., and Jebran, K. (2017). They investigate whether personality traits influence investor trading behaviour in their study. Five personality inventory is used to measure the personalities of investors. The study reveals that investors with a high level of conscientiousness, extraversion, and agreeableness have a higher frequency of stock trading.

Shilipi Gupta and Urvashi Shrivastava(2017) analyse the relationship between investor personality traits (the Big Five Model) and psychological biases that influence financial market investment preferences in their study. The study reveals that behavioural biases such as representative biases, overconfidence, and herding behaviour are common in extraverts. In agreement, herd biases and overoptimism were observed in agreeable respondents. Neurotic respondents had a high level of regret aversion. Respondents with an openness trait usually suffer from overconfidence and overoptimism.

Bashir, T, N Azam, AA Butt, A Javed and A Tanvir (2013), investigates the impact of demographic factors and personality traits on the behavioural biases displayed by Pakistani investors. The result shows that investors with neurotic personality traits are highly affected by herd biases, whereas personality traits like agreeableness and openness are least affected by herd biases. Extraverts are highly affected by overconfidence biases and they are ready to take a high risk as compared to other personality types.

Pan and Statman (2013) conducted a survey to identify the relationship between investor personality and various behavioural biases such as overconfidence, regret, risk tolerance, maximization, etc. The study shows that high risk tolerance and overconfidence biases are significantly correlated to the extraverted personality of investors. Life-satisfaction factors are also positively correlated to extraverted traits.

Zaidi and Tauni (2012) examine the impact of overconfidence bias, demographics, and personality traits on investment decisions of equity investors at the Lahore stock exchange. The study shows that investors with agreeable personality traits are highly overconfident in their investment decisions.

At the Tehran Stock Exchange, Jamshidinaid et al. (2012) examine how demographic and personality traits lead to various behavioural biases among investors. The result of the study shows that investors with extraverted traits are overconfident in their ability to select winning stocks. Neuroticism traits are positively correlated with herding and disposition effects. Agreeableness traits have a direct and significant relationship with herd bias. Investors with conscientiousness are highly overconfident. The study also reveals that investors with neurotic traits are always depend on others recommendations .

Rasoul Said (2011)'s findings show that the available perceptual errors have a strong relationship with the investors' personality. The findings show that extroversion and openness have a clear relationship with hindsight bias and overconfidence bias, neuroticism and randomness bias, and escalation of commitment and availability biases. There's also a link between conscientiousness and randomization bias, as well as openness and availability bias.

Lin (2011) investigated the effects of biases, herding, disposition effects, and overconfidence on the personality traits and demography of Taiwanese stock market investors. Extraversion traits have a positive correlation with herding and overconfidence biases. Extroverts give more importance to others' opinions and are willing to hold onto losing stocks to get a good return in the future. The personality traits openness and overconfidence biases are negatively correlated where as conscientiousness traits had a positive relationship with overconfidence and disposition effect .

Sadi et al. (2011) investigate the impact of personality traits on behavioural biases such as availability bias, randomness bias, and commitment escalation, hindsight bias, and overconfidence biases among Tehran stock investors. The findings show that extraversion and hindsight bias are highly correlated. There was also a positive correlation between openness and hindsight bias and between openness and overconfidence, where as there is a reverse correlation with openness and the availability bias, conscientiousness, and randomness bias.

Cliff Mayfield, Grady Perdue, and Kevin Wooten (2008) reveal through their study that extraverted individuals wish to engage in short-term investing, while those who are higher in neuroticism are risk averse and prefer to invest in short-term investment schemes. Individuals who are open to experience are more engaged in long-term investing.

Schaefer et al. (2004) examine the relationship between personality traits and overconfidence biases with the help of the Big Five personality model, From the study, it is found that there is a positive correlation with extraversion and overconfidence biases. Extraverted people prefer to engage in short-term selling strategies.

Zafaruz Zaman Anjum et al A(2019) conducted a study to analyse the influence of psychological biases and personality on investment decision at Pakistan mercantile Exchange (PMEX).The study shows that majority of the investors are highly affected with overconfidence biases .Investors with extravert traits are ready to purchase high price financial products when they are cheap .the personality traits such as openness to experience and agreeableness have a significant impact on PMEX investor trading

MAJOR FINDINGS OF THE STUDY

- Investors with extraverted personality traits are highly affected by overconfidence bias, loss aversion bias, herding and cognitive dissonance biases in their decision making. The researcher also found that extraverts are more risk-takers by nature and are more interested in short-selling strategies.
- Personality traits, openness is highly correlated with overconfidence bias, herd biases and overoptimistic biases.
- Investors with agreeableness traits give more importance to others' opinions and are highly affected by overconfidence bias, representative bias and anchoring biases.
- Respondents with neurotic traits are usually depressed in nature and had a high level of loss aversion, regret aversion and herding.
- Investors, those who have conscientiousness traits, had a high level of regret aversion and anchoring biases.

Conclusion: -The present study makes an attempt to review various studies by different researchers all over the world, different national and international literature reviews on behavioural biases and their impact on how their personality leads to various behavioural biases among stock investors. All the above research shows that personality has a direct impact on investment decisions among stock investors. Personality traits like extraversion, openness, and agreeableness have a positive impact on stock investment decisions, whereas personality traits like neuroticism and conscientiousness have a negative relationship with stock investment decisions. All this shows that investors and partitioners should be very much aware of these biases and personality types of the investors to overcome the biases and design new investment portfolios suitable for the investors

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