



“A Study on Effect of Personality Traits on Investment Decision”

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Abstract:

Emerging strong even during the scariest phase of global financial meltdown, India has become one of the favourite investment destinations for the foreign investors across the globe. The investment scenario in India is getting better and better with each passing day due to high confidence level of the investors. According to recent trends, India is only second to China in the league of favourite investment destinations.

Behind all this, Investor's decision making process has now become an important aspect in today's investment arena. Behavioural finance is an aspect that takes into account every aspect of investor's decision making process which includes all factors including cultural, psychological and emotional factors. Studies on Investment behaviour have shown that personality is a major aspect that influences the investment decision making process. Keeping in view various theories of behavioral finance, the current study aims to examine the effect of personality traits including extrovert, neuroticism, openness to experience, agreeableness and conscientiousness on investment decisions. The study attempts to identify the various factors responsible for determining the investment decision and examine the relationship between personality traits and risk tolerance level of investors.

The empirical study will use a quantitative research approach whereby survey data has been collected from the investors of Navsari city using a convenient sampling technique. This research is cross-sectional and uses primary data for analysis. Data analysis has been carried out using Pearson correlation coefficient and regression analysis. Present research will helpful for the financial advisors by identifying the particular personality traits of their clients and according suggesting them the right avenues of investment at the right times and in such a way help them to increase their overall investment returns.

Keywords: Big Five Personality, Investment decision, Risk tolerance, financial behaviour, Investors.

1. INTRODUCTION:

Personality is derived from the latin word “persona” which means “to speak through”. Personality is one of the main psychological factor which affect the human behavior. Generally, personality refers to the set of traits and behavior that characterize an individual. In 1936, two American psychologists, Gordon Allport and H. S. Odbert, hypothesized: "Those individual differences that are most salient and socially relevant in people's lives will eventually become encoded into their language; the more important such a difference, the more likely is it to become expressed as a single word." In other words, personality is the sum total of ways in which an individual reacts to and interact

with others. An individual personality is both inherited as well as shaped by the environment. Our personality is partially inherited genetically from our parents. However, these personality characteristics are altered somewhat by life experiences. The Five Factor Model commonly referred as the Big Five is a structured framework for analyzing the intricacies of personality. The Big Five personality dimensions include Agreeableness, Extroversion, Conscientiousness, Openness and Neuroticism.

□ Agreeableness

Agreeableness means a person’s ability to get along with others. They are compassionate, good natured and eager to cooperate and avoid conflict. They are warm and trusting. They are therefore considerate, friendly, helpful and willing to compromise their interests with others. They have an optimistic view of human nature. In other words, Agreeableness is associated with traits such as flexibility, trust, cooperativeness, forgiveness, and tolerance. Agreeableness represents the likability factor and how well someone can conform appropriately to the social complexities of the situation.

□ Extroversion

Extroversion means the persons who are talkative, sociable, lively and assertive. It is that reflects the comfort level of persons with the relationships. They prefer to be around people most of the time. Extroverts enjoy being with people who are full of energy and experience positive emotions. They tend to be enthusiastic, action-oriented and individuals who are likely to say "Yes!" or "Let's go!" to opportunities for excitement. In groups they like to talk, assert themselves, and draw attention to themselves. Extroversion represents the ability of the persons to connect with others and they can freely express oneself in the company of strangers. When they trade in stock market they trust on the information easily and take wrong decisions.

□ Conscientiousness

Conscientiousness refers to people who are dependable, responsible, organized and systematic. They have high standards and always strive to achieve goals. The people who are conscientious mostly avoid trouble and achieve high levels of success through proper planning. They are also positively regarded as intelligent and reliable by other people. In other words, Conscientiousness is associated with the traits like careful, responsible and organized. The people who are conscientious enjoy structures that provide strategies in order to accomplish the tasks with precision and on time.

□ **Openness to Experience**

Openness refers to the person's interests and creativity. They are curious and are very imaginative. Openness to Experience describes a dimension of cognitive style that distinguishes imaginative, creative people from down-to-earth, conventional people. Open people are intellectually curious, appreciative of art, and sensitive to beauty. They tend to be more aware of their feelings. They tend to think and act in individualistic. People with low scores on openness to experience tend to have narrow and common interests. They prefer the plain, straightforward and obvious over the complex, ambiguous, and subtle. In other words, Openness to Experience also called Intellect, is related with the traits of intelligence, originality, imaginativeness, curiosity and sensitive. Intellect is prominent in individuals who are highly open to experience. When these type of investors invest in stock market they usually respond to the information and trade in their own tailor made rules.

□ **Neuroticism**

Neuroticism means person's ability to withstand with stress. Neuroticism (Emotional Instability) refers to the tendency to experience negative feelings. Those who score high on Neuroticism may have specific negative feeling such as anxiety, anger or depression. People who are high in Neuroticism are emotionally reactive. Their reactions tend to be more concentrated than normal. They are more likely to interpret ordinary situations as threatening and minor frustrations as hopelessly difficult. Their negative emotional reactions tend to persist for unusually long periods of time, which means they are often in a bad mood. These problems in emotional regulation can diminish a neurotic's ability to think clearly, make decisions and cope effectively with stress.

2. **LITERATURE REVIEW:**

Phung Thai Minh Trang, Mai Ngoc Khuong (2015) studied on Impact of the Big Five Traits and Mood on Investment Performance – A Study of Individual Investors in Vietnam. The study met the objectives that were proposed. Firstly, it explores two personality traits including conscientiousness and openness to experience and agreeableness directly influence investment performance. Additionally, the study also found out that conscientiousness and openness to experience, and extraversion directly impacted a positive mood; agreeableness and neuroticism directly affected a negative mood.

Olga Pak and Monwar Mahmood (2015) studied on Impact of personality on risk tolerance and investment decisions. The purpose of this paper is to investigate the relationship between personality traits, risk-taking attitude and investment decisions among potential private investors in a post-Soviet transition country, i.e. Kazakhstan. The findings revealed that personality traits have some impact on an individual's risk-tolerance behavior, which, in turn, influences investment decisions about stock, securities and bonds. The results of this study imply that investment advisors should consider personal characteristics and individual risk tolerance, among other factors, when giving investment advice to private investors.

Ang Shiao Zhuan, Chuah Chea Ying, Kui Siew Boon, Soo Li Hui, Wong Chin Hong (2016) studied on The Effect of Personality Traits and Demographic Characteristics towards Risk Tolerance and Investment Decision Making. The aim of that study was to examine personality and demographic characteristics on risk tolerance has impact on young potential investors' decision making process in Kampar. And to identify the relationship between the personality traits and risk tolerance on the young potential investor. With high personality traits, they tend to take higher risk of investment which will gain higher return. While for low personality traits, they tend to take much lower risk compare to high personality traits. As conclusion, personality traits, investment experience and financial literacy has impact on young potential investor's risk tolerance.

Dr. M. Babu, C. Dhanalakshmi, C. Hariharan (2018) studied on Impact of Personality Traits on Investment Decision in Stock Market. The aim this study was to investigate the impact of demographic / socio economic profile of the stock market investors and their personality traits, on investment decision. This study was purely based on structured questionnaire, to collect the data from 123 respondents, in Tiruchirappalli District, Tamil Nadu, on the basis of convenience sampling. From that study researcher conclude that majority of demographical variable were not associated with short term and long term investment decision. Which indicate that demographical variables did not influence the investment decision of investors. Factor analysis results shows that all the personality traits such as Neuroticism, Extraversion, Openness, Agreeableness, and Conscientiousness did influence the investment decision of investors in the stock market.

Mr. R. Gowri Shankar, Dr. Tomy K. Kallarakal (2018) studied on the Impact of Big Five Personality Traits and Demographics on the IT Working Professionals Stock Investment Decision. This study also aims to explore the impact of the Big Five traits and Demographics on stock market investment pattern of Information Technology working professionals of city Bangalore. But here in this study two major traits Extrovert and Openness is tested on the stock market investment pattern but it proved insignificant.

3. RESEARCH METHODOLOGY:

3.1 Problem Statement:

“To examine the how personality traits influence on the investment decisions.”

3.2 Objectives:

- 1.To examine the relationship between personality traits and investment decisions of investors.
- 2.To examine the effect of personality traits including extrovert, neuroticism, openness to experience, agreeableness and conscientiousness on investment decisions.

3.3 Research Design:

The present study focus on the effect of personality traits on investment decision. The study is descriptive in nature and for that study primary data has been collected by using survey method. The sample unit is investors

of Navsari city. Simple random convenient sampling is used to get responses from 100 retail investors. The tools used for the research are charts; graph and some statistical tools and technique used in the analysis are Pearson correlation coefficient and Regression analysis.

4. DATA ANALYSIS AND INTERPRETATION:

Gender	Male	70	Marital Status	Unmarried	42
	Female	30		Married	58
Age	Less than 25	0	Income per annum	Less than 100,000	0
	25 to 35	51		100,001 to 300,000	26
	36 to 45	30		300,001 to 500,000	53
	46 to 55	9		More than 500,001	21
	More than 55	10	How frequently you visit the broking firm?	Everyday	24
Education	SSC	0		Weekly	16
	HSC	5		Monthly	30
	Graduate	49		Occasionally	30
	Post graduate	46	Describes your level of investment knowledge	Very limited	12
Occupation	Student	0		Basic knowledge	23
	Private Employee	36		Fair amount of knowledge	20
		45		Considerable knowledge	28
	Retired	5		Extensive knowledge	17
	Govt. employee	14			

Table 4.1 shows the distribution of respondents in terms of their demographic characteristics. In term of gender, 70 percentage of respondents are male while 30 percentage of respondents are female the analysis showed that, the majority of respondents were within the age bracket of 25 to 35 and majority of investors are businessman and their annual income range is between 3 lakhs to 5 lakhs. Most of respondents visit the broking firm once in month or occasionally. From the collected survey 28 percentage of respondents are having considerable knowledge of investment.

Table 4.2 Correlation Matrix:

		Investment Decision
Extraversion	Pearson Correlation	-.139
	Sig. (2-tailed)	.167
	N	100
Agreeableness	Pearson Correlation	.313**
	Sig. (2-tailed)	.002
	N	100
Conscientiousness	Pearson Correlation	.294**
	Sig. (2-tailed)	.003
	N	100
Openness To Experience	Pearson Correlation	.375**
	Sig. (2-tailed)	.000
	N	100
Neuroticism	Pearson Correlation	-.202*
	Sig. (2-tailed)	.044
	N	100
**. Correlation is significant at the 0.01 level (2-tailed).		
*. Correlation is significant at the 0.05 level (2-tailed).		

Table 4.2.1 describe the relationship between the different traits of personality and investment decisions. In order to find out that is there any correlation exists among them. It is observed that a positive correlation exists between agreeableness, consciousness, openness to experience and neuroticism with the investment decision where the p-value is less than significant level of 0.05 so that we accept the alternative hypothesis.

4.3 REGRESSION ANALYSIS

4.3.1 Regression Analysis of Extraversion with Investment Decision

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.483	1	.483	1.935	.167 ^a
Residual	24.466	98	.250		
Total	24.949	99			

Table 4.3.1.2 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.602	.175		14.880	.000
Extraversion	-.075	.054	-.139	-1.391	.167

It is shown in table 4.3.1.2 that standardized beta coefficient for extraversion personality is $-.139$. So there is a negative influence of extraversion on investment decision. It means that every unit in increase in extraversion, the investment decision decreased by 13.9%. Table 4.3.1.1 shows that P-value for F-statistics is 0.167 which is greater than 0.05. It means that there is no statistically significant influence of extraversion on investment in stock market.

4.3.2 Regression Analysis of Agreeableness with Investment Decision

4.3.2.1 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2.444	1	2.444	10.641	.002 ^a
Residual	22.506	98	.230		
Total	24.949	99			

4.3.2.2 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.880	.157		11.940	.000
Agreeableness	.240	.074	.313	3.262	.002

It is shown in table 4.3.2.2 that standardized beta coefficient for agreeableness personality is $.313$. So there is a positive influence of agreeableness on investment decision. It means that every unit in increase in agreeableness, the investment increased by 31.3%. Table 4.3.2.1 shows that P-value for F-statistics is 0.002 which is less than 0.05. It means that the model is a good fit for the data and there is statistically significant influence of agreeableness on investment in stock market.

4.3.3 Regression Analysis of Conscientiousness with Investment Decision

4.3.3.1 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2.163	1	2.163	9.301	.003 ^a
Residual	22.787	98	.233		
Total	24.949	99			

4.3.3.2 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.809	.190		9.535	.000
Conscientiousness	.246	.081	.294	3.050	.003

It is shown in table 4.3.3.2 that standardized beta coefficient for conscientiousness personality is .294. So there is a positive influence of conscientiousness on investment decision. It means that every unit in increase in conscientiousness, the investment increased by 29.4%. Table 4.3.3.1 shows that P-value for F-statistics is 0.003 which is less than 0.05. It means that the model is a good fit for the data and there is statistically significant influence of conscientiousness on investment in stock market.

4.3.4 Regression Analysis of Openness to Experience with Investment Decision

4.3.4.1 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	3.504	1	3.504	16.014	.000 ^a
Residual	21.445	98	.219		
Total	24.949	99			

4.3.4.2 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.891	.128		14.763	.000
Openness To Experience	.228	.057	.375	4.002	.000

It is shown in table 4.3.4.2 that standardized beta coefficient for Openness to Experience personality is .375. So there is a positive influence of Openness to Experience on investment decision. It means that every unit in increase in Openness to Experience, the investment increased by 37.5%. Table 4.3.4.1 shows that P-value for F-statistics is 0.000 which is less than 0.05. It means that the model is a good fit for the data and there is statistically significant influence of Openness to Experience on investment in stock market.

4.3.5 Regression Analysis of Neuroticism with Investment Decision

4.3.5.1 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1.016	1	1.016	4.160	.044 ^a
Residual	23.933	98	.244		
Total	24.949	99			

4.3.5.2 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.698	.169		15.967	.000
Neuroticism	-.092	.045	-.202	-2.040	.044

It is shown in table 4.3.5.2 that standardized beta coefficient for neuroticism personality is $-.202$. So there is a negative influence of neuroticism on investment decision. It means that every unit in increase in neuroticism, the investment decreased by 20.2%. Table 4.3.5.1 shows that P-value for F-statistics is 0.044 which is less than 0.05. It means that the model is a good fit for the data and there is statistically significant influence of neuroticism on investment in stock market.

5. Conclusion:

In present study, our general objective is to examine the effect of personality traits including extrovert, neuroticism, openness to experience, agreeableness and conscientiousness on investment decisions and study the relationship between personality traits and risk tolerance level of investors. The descriptive research design has been used for the study and primary data has been collected from retail investors of Navsari City. Which is used 100 respondents to fulfil our study and we analysed the results that we have been tested in SPSS. From that study it is observed that a positive correlation exists between agreeableness, consciousness, openness to experience and neuroticism with the investment decision where the p-value is less than significant level of 0.05. While in case of extraversion personality traits there is not a statistical significant relationship with investment decision because the p-value is greater than the significant level of 0.05. From regression analysis it was concluded that there is no statistically significant influence of extraversion on investment in stock market. While in case of agreeableness, conscientiousness, openness to experience and neuroticism there is a statistically significant influence of on investment decision in stock market.

Present research will helpful for the financial advisors by identifying the particular personality traits of their clients and according suggesting them the right avenues of investment at the right times and in such a way help them to increase their overall investment returns.

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