

“PERSONALITY TRAITS AND INVESTMENT DECISION”

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ABSTRACT:

In present study the influence of individuals' degree of big five personality on the determinants of their risk taking behavior in investment decisions. Since there are no studies which investigate the influence of personality traits on risk attitude, risk perception and return expectations in investment decisions simultaneously, we provide a meaningful contribution to existing literature. We use a unique dataset which contains 100 retail investors from south Gujarat region.

Therefore, we are able to determine which determinants of risk taking are influenced by big five traits and induce individuals to take investment risks. We find that big five traits affect individuals' risk attitude. More extraverted individuals are less risk averse than less extraverted individuals whereas more neurotic subjects are more risk averse than less neurotic ones. Further research should consider individuals' personality as an influence factor on the determinants of risk taking behavior in investment decisions.

Key Words: Investor Personality, Risk Attitude, Risk Perception, Return Expectations, Investment Decisions

1. INTRODUCTION:

During the past several decades researchers across the world have analyzed the behavior of investors and their decision making process. Several research works have attempted to enhance the understanding of how people make investment decisions in different ways. After emerge of behavioural finance these research works have given importance. Today an extensive body of literature exists that seeks to explain how individual characteristics influence the behaviour of investors. Simply saying how personality influences their investment decisions. According to phares (1991), 'Personality is that pattern of characteristic thoughts, feelings, and behaviours that distinguishes one person from another and that persists over time and situation'.

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.

1) **Extraversion:** is identified by traits such as sociability, assertiveness, dominance, talkativeness, and gregariousness. Extraversion represents the ability to connect with others from all walks of life and to freely express oneself in the company of strangers. It represents a comfort level with being in the company of others as opposed to being more comfortable when being alone as would be the case for someone who is more introverted

2) **Agreeableness:** is associated with traits such as courtesy, 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

3) **Conscientiousness:** is associated with the traits of being careful, thorough, responsible, organized, achievement oriented, and persevering. Someone who is conscientious enjoys structures that provide strategies that get tasks accomplished with precision and on time.

4) **Openness to Experience:** Openness to Experience, also called Intellect, is associated with the traits of curiosity, intelligence, originality, imaginativeness, and artistically sensitive.

5) **Neuroticism:** concerns emotional control when encountering situations that cause discomfort or extreme concern. The opposite of this trait is Neuroticism, which is associated with characteristics such as being anxious, insecure, depressed, worried, and angry.

Descriptions of the Big Five personality traits:

Trait	Description
Extraversion (E)	High scores indicate assertiveness, sociability, talkativeness, optimism, and being upbeat and energetic
Agreeableness (A)	High scores indicate altruism, personal warmth, sympathy towards others, helpfulness, and cooperation
Conscientiousness (C)	High scores indicate purposefulness, being strong willed, determination, organization, reliability, and punctuality
Openness (O)	High scores indicate an active imagination, aesthetic sensitivity, a preference for variety, intellectual curiosity, and broad cultural interest
Neuroticism (N)	High scores indicate tenseness, moodiness, anxiety, and insecurity

Five theory (Costa and McCrae, 1992a, 1995, 1997; Digman, 1997; Goldberg, 1992; McAdams, 1992). Specifically, we use the NEO-FFI (Costa and McCrae, 2003). The NEO-FFI is a 60-item inventory, which is a shortened version of the Big Five, using 12 items to measure each of the five scales. Each item used a five-point scaled anchor, ranging from strongly disagree, disagree, neutral, agree, to strongly agree. In keeping with the test manual, numerous items are reversed scored to inhibit response bias. Shown in Table 1 are the descriptions of the Big Five traits.

2. LITERATURE REVIEW:

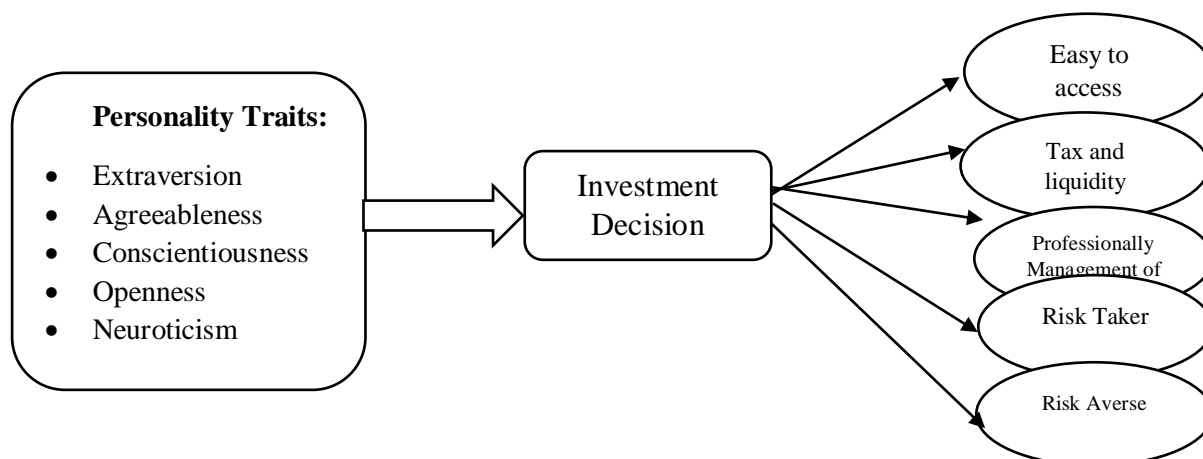
According to Sadi, Ghalibaf, Rostami, Gholipour, & Gholipour, (2011), personality plays a significant role in determining the behaviour of investors. Marilyn MacGruder, Barnewall categorized investors in to two types: active and passive investors. Active investors are creating the wealth whereas passive investors are safe guarding their ancestors' wealth.

According to Carrie H. Pan and Meir Statman (2012), opined that investors' high risk taking attitude associate with high levels of Extraversion and Openness but low level of risk taking associate with high levels of Conscientiousness. Moreover high overconfidence associate with high levels of Extraversion whereas low confidence associate with high levels of Agreeableness. In the same manner tendency for regret is low among investors with high levels of Extraversion, but high among investors with high levels of Conscientiousness.

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 Monowar 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.

3. CONCEPTUAL FRAMEWORK:



Above figure it shows the conceptual framework of the present study. Which shows that how personality traits influence on investors investment decision.

4. RESEARCH METHODOLOGY:

4.1 Problem Statement:

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

4.2 Objectives:

1. To examine the relationship between personality traits and investment decisions of investors.
2. To examine the influence of Big five Personality Traits on Investment decisions.

4.3 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.

5. DATA ANALYSIS AND INTERPRETATION:

Table 5.1 Demographic Profile of Respondents

Gender		Single	20
Male	74	Married	80
Female	26	Widow/Widower	0
		Divorced	0
Age:			
18-27	19	Occupation:	
28-37	46	Self Employed	19
38-47	21	Private Job	67
48-57	10	Government Job	13
58-67	4	Retired	1
67 or above	0	Students	0
		Homemaker	0
Work Experience			
0-5 Years	25	City	
6 to 10 year	26	Surat	54
11 to 15	28	Valsad	19
above 15 year	21	Navsari	27
Personal Annual Income:		Education:	
< 200,000	8	SSC	0
Rs. 200,001-Rs. 400,000	21	HSC	2
Rs. 400,001- Rs. 600,000	31	Graduate	31
Rs. 600,001- Rs. 800,000	27	Post Graduate	56
Above Rs. 800,000	13	Doctorate	11

The above table it shows the demographic characteristics of respondents. In terms of gender 74% were male respondents while 26% were female respondents. The majority of respondents were under the age bracket of 28 to 37. 56% of respondents were postgraduate. The majority of respondents having private job and they were having 11 to 15 years of work

experience. And 31% of respondents' personal annual incomes are of Rs. 4, 00,001 to Rs. 600,000.

5.2 FACTOR ANALYSIS:

5.2.1 Factorization for Personality Traits:

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.841
Bartlett's Test of Sphericity	Approx. Chi-Square	2113.382
	df	190
	Sig.	.000

From the above table it can be says that the KMO measure is 0.841 which is greater than 0.5 which means sample size for the study is appropriate for factor analysis.

It can be seen in the above that the value of significance for Bartlett's test of Sphericity is 0.000 which is less than 0.05. It indicates that a factor analysis is useful for the data.

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.639	38.197	38.197	7.639	38.197	38.197	3.802	19.012	19.012
2	4.369	21.843	60.040	4.369	21.843	60.040	3.698	18.490	37.502
3	1.920	9.601	69.641	1.920	9.601	69.641	3.582	17.910	55.412
4	1.646	8.230	77.870	1.646	8.230	77.870	3.315	16.576	71.988
5	1.102	5.510	83.380	1.102	5.510	83.380	2.278	11.392	83.380
6	.829	4.144	87.524						
7	.479	2.397	89.922						
8	.311	1.557	91.479						
9	.307	1.534	93.013						
10	.237	1.186	94.198						
11	.205	1.025	95.223						
12	.196	.982	96.204						
13	.163	.815	97.019						
14	.141	.703	97.723						
15	.128	.640	98.363						
16	.100	.499	98.862						
17	.090	.452	99.313						
18	.065	.327	99.641						
19	.040	.198	99.839						
20	.032	.161	100.000						

Extraction Method: Principal Component Analysis.

Table 5.2.1.2 Rotated Component Matrix^a

	Component				
	1	2	3	4	5
Q.1	.881	.062	-.277	.244	-.079
Q.2	.899	.051	-.310	.228	-.058
Q.3	.893	.063	-.291	.233	-.090
Q.4	.905	.026	-.278	.234	.030
Q.5	.106	.871	-.078	.002	.082
Q.6	.034	.902	-.024	.071	.135
Q.7	.034	.892	.077	.085	.158
Q.8	.018	.892	.017	.007	.215
Q.9	-.051	.402	-.110	.269	.635
Q.10	-.046	.079	.096	-.096	.802
Q.11	-.030	.507	.060	.269	.602
Q.12	-.047	.176	-.218	.076	.833
Q.13	.217	.037	-.276	.842	.094
Q.14	.365	.249	-.165	.780	-.061

Q.15	.138	-.018	-.212	.862	.095
Q.16	.270	.056	-.186	.828	.114
Q.17	-.285	.016	.860	-.206	.000
Q.18	-.280	.023	.872	-.211	.052
Q.19	-.291	-.009	.882	-.175	-.105
Q.20	-.251	-.033	.837	-.242	-.115
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 6 iterations.					

From the above table it can be says that five factor has been extracted namely extraversion, openness to experience, Agreeableness, Neuroticism and Conscientiousness.

5.2.2 Factorization for Investment Decision:

5.2.2.1 KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.940
Bartlett's Test of Sphericity	Approx. Chi-Square	3530.055
	df	300
	Sig.	.000

From the above table it can be says that the KMO measure is 0.940 which is greater than 0.5 which means sample size for the study is appropriate for factor analysis.

It can be seen in the above that the value of significance for Bartlett's test of Sphericity is 0.000 which is less than 0.05. It indicates that a factor analysis is useful for the data.

5.2.2.2 Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	14.658	58.632	58.632	14.658	58.632	58.632	14.636	58.543	58.543
2	2.473	9.890	68.522	2.473	9.890	68.522	2.033	8.134	66.677
3	1.324	5.296	73.818	1.324	5.296	73.818	1.502	6.009	72.686
4	1.240	4.962	78.780	1.240	4.962	78.780	1.459	5.835	78.520

5	1.028	4.112	82.893	1.028	4.112	82.893	1.093	4.372	82.893
6	.847	3.387	86.280						
7	.691	2.763	89.043						
8	.553	2.211	91.253						
9	.464	1.857	93.110						
10	.376	1.502	94.612						
11	.311	1.243	95.856						
12	.187	.750	96.605						
13	.146	.585	97.190						
14	.127	.507	97.697						
15	.102	.409	98.106						
16	.089	.356	98.462						
17	.072	.289	98.751						
18	.061	.242	98.993						
19	.048	.192	99.186						
20	.045	.181	99.367						
21	.041	.164	99.531						
22	.038	.154	99.684						
23	.033	.131	99.815						
24	.027	.109	99.924						
25	.019	.076	100.000						

Extraction Method: Principal Component Analysis.

5.2.2.3 Rotated Component Matrix^a

	Component				
	1	2	3	4	5
Q.10.1	.176	-.015	.051	.845	-.148
Q.10.2	-.082	.226	.043	.766	.222
Q.10.3	-.178	.645	-.177	.161	.216
Q.10.4	-.015	.763	.140	.172	.156
Q.10.5	-.112	.820	.168	-.139	-.056
Q.10.6	.293	.467	.106	.053	-.188
Q.10.7	.010	.253	.801	.199	-.115
Q.10.8	-.031	.006	.863	-.072	.179
Q.10.9	.100	.113	.081	.039	.921
Q.10.10	-.955	-.017	-.017	-.016	-.029
Q.10.11	.967	-.024	-.002	.050	.047
Q.10.12	-.955	.016	.039	-.025	.045
Q.10.13	-.953	.047	-.016	-.070	.066
Q.10.14	-.940	.025	-.021	-.022	-.010

Q.10.15	-.963	.012	-.004	-.011	.045
Q.10.16	-.945	-.017	-.077	.029	-.006
Q.10.17	-.905	-.006	.001	-.120	.040
Q.10.18	-.951	-.011	-.026	-.032	-.068
Q.10.19	.938	-.046	-.017	.011	.006
Q.10.20	.962	.043	-.010	.042	-.016
Q.10.21	.965	-.054	.038	-.047	.016
Q.10.22	.963	-.001	-.008	.055	.032
Q.10.23	.966	-.057	-.015	.008	.001
Q.10.24	.960	-.017	-.028	-.005	.019
Q.10.25	.917	-.029	-.032	-.018	-.001

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

From the above table it can be says that five factor has been extracted related to investment decision in MF namely are Easy to access, Tax and liquidity, Professionally Management offunds, Risk taker and Risk Averse.

Table 5.2.3 Summarization of Regression Analysis:

	Easy to Access	Tax and Liquidity	Professionally Managed	High Return	Low Risk
Extraversion	No	No	No	Positively Influenced	Negatively Influenced
Agreeableness	Positively Influenced	No	No	No	No
Conscientiousness	No	No	No	No	No
Openness to Experience	No	No	No	Positively Influenced	Negatively Influenced
Neuroticism	No	No	No	Negatively Influenced	Positively Influenced

From the above it represent the summary of regression analysis. From the above it can be says that there is a statistically significant impact of Extraversion and Openness to experience personality on investment decision of risk taker investors. And there is a statistically significant impact of agreeableness personalities are having positively influenced ease to

access the funds. While in case of Neuroticism personalities are having positively influenced risk averse investors.

6. CONCLUSION:

Present study aims to examine the impact of Personality Traits on Investment decisions in Mutual Fund and it is carried out the individual investors of the south Gujarat region. From the present study, conclusion can be drawn that Mutual Funds have become major vehicle for the mobilization of savings for investment and which ensures high return, low risk than other investment avenues. In present research descriptive research is carried with an aim to study the impact of personality traits on investment decisions in Mutual Fund. The primary data has been collected from the close ended questionnaire from 100 individual investors who invested in mutual funds.

From the finding of the study, it is revealed that personality traits having some impact on the investment decision in Mutual Fund among the selected region. The result of this study it is revealed that there is a statistically significant impact of Extraversion and Openness to experience personality on investment decision of risk taker investors. And there is a statistically significant impact of agreeableness personalities are having positively influenced ease to access the funds. While in case of Neuroticism personalities are having positively influenced risk averse investors.

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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