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Impact of Big Five Personality Traits on Investment Decisions: A Conceptual Study

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ABSTRACT

Over the past few decades, behavioral finance has long challenged the traditional finance theories' assumption of investors' rationality. Recent research has identified a number of non-financial aspects that influence investors' behavior, such as personality traits and the social contexts in which decisions are made. Given the development of behavioral finance, it is critical to restore our comprehension of how a person's personality affects her vulnerability to behavioral biases when making financial decisions. The impact of the five personality qualities on particular behavioral biases is investigated in this study. Estimating the financial behavior of individual investors is more crucial due to the evolution of financial markets, the complexity of financial products and services, and the variations in individual investor profiles. The study's objective is to ascertain how each investor's personality characteristics affect their financial habits.

Keywords: investment decisions, personality traits, Agreeableness, Extroversion, Conscientiousness, Openness and Neuroticism.

INTRODUCTION

In the modern world, money has a significant impact on one's life. One must invest their money in order to overcome future challenges. The Indian financial system fosters investors' savings and directs them toward their best and most efficient usage. Investors have access to a variety of investment opportunities in the current competitive era. Generally speaking, investors are eager to put their money into the specific ventures that will yield the highest profits at the lowest risk. In the current stock market, choosing an investment is one of the most crucial decisions. Individuals use a variety of fundamental and technical tools when making financial decisions.

One of the most important choices for the short- and long-term viability of a person or organization is the financial one. It has to do with choosing one or more alternative purchases that have the lowest cost in order to invest any available funds. Therefore, when investing, a person needs to be able to make wise financial decisions. This competence is crucial for maintaining and improving investors' individual or financial consultancy competitiveness. As a result, human resources with exceptional ability are needed to evaluate and choose the best investment options. An important factor in making investment selections is the investor's personality. The ability of investors to comprehend investing risks is determined by their personality and level of financial literacy. This talent increases investors' competitiveness and helps them make wise investment selections. According to Kamath, A. N. et al. (2023), psychological factors (sentiments) and individual characteristics (personality traits) influence investors' behavior and the way they make investment decisions in the financial markets. Recent studies have demonstrated the relationship between investor sentiment, investment decisions, and personality attributes. The well-known concept of personality is how a person interacts, responds, and behaves with others; this is frequently demonstrated through quantifiable characteristics. R. B. Durand et al (2008), assert that investors' personalities are linked to their investment decisions and results. According to Sadi et al. (2011) and Charles and Kasilingam (2014), investors' investment behavior is significantly influenced by their personalities. The McCare & Costa J. (1992), five-factor model was regarded as a groundbreaking model for all personality studies. The five factors in the model are neuroticism, agreeableness, extroversion, conscientiousness, and openness.

Mutlu, U., and G. Ozer (2019). One of the key psychological elements influencing an individual investor's financial behavior is their personality. Individual investors can be defined as those who engage in financial trading on their own behalf. Individual investors could be more impacted by psychological and sociological variables than institutional investors. The Latin word "persona," which means "to speak through," is where the term "personality" originates. One of the primary psychological factors influencing human conduct is personality. Gordon Allport and H. S. Odbert, two American psychologists, postulated in 1936 that "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 it is to become expressed as a single word. Agreeableness, Extroversion, Conscientiousness, Openness, and Neuroticism are among the aspects of personality traits.

The significance of measuring the financial behavior of individual investors is increased by the evolution of financial markets, the complexity of financial services and products, and the variations in individual investor profiles. The study's objective is to ascertain how each investor's personality qualities affect their financial behavior indicates a person's capacity to tolerate stress. Raheja, S., & Dhiman, B. (2017), extraverted persons prefer to concentrate on other people and activities. They channel energy from engaging with others and from acting. Individuals with an introverted tendency would concentrate on their own inner universe of concepts and experiences. They focus their attention and energy within, meditating on their feelings, memories, and thoughts to receive energy. Information that is palpable and real will be absorbed by those who prefer to sense. They are perceptive of the details of their surroundings. Individuals that are adept at employing intuition will process information by looking at the larger picture and concentrating on the connections and correlations between the data. When making decisions, those who prefer to utilize reasoning want to consider the logical ramifications of a decision or course of action. When making decisions, those who prefer to rely on their emotions tend to think about what matters to them and other people. Individuals who prefer to apply their judgment process in the outside world want to live in a planned, organized manner, attempting to control and manage their lives. Individuals who like to use their perceiving process in the outside world choose to live in a fluid, impulsive manner, trying to experience and comprehend life instead of trying to control it.

Literature review

The study of psychological differences and how to quantify and characterize them is known as personality psychology (Funder and Fast, 2010). One of the key psychological elements influencing an individual investor's financial behavior is their personality (Ozer & Mutlu, 2019). The Big Five Personality approach, sometimes known as the Five-Factor model, is the most prominent and extensively studied taxonomy (Kumaranayake, 2017). In order to predict behavior, Five-Factor theory serves as a foundation for causal theories (Crae & Sutin, 2018). Openness to new experiences (creative person), conscientiousness (reliable, responsible, and organized person), extraversion (active person), agreeableness (social person), and neuroticism (emotional & moody person) are the personality qualities that fall under the big five paradigm (Dhiman & Raheja, 2018).

Researchers Mayfield et al. (2008), Husnain et al. (2019), Lai (2019), Paliwal et al. (2018), and Sadiq & Khan (2019) found that personality factors significantly influence investment decisions. According to Mayfield et al. (2008), extraverted people have short-term investment objectives. According to Lai (2019), agreeableness has a negative effect on investment intention while conscientiousness and extraversion have a good effect. Sadiq and Khan (2019), Husnain et al. (2019), and Paliwal et al. (2018) discovered a favorable correlation between conscientiousness and long-term investing decisions. According to additional research by Ozer & Mutlu (2019), extraversion has no discernible impact on financial behavior, whereas personality qualities like agreeableness and conscientiousness have a favorable and significant impact.

Perceived investment performance was negatively impacted by openness personality, as demonstrated by Nareswari et al. (2021). Conscientiousness, extraversion, agreeableness, and neuroticism, on the other hand, positively influenced perceived investment performance. Additionally, the findings demonstrate that social contact modifies the association between agreeableness, conscientiousness, and perceived investment performance. This outcome demonstrates the significance of information selection and investment expertise when allocating assets to meet investment goals.

Basana et al. (2024), an investor's personality greatly influences their choice of investments. The ability of investors to comprehend investing risks depends on their financial literacy and personality traits. Openness, conscientiousness, extraversion, agreeableness, and neuroticism are among the personality traits that the study demonstrates have an impact on financial literacy, investment risk, and financial choices. Financial decisions and investment risk are strongly and favorably impacted by financial literacy. The capacity of investors to be aware of investment hazards might offer numerous options to enhance their influence over financial decisions.

Mr. R. Gowri Shankar and Dr. Tomy K. Kallarakal(2018) conducted research on the influence of demographics and the Big Five Personality Traits on the stock investment decisions of IT working professionals. Additionally, this study intends to investigate the influence of demographics and the Big Five qualities on the stock market investment patterns of Bangalore's working IT professionals. However, two key characteristics extroversion and openness were examined in this study in relation to the stock market investment pattern, although the results were negligible.

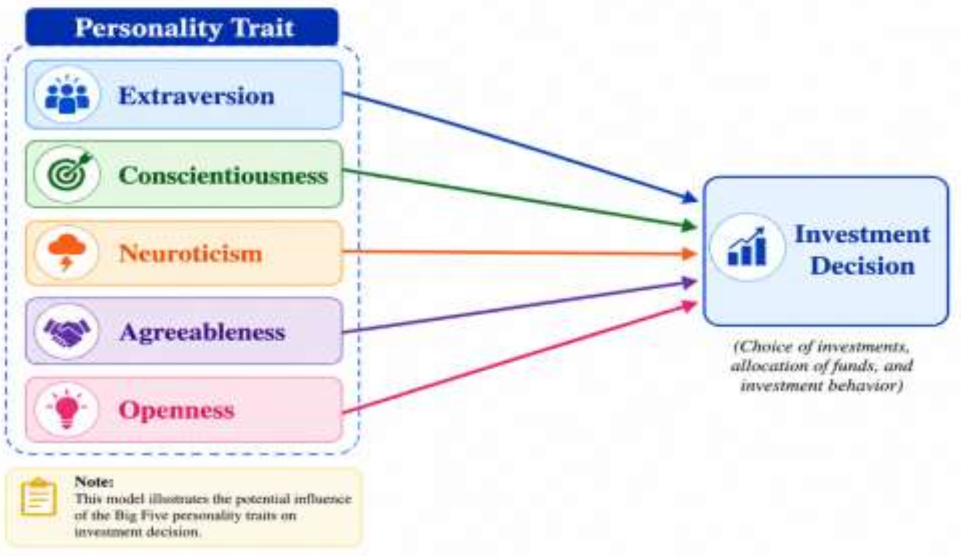
Akhtar, F. et al. (2018) investigate the relationship between the factors evaluating perceived investment performance and (i) Big-Five personality traits and (ii) general personality factor (Big-One), which is the higher order factor for Big-Five. Stratified and quota sampling were used to gather cross-sectional data from individual investors (N = 396). To assess the degree of association between the constructs, data were analyzed using regression, correlation, hierarchical regression, and structural equation modeling (SEM). The study's findings showed a relationship between perceived investment performance and the Big Five personality traits of extraversion, agreeableness, and conscientiousness. Additionally, Big-One is a significant antecedent for reported pleasure and tends to contribute significantly (3.8%) to the variance in perceived investment performance, according to correlation and regression analysis.

Manzoor, A. et al. (2023) demonstrate how the Big Five personality qualities significantly influence retail women investors' perceptions of risk in the Indian stock market. Neuroticism ($\beta = 0.215$) and conscientiousness (β = 0.234) had a positive and significant impact on risk perception, according to PLS-SEM results, but extraversion (β = -0.129), openness to experience (β = -0.102), and agreeableness (β = -0.156) had a negative significant impact.

Objective of the study

To determine the various investor personality traits and investing decision-making processes among investors.

Conceptual model of the study



Trait Personality Big Five

1. **Extraversion:** Extraversion is characterized by comfort, ease of communication with others, friendliness, vigor, and positive feelings. In addition, extraverted people are passionate, action-oriented, and frequently get and pass opportunities for self-satisfaction. They also enjoy speaking, stand their ground, and become more noticeable in social situations. People that are introverted tend to be less enthusiastic, energetic, and infrequently participate in social activities. People that are introverted tend to be more reserved, have trouble expressing their feelings, are meticulous, and are less reliant on the outside world. They also need privacy.
2. **Agreeableness:** A person who loves harmony and collaboration is said to be agreeable. These groups are also considerate, friendly, giving, supportive, and tolerant. They also have a positive outlook on people since, at their core, people are trustworthy, honest, polite, and agreeable groups that are well-liked by the community. Those who prioritize their own interests over those of others are considered disagreeable. These individuals don't consider other people, and they frequently feel suspicious and diligent.
3. **Conscientious:** When completing a task, this group is more accountable, well-organized, systematic, cautious, and will adhere to the timetable. Unconscientious people are unorganized and untrustworthy. They also prefer to disorganize things and don't put the items they've used back where they belong. Furthermore, this person frequently disregards the assigned duty.
4. **Neuroticism:** Neuroticism is a person's propensity to feel pressured, angry, or anxious. Additionally, they frequently view ordinary circumstances as dangerous. This group becomes stressed and disturbed

easily. Rapid mood swings make it challenging to think clearly, make proper decisions, and manage stress. A person with steady emotion is able to regulate their emotions effectively, feel at ease, be emotionally stable, be devoid of unpleasant feelings, and be resistant to any unfavorable circumstance.

5. **Openness**: Having an open mind to new concepts and any kind of change is known as being open to experience.

CONCLUSION

Individuals' financial well-being is greatly influenced by their attitudes and actions toward money matters. Financial institutions should advise investors on appropriate financial behavior, and individual investors should have access to all the information they may require in order to make the best financial decisions. Financial institutions frequently assist individual individuals with building their investment portfolios. This study concludes that there is a direct correlation between investors' financial behaviors and their personality. Extroversion, conscientiousness, neuroticism, agreeableness, and openness to new experiences were among the personality traits that were found to be associated with financial behavior. Individual investors with diverse personality traits display distinct financial behaviors and make various investments according to their needs. Financial organizations should concentrate on personality qualities in order to build a relationship between investors and investment products. When creating financial products, financial institutions should consider the psychological traits of individual investors. Individual investors should be advised by financial advisors to avoid becoming afraid of the outcomes of their investments due to ignorance or other factors. Investors should receive information from financial consultants to help them create financial plans that suit their personalities.

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