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Research Article

FINANCIAL PERSONALITY OF THE INVESTORS- THE ARCHITECTS OF THE FINANCIAL MARKET

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ABSTRACT

Efficient Market Hypothesis (EMH) considers the rational element in the financial market. But in the late 1980's the psychological element emerged which affected the locus of control of the Stock Market. Stock market is a dynamic market and is influenced by many factors but now it has been recognized that cognitive errors and distortions impact financial investment options of the stock market. The cognitive errors are determined by an investor's personality. This paper tries to explore the relationship between personality traits (Big Five Model) of investors and the psychological biases that affect the investment preferences of the financial market.

It is well established from previous researches that we can enrich our understanding of financial markets by adding a human element. Much of the effort of behavioral researchers has been in uncovering new anomalies that cause us to think hard about market efficiency. These studies also create controversy because the implications of the results are subject to interpretation. This study extends the utility of the Big Five Model as an approach to examine the economic behavior of investors. In my present study it was concluded that the personality traits of investors affected the psychological biases and both factors in combination effected the financial decisions of the investment avenues available in the stock market making it more unpredictable and volatile.

INTRODUCTION

The conventional financial theories assume the markets to be efficient and investors to be rational. If this is the case then why market is dynamic, volatile and not stable? Why the stock market faces many types of anomalies like calendar, seasonal, weekend effect Monday Irrationality etc?

The investors are the players of the market. Their biases and mental perception rules the financial ambience of the financial world. Every individual investor wants to maximize his return by investing in most diversified portfolios to avoid loss of wealth. Many of the present dynamics of stock market can be explained and forecasted by synthesizing the psychology of investors and the financial ambience. The need of the hour is to understand the personality and the related biases related to it for creation of better financial options and making the markets more stable.

One kind of investor behavior that leads to unexpected decisions is bias, a predisposition to a view that inhibits objective thinking. An investor profile expresses a combination of characteristics based on personality traits, life stage, sources of wealth, and other factors. Biases that can affect investment decisions are the following:

- Availability
- Representativeness
- Overconfidence
- Anchoring
- Regret aversion
- Herd Behavior
- Over optimism

This research adds to the literature by utilizing a personality framework known as Big Five Personality Model. The five-factor structure has been replicated by Norman (1963), Borgatta (1964), and Digman and Takemoto-Chock (1981) in lists derived from Cattell's 35 variables. Following Norman (1963), the factors were initially labeled:

1. Extraversion or Surgency (talkative, assertive, energetic)
2. Agreeableness (good-natured, cooperative, trustful)
3. Conscientiousness (orderly, responsible, dependable)

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4. Emotional Stability versus Neuroticism (calm, not neurotic, not easily upset)
5. Openness (intellectual, polished, independent-minded)

The present study is classified into 5 sections. The first study deals with the Introduction part, the second section deals with the Literature review of various works done and proved and discusses the traits of the Big Five Model. The third section discusses the Methodology of the present study and statistical techniques used. The fourth section summarizes the findings of the study and the last section presents the conclusion of the paper and suggestions related to it.

Objectives

The basic objective of the paper is to study if there is relationship between personality traits and Psychological Biases of the investors in Raipur city.

LITERATURE REVIEW

One of the most important factors affecting the financial decisions made by investors is the psychological biases (Camerer 1997; Bailey 2012; Breuer, Riesener, and Salzmann 2014).

Investors' perceptions regarding the risk and return characteristics of a particular stock or the stock market are commonly assumed to be key drivers of their decision making (McInish and Srivastava [1984], Antonides and Van der Sar [1990]). In DeLong et al. (1990a) it is investors' formation of beliefs about future cash flows and investment risks that are not justified by existing facts. For Shleifer (2000, p. 12) it 'reflects the common judgment errors made by a substantial number of investors, rather than uncorrelated random mistakes'.

Representativeness heuristic shows that individuals correlate between probabilities and similarities by causing basic. *Availability* is a judgmental heuristic (Murgea 2010). *Anchoring Heuristic* showed up in an environment where there was an increase in the access to information opportunity of individuals. It is quite difficult to decide in an environment where there is so much information for human brain (Lehrer 2009). Dobelli (2014) defines Overconfidence as the measure of the difference between real knowledge of people and the knowledge which they think that they know. Optimism is to think that the results of actions will be positive. Over optimism follows overconfidence and is the belief that events to occur in the future will be really better (Dowling and Lucey 2010). Regret aversion in stock trading shows itself as keeping stocks which are lost during a long time even if there is no expectation (Eaton 2000)

RESEARCH METHODOLOGY

The survey method was used as data collection method in this research. The survey forms were distributed to 145 PG students (MBA and MCOM) of reputed private Universities of Raipur (C.G) but only 107 have responded. Questionnaire used in the research consists of 44 questions and utilizes two scales.
The five personality traits used were:

Trait	Components of the trait
Neuroticism (N)	High Scores indicate tenseness, moodiness, anxiety, and insecurity
Extraversion (E)	High scores indicate assertiveness, sociability, talkativeness, optimism, and being upbeat and energetic
Openness (O)	High scores indicate an active imagination, aesthetic sensitivity, a preference for variety, intellectual curiosity, and broad cultural interest
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

Note. Adapted from *Professional manual: Revised NEO personality inventory (NEO-PI-R) and NEO five-factor inventory (NEO-FFI)*, by P.T. Costa and R.R. McCrae, 1992, Lutz, FL: Psychological Assessment Resources,
Inc., and "The five factor model of personality and job performance in the European community," by J.F. Salgado, 1997, *Journal of Applied Psychology*, *82*, 30–43.

The Hypothesis framed was
H_0: There is relationship between personality traits and Psychological Biases of the investors
H_A: There is no relationship between personality traits and Psychological Biases of the Investors

Instruments used

Two scales were used for the analysis part:

1. The psychological bias scale used was created by (Sutherland 2011;Pompian 2006) of Behavioral finance
2. The Personality scale used was "The Big Five Inventory (BFI)". A 44 item inventory that measures an individual on the dimensions of the Big Factors of Personality (Goldberg, 1993).

RESULTS

Table 1 Statistical representation of the responses related to personality and biases

Personality Trait	f	%	Psychological biases	f	%
Extraversion	95	88.8	Representativeness	88	82.2
Agreeableness	104	97.2	Availability	74	69.2
Conscientiousness	101	94.4	Anchoring	43	40.2
Neuroticism	67	62.6	Overconfidence	73	68.2
Openness	102	95.3	Overoptimistic	46	43
			Regret Aversion	60	56
			Herd Effect	57	53.3

The respondents gave more than one response related to Personality Trait and Psychological biases

Relationship amongst psychological biases and various personality traits were studied according to our Null hypothesis. The significance level taken was 5%. Extravert people are usually exposed to Representative, Heuristic, Overconfidence and Herd Behavior. Respondents having Agreeableness trait possessed representative bias, Availability, Anchoring, Overconfidence, Over- optimism and herd behavior. Respondents having Conscientiousness trait possessed Anchoring and Regret Aversion bias. Regret Aversion was found in a high degree in Conscientiousness trait people compared to other personality traits. Respondents with Neuroticism had high regret aversion behavior.

Table 2 Analysis of Relationship between Personality Traits and Psychological Biases of Investors by Chi-Square method

	Extraversion	Agreeable ness	Conscient-iousness	Neuroticism	Openness
Representativeness	85.5% P:0.026<.05	95.5% P:0.045<.05	94.2% P:.230	63% P:.723	95.6% P:.157
Availability	84.6% P:0.21	97% P:0.035<.05	95.5% P:.450	61.7% P:.455	96.2% P:.379
Anchoring	87.3% P:0.005<.05	94.5% P:0.043<.05	96.4% P:.030<.05	56% P:.650	93.6% P:.157
Overconfidence	87.5% P:.006<.005	97.3% P:0.023<.05	92.7% P:.149	62.1% P:.350	95.1% P:.003<.05
Over optimism	92% P:0.170	97.2% P:0.045<.05	95.8% P:.753	56.8% P:.145	95.4% P:.004<.05
Regret Aversion	88.5% P:0.164	95.7% P:.0120	94.7% P:.020<.05	62.5% P:.029<.05	96.2% P:.595
Herd Effect	86.5% P:0.03<.05	97% P:.025<.05	93.7% P:.751	63.7% P:.250	95.4% P:.425

Neuroticism is a trait where a person is usually depressed, angry, full of anxiety, low self confidence etc, so they over focus on a bad decision or a non profitable decision made by them and prevent themselves in further investment and exploring the market for other investment avenues. Respondents with an openness trait usually suffered from overconfidence and over optimism. After a certain extent this trait can adversely affect the economy and the individual himself. So information should not be overhyped or over stressed as this can even mislead the other investors and hence cause irrationality in the market.

All the above results clearly authenticate the Null hypothesis that

The relationship between personality trait and Psychological biases do exist. Hence Null hypothesis is accepted

CONCLUSION

The results of this paper contribute to the literature in behavioral finance of how psychological variables affects individual decision making which leads to a better understanding of the actual behavior of financial market participants. The degree of psychological biases differs in every individual. If every investor has knowledge about the various biases with which it suffers, the financial market will be much more regulated. Another advantage of studying this relation can be to create portfolios by financial consultants of the stock market, so that the risk return tradeoff can be much more flexible. But it is impossible to create a frame of investments suited to a particular personality trait as a person may have a combination of traits. The diversification of the financial products in the stock market has provided individual investors with a range of opportunities to invest but it is their inherent biases which create a stir in the stock market. The investors personality traits, Risk perception, Return expectation, Portfolio practices in combination can really change the game in the stock market. So financial personality of the investors have been considered as the Architects of the stock market. The findings in the present study suggest that personality influences to the intentions of the investors have a huge practical implication. The financial counselors of the stock market can influence, educate, reframe and change the social reality of the investors for a better financial future. Studying the personality traits with financial decision making is an important concept of financial behavior.

Various types of training programmes creating an awareness of investment in stock market and its various avenues must be included as a curriculum of the college students. These training courses can improve and nurture the rational state of mind of our future generations to invest in the stock exchange and reduce the financial market from the various anomalies to make India economically and financially more stable. The greatest limitation of this study is that we may not find a cure for the above mentioned biases and their effects but we can surely avoid the pitfalls which brings tremors to the Indian stock market and move the economy in a progressive direction.

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