Research Paper   **Management**

Personality Traits and Risk Profile Influencing Attitude of Investor

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ABSTRACT

Behavioural finance is an emerging field to understand the psychology of the investor in various investment avenues. In the present scenario investment in stock market plays a vital role. Investment in this avenue is made by both individual and by institutions. ULIP, Mutual funds set an example as institutions investing in stock market. The present study aims to study the relationship between personality traits (big five model) and risk profile of the investors attitude. The result of the research study proves that the personality traits do not have much influence towards the attitude of the investor as the investor most wisely invest in diversified portfolio to minimize their risk. Moreover the investor invests mainly for tax gaining purpose and to meet their future expenses.

KEYWORDS   Attitude, Risk profile, Personality traits.

Investment is the employment of funds on assets, with the aim of earning income or capital appreciation. Investment has two attributes namely time and risk. The main investment objectives are increasing the rate of return and reducing the risk. Other objectives like safety, liquidity and hedge against inflation can be considered as subsidiary objectives.

A new area of research has come up which has replaced the rational investment decision behavior of investors. The study is known as behavioural finance which recognizes the psychological element in financial decision making. The objective of this paper is to know, behavioral factors influencing attitude of investors towards various investment avenues. The study is a research paper which analyzes the five factor model otherwise known as big five model, of personality traits, risk profile and locus of control influencing investor's attitude of investor.

A behavioural finance perspective, which is made from psychological and financial combination, believes that psychology plays an important role in financial decision, since cognitive errors and distortions impact investments' theories, hence; they will also influence financial options.

Preethi Singh (1986) disclosed the basic rules for selecting the company to invest in. She opined that understanding and measuring return and risk is fundamental to the investment process. According to her, most investors are 'risk averse'. To have a higher return the investor has to face greater risks.

The five factor model delineates five broad traits--extraversion, neuroticism, agreeableness, conscientiousness, and openness to experience--that encapsulate most of the differences in personality across individuals. These traits, sometimes designated as domains, were originally derived from a categorization of the adjectives that are commonly used to describe individuals. A statistical technique that is conducted to identify sets of correlated dimensions.

The study adapts the Big 5 personality scales from McCrae and Costa.

Descriptions of big five model otherwise known as five factor model:
1. Extraversion: A person high in extraversion tends to be more sociable, active, optimistic, fun loving and talkative while someone low in extraversion tends to be reserved, aloof and quiet.
2. Agreeableness: An individual high in agreeableness tends to be trusting altruistic, good natured, empathic and helpful. Yet someone low in agreeableness tends to be clinical rude, suspicious uncooperative, irritable and even manipulative vengeful and ruthless.
3. Conscientiousness: It refers to the degree of organization control, persistence and motivation to goal directed behavior. A person high in conscientiousness tends to be lazy, aimless, hedonistic careless
4. Neuroticism: It refers to a person's level of emotional stability. Individuals high in neuroticism are more prone to psychological, distress including negative affectivity such as anger, hostility depression and anxiety.
5. Openness to experience: It refers to the active seeking and appreciation for their own sake. People high in openness are imaginative, curious and openness to unconventional ideas and values. On the other hand, those low in openness tend to be conventional and dogmatic in beliefs and attitudes, set in their ways and emotionally unresponsive.

The five-factor model of personality is the dominant paradigm in personality research (Mc crae 2009). It encapsulates individual's personalities using five traits, the 'Big Five' model. These personality traits are strongly rooted in biology and are genetically based. Neuroscience uses traits to provide a common structure to map the structure of the brain on to certain behaviors.

REVIEW OF LITERATURE:
Investments are made with an affirmed Research in behavioural finance objective of maximizing the wealth. Investors need to make rational decisions for produced three major maximising their returns based on the theoretical streams, namely: information available by taking judgments Prospect Theory, Regret free from emotions (Brabazon.T, 2000). Aversion and Self Control

People's decision regarding how much to save and invest for future depends upon the trade-off between immediate and future consumption. Modigliani and Brumberg (1954) and Freidman (1957) modeled this trade-off as a problem of optimizing utility or happiness over life span. Within this framework, optimal saving and consumption path depends on how

much people value the consumption at different times in the future.

The numbers of theories have been developed to explain how and why people make decisions with respect to equity investment decision making. The review of important theories ranges from theory of risk tolerance by investors (Bernheim et al., 2001), theory of planned behavior (Ajzen, 1985,1991; Ajzen and Fishbein, 2005), theory of efficient market hypothesis (Marcowitz, 1965, 1970; Fama and French,1993, 1996), Modern Behavioural finance portfolio theory (Markowitz, 1952; Lintner,1965; investigates the cognitive Sharpe,1964; Tobin, 1958) and factors and emotional issues theory of Behavioural finance .

Waweru N Metal. (2008) investigated the role of behavioural finance and investor psychology in investment decision making and identified those certain behavioural factors affected the decision making behaviour of the investors.

Barnewell (1987) found that investor behaviour can be predicted by life style characteristics, risk-aversion, control orientation and occupation. quick, stock marketability, past performance of the firm's stock, and government holding, while the least influencing five factors by order of importance were: expected losses in other local investments, minimizing risk, expected losses in international financial markets, family member opinions and gut feeling on economy.

METHODOLOGY
The present study is a descriptive survey in respect of nature and because of its practical aim. The study performs statistical tools such as correlations and linear Regression to link five factor model, risk profile and locus of control influencing investor's attitude between investments.

Survey instrument: A structured questionnaire consisting of three divisions was developed. In the first division, demographic information was sought. In the second division, 'Investment related details' were sought through structured questions. The third division, psychological questions which were tested by psychological test centers was adopted with the concerned psychologist's prior permission. Apart from five factor model tested questions risk profile questions, attitude towards investment questions and locus of control questions were also taken for testing the attitude of investors towards investment portfolio.

OBJECTIVES OF THE STUDY
The purpose of the study is to analyse investors personality traits and risk profile towards their attitude between investment portfolios.

The main objectives of this research are to find out the needs of current and future investors.

1. To study investment decision making process and to study about different personality traits influencing investor's attitude towards investment portfolio.
2. To analyze investors risk tolerance level and attitude towards various investment avenues.
3. To analyze investors locus of control towards investment decisions.

SAMPLING DESIGN A sampling frame is closely related to the population. A sample is a part of population, which is selected for obtaining the necessary information

The sample size for this research was 100 investors. Simple random sample technique was followed for this research.

RELIABILITY ANALYSIS The concept of reliability has been used to cover several aspects of score consistency. Reliability Coefficients of variables are as follows:

TABLE I :CONBACH'S ALPHA:

SL.NO	VARIABLES	CONBACH'S ALPHA	NO OF ITEMS
1	Conscientiousness	.739	23
2	Neuroticism	.798	13
3	Openness to experience	.837	13
4	Extraversion	.923	48
5	Agreeableness	.759	14
6	Attitude towards investment	.715	10
7	Risk profile measuring risk tolerance	.660	6
8	Locus of control	.717	13

ANALYSIS OF DATA
TABLE 2: DESCRIPTIVE STATISTICS
DEMOGRAPHIC SUMMARY OF SURVEY RESPONSES

TITLE	CATEGORY	NUMBER	PERCENTAGE
Gender	Male Female	71 29	71 29
Marital status	Married Unmarried	77 23	77 23
Age	Below 25 25-35 Above 35	20 47 33	20 47 33
Educational qualification	Up to HSC U.G P.G Professional	5 54 26 15	5 54 26 15
Occupation	Employed Business Others	55 28 17	55 28 17
Annual income	Below 1 lakh 1-3 3-5 Above 5 lakhs	9 50 23 18	9 50 23 18

ASSESSMENT OF THE DEGREE OF ASSOCIATION OF FACTORS
TABLE 3
Relationship between the personality traits and risk profile influencing the attitude towards investment

NULL HYPOTHESIS: (H0)
There is no significant association between the personality, risk profile and the preferred sector of investment.

ALTERNATE HYPOTHESIS: (H1)
There is significant association between the personality traits and risk profile and the preferred sector of investment

	Preferred sector of investment				
	Private	Government	Public	F	P.VALUE
Neuroticism	5.30	6.46	4.83	1.831	0.166
Openness	45.41	45.93	39.50	4.775	.011
Extraversion	164.70	170.84	178.67	2.477	0.89
Agreeableness	45.30	48.67	51.17	5.791	.004
Conscientiousness	74.30	78.66	81.83	5.045	0.008
Attitude towards investment	32.63	34.38	35.17	3.922	0.023
Risk ability	20.15	21.20	22.33	4.600	0.012
Locus of control	44.70	46.87	47.33	2.120	0.126

The results from the above table shows that five factor of personality traits such as openness, risk ability show a dependency with preferred sector of investment. But other factors of personality traits have significant values greater than the allowable 5%. Therefore there is no relationship between the mentioned factors with the preferred sector of investment.

TABLE: 4
Relationship between the factors of personality traits, risk profile with annual income.

		Sum of squares	df	Mean square	F	Sig
Neuroticism	Between Groups Within groups Total	218.513 944.237 1162.750	3 96 99	72.836 9.836	7.405	.000
Openness	Between Groups Within groups Total	71.831 4622.129 4693.960	3 96 99	23.944 48.147	0.497	0.685
Extraversion	Between Groups Within groups Total	2899.101 32091.459 34990.560	3 96 99	966.367 334.286	2.891	0.039
Agreeableness	Between Groups Within groups Total	239.280 2994.360 3233.640	3 96 99	79.760 31.191	2.557	0.060
Conscientiousness	Between Groups Within groups Total	526.154 5533.886 6060.040	3 96 99	175.385 57.645	3.043	0.033
Attitude towards investment	Between Groups Within groups Total	8.940 1003.060 1012.000	3 96 99	2.980 10.449	0.285	0.836
Risk ability	Between Groups Within groups Total	14.803 481.947 496.750	3 96 99	4.934 5.020	0.983	0.404
Locus of control	Between Groups Within groups Total	160.469 2255.971 2416.440	3 96 99	53.490 23.500	2.276	0.085

The results from the above table, shows that out of five factor personality traits such as extraversion, conscientiousness show a dependency with annual income. But other factors of personality traits, risk ability have significant values greater than the allowable 5% level of significance.

Therefore there is no relationship between the mentioned factors with the annual income of the respondents.

TABLE: 5
CORRELATIONS OF PERSONALITY TRAITS

	Neuroticism	Openness	Extraversion	Agreeableness	Conscientiousness
Neuroticism	1	0.229(*)	0.105	0.388(**)	0.430(**)
Openness		1	0.661(**)	0.466(**)	0.290(**)
Extraversion			1	0.670(**)	0.504(**)
Agreeableness				1	0.763(**)
Conscientiousness					1

There is range of correlation coefficients between the factors as described below:

The degree of relation between neuroticism and agreeableness is 0.388 which is moderate

The degree of relation between openness and agreeableness is 0.466 which is moderate

The degree of relation between conscientiousness and neuroticism is 0.430 which is moderate.

TABLE: 6
REGRESSION ANALYSIS, OF PERSONALITY TRAITS, RISKS ABILITY AND LOCUS OF CONTROL.

Model	R	R Square	Adjusted R square	Std. error of the estimate
1	0.730(a)	0.533	0.497	2.267

$R^2 = 0.497$, that mean regression is 49.97% of the variance.

F Table: 7   Analysis of personality traits, locus of control towards attitude towards investment.

Model	Sum of squares	df	Mean square	F	Sig
REGRESSION	539.174	7	77.025	14.987	0.00(a)
Residual	472.826	92	5.139		
Total	1012.000	99			

a Predictors: (constant), Locus of control, Neuroticism, openness, conscientiousness, extraversion, risk ability, agreeableness.

b Dependent variable: Attitude towards investment.

Table :8
Coefficient analysis of personality traits, towards attitude of investment.

	Unstandardized coefficients		Standardized coefficients	t	Sig
	B	Std.Error	Beta		
Constant	12.840	2.706		4.745	0.000
Neuroticism	0.102	0.081	0.110	1.259	0.211
Openness	0.049	0.048	0.106	1.027	0.307
Extraversion	0.021	0.022	0.123	0.956	0.341
Agreeableness	0.244	0.076	0.436	3.218	0.002
Conscientiousness	0.142	0.056	0.348	2.532	0.013
Risk ability	0.602	0.185	0.422	3.251	0.002
Locus of control	0.032	0.081	0.049	0.392	0.696

a Dependent Variable: Attitude towards investment

In forward stepwise regression the algorithm adds one independent variable at a time which explains most of the variation in the dependent variable X_1. The next step is of one more variable X_2 then rechecking the model to see that both variables form a good model.

The process continues with addition of a third and more variables if it still adds up to the explanation on the above sample is as follows.

$$Y = A + B_1X_1 + B_2X_2 + B_3X_3 + \ldots \quad (1)$$

Y = Dependent variable representing the attitude towards investment.

B1 B2 B3 B4 B5 B6 is the coefficients of the regression equation.

X1 =Openness

X2= Extraversion

X3=Agreeableness

X4= Conscientiousness

X5= Risk ability

X6= Locus of control

From the above table we can analyze that the regression coefficient r=0.730 which shows that the independent factors do have a significant impact on the attitude towards investment.

MAJOR FINDINGS:

1. Maximum numbers of respondents are male with the age group of 25 – 35 years with a under graduate level of education, in service drawing around 3 lakhs per annum.
2. Maximum numbers of respondents invests for tax savings purpose and mostly in growth and income investment avenues
3. Most of the respondents save only to meet future expenses.
4. Most of the respondent are very much conservative and try to minimize their risk in diversified portfolio investment.
5. Professional advice and news paper plays a vital role in the investment decisions of the respondents.
6. Attitude towards investment depends on risk tolerance and agreeableness.
7. Locus of control influence both male and female among other investment behaviour factors.
8. Neuroticism one of the five factors of personality traits influence the marital status of the investors when compare to personality traits.
9. Agreeableness, conscientious and risk ability have an impact on the investment behaviour.
10. Attitude towards investment depends on agreeableness and risk tolerance; the remaining variables such as neuroticism, openness, extraversion, conscientious, and locus of control are not influencing the attitude towards investment.
11. Openness and Extraversion, Openness and Agreeableness, Openness and Conscientiousness are positively co correlated.
12. Agreeableness and conscientiousness have maximum positive correlations of .763.

CONCLUSION:

The diversification of the financial services sector has provided individual investor with a wide range of opportunities to invest. The individual's decision to invest in various investment avenues is greatly influenced by the variety of each individual wants the return from the investment. This paper has examined work relating investors attitude towards investment. The investor's portfolio practices, preferences, personality traits, risk ability, influencing their attitude towards the investment have been studied.

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