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A Study on Impact of Big Five Personality on Investment Decisions of Mutual Fund Investors: Mediation by Risk

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Abstract: Mutual fund investment in India has gained significant popularity over the years as an avenue for individuals to participate in the capital markets. Understanding these psychological factors can help investors recognize and mitigate potential biases in their decision-making processes. Being aware of one's personality, risk behavior, seeking diverse perspectives, and maintaining a long-term investment horizon can contribute to more rational and informed investment decisions. Additionally, seeking professional advice and engaging in continuous learning and self-reflection can further enhance investment decision-making abilities. Individual differences within each personality trait can significantly influence investment decisions. Additionally, other factors such as financial literacy, investment knowledge, and personal circumstances also play a role in shaping investment behavior and risk tolerance. This paper attempts to explore the nuanced relationships between personality traits, risk, and mutual fund investment decisions.

Introduction:

Mutual funds have been in India for over four decades and their popularity is based heavily on their low-cost and high-return potential for retail investors. Mutual funds have been around for over four decades in India and have grown exponentially since the early 1990s. This boom in mutual fund investment has been driven by a number of factors, including the rise in income and wealth inequality, coupled with the growth individual savings. The decision to invest in a mutual fund is typically a long-term one, with funds typically investing for five to 10 years. There are a number of factors that investors consider before investing in a mutual fund, including the investment objectives of the fund, the investment risk, and the fund's liquidity. Mutual fund investment behaviour in India is complex and diverse.

The traditional finance supports the fact that investment decision-making is made on the basis of all the information available in the market and thereby leading to rationality. The decision of making an investment by individual investors in their perception is assumed to be rational. On the other hand, the theory of rationality is challenged by the assumptions of behavioural sciences that supports the role of psychology in decision making. Decision making in the real sense has lot of factors that are contributing significantly to the decisions taken. One of the major factors that impacts their decisions are the personality traits of an individual and their risk perceptions.

Literature Review:

The study reviews the scholarly literature on the effects of personality traits innate by the individual investors on their decision making. Joyce and Leong (2013) investigated the influence of personality traits, genders and course majors on decision making dimensions of risk aversion, cognitive biases and socially responsible investing criteria among Generation Y undergraduates and found that Conscientiousness, openness and agreeableness have a significant influence on risk aversion, cognitive biases and socially responsible investing respectively. Olga Pak and Monowar (2015) studied the Impact of personality on risk tolerance and investment decisions of potential investors of Kazakhstan and found that personality traits have some impact on an individual's risk-tolerance behaviour, which, in turn, influences investment decisions about stock, securities and bonds. Chitra and Sreedevi (2011) analysed the influence of seven personality traits—emotional stability, extraversion, risk, return, agreeability, conscientiousness and reasoning—on the choice of the investment pattern and concluded that the influence of personality traits on the investment decision is more compared to that of demographic variables. While Gambetti and Giusberti (2019) in their study concluded that anxious people tended to save money and avoid investments, perceiving high risks and low control and returns, whereas individuals with high Extroversion, Independence and Self-Control were more likely to make investments. Selim and Hatice (2020) developed a relationship between risk aversions, risky investment intention, investment choices: Impact of personality traits and emotion and concluded that two personality traits (neuroticism and openness) and two emotions (fear and sadness) were determined as predictors of risk aversion. For risky investment intention, risk aversion, two personality traits (neuroticism and openness) and one of the same and other one different two emotions (fear and anger) were found. The primary purpose of doing an investment is gaining maximum profits on the amount invested. Individuals always intend to invest in the instruments that give maximum return. The trade-off is always between the risk and the return. Misbah and Hareem (2019) tried to establish the relationships between personality traits, risk tolerance, and investment decisions and highlights the importance of personality traits in determining risk tolerance

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levels and investment decisions concluded that risk tolerance partially mediated the relationship between personality traits and investment decisions. Sadiq and Khan (2019) investigated the role of risk behaviour in mediating the association between personality traits and investment intention and moderating role of financial literacy between the association of risk behaviour and investment intention and found out that the individuals who are active, sympathy toward others, determined, well-organized are more willing toward Investment. Further their study revealed that risk behaviour partially mediates the relationship of Personality traits with short term investment intentions but, in case of Long run Risk behaviour partially mediates the relationship of "Extraversion", "Agreeableness", "Openness to Experience", and "Conscientious" with Long term investment intentions and fully mediate the relationship of "Neuroticism" and with Long term investment intentions. Ozer and Mutlu determined the effects of individual investor's personality traits on their financial behaviors and found that personality traits such as conscientiousness, agreeableness and openness to experience have positive and significant effects on financial behaviour. But extraversion and neuroticism have not significant effects on financial behaviour. While Zhengyang et al (2022) examined the relationship between personalities and investment decisions and concluded that two personality traits, Neuroticism and Openness, stand out in their explanatory power for equity investments. Investors with high Neuroticism and those with low Openness tend to allocate less investment to equities. The review of the theoretical and empirical literatures on personality suggests that personality of an individual has an impact on decision making. We also find evidence to suggest that risk has a mediating role between personality and decision making.

Research Gap:

There is sufficient literature to define the behaviors exhibited by the investors in stock markets but there isn't sufficient literature to suggest the effect of personality of the individual investor on the decision to invest in mutual funds. Risk seeking or aversion is an important factor contributing to the decision making of the investor. It is all the more relevant to identify if risk has any mediating role in the decision making of mutual fund investors. Therefore, the main purpose of the study is to find out whether personality of the individual investor across Delhi NCR has any impact on its mutual fund investment decision making and by taking its risk perception as a mediator.

Research Methodology:

The study examined the effect of personality on the decision making and included the role of risk as a mediator. The questionnaire was designed evaluate the personality traits, risk perception and decision making. The personality traits of the individual are evaluated using Big Five personality model. The results are based on the 432 responses.

Discussion:

In order to proceed with data analysis first the demographics distribution of the data is studied. This allowed us to understand the skewness, non-skewness of the results with respect to the particular demographic. The majority of the respondents who were investing in Mutual funds were males i.e., 72% as the investment decision making is majorly dominated by the males in Indian families. of the respondents are male. Ruenzi and Ruenzi (2019) also supports the fact that the gender bias affects investment decisions and supports the explanation for the low fraction of women in the mutual fund industry. Therefore, the sample is a true representative of the study with respect to gender. Approx 52% of the respondents who invested in mutual funds were married. In comparison, 48% were single, as revealed by their marital status. The research supports and reiterates the fact that irrespective that the person is married or unmarried, he is investing in mutual funds for better return opportunities. The largest proportion, 52.7%, belongs to the group of postgraduates and those with advanced degrees. Next is the category of graduates, which accounts for 40.3% (174 total) of the gathered data. The third category includes 30 respondents, or 6.9% of the total sample, who do not possess a graduate degree. This can be seen from the data that most of the people investing in mutual funds are the ones who understand the whole working of the mutual fund industry and are qualified to invest in the same. The statistics indicate that individuals with graduate or postgraduate degrees actively participate in investment options despite being aware of the inherent risk. Due to the inherent risk, participants with less than a graduate degree do not invest in mutual funds despite lacking the necessary investment knowledge. The respondents with average monthly household income less than or equal to 25000 were the largest group representing 30.3% of the total sample, followed by the greater than 100000 income group representing 26.4%. In comparison, the 30001-50000 income group represents 20.1%, and the 25001-30000 income group represents only 6.3%. The data reveals that individuals with monthly incomes between ₹25,000 and ₹30,000 and those over ₹100,000 engage in investment options. The explanation for this may be attributed to the fact that respondents invest less of their income owing to an increase in the amount they have saved for their

future while having a higher income than ₹100,000 due to their purchasing power. In contrast, some spend less owing to the risk involved, and they may be in the middle of their careers and have family commitments. The sample includes respondents from several occupational categories. Private employee respondents made up 56.7% (245) of the overall sample, while self-employed respondents made up 16% (69), other occupational groupings 14.6% (63), stock brokers 6.3% (27) and government employees 5.8% (25) of the sample. According to the collected data, respondents employed by private firms spend more on mutual funds investment due to the uncertainty linked with their employment. As a result, to protect their future and family, they invest more in mutual funds than in other professions. Around 56.7% of respondents had a family size of four to six people, followed by respondents with a family size of fewer than four members and 5.1% reflecting a family size of more than six members, according to the data obtained by the researcher. Respondents with 4-6 family members may be more likely to put their savings in mutual funds owing to their family responsibilities. It is possible that they have a joint family and that the care for their family members is shared with others. Participants with fewer than four family members are more likely to participate in mutual funds since they may have just begun a family or have fewer family obligations early in their careers. In addition, it has been noticed that respondents with more than six family members invest in mutual funds. However, their numbers are low, and the data may not be sufficient to evaluate them. The study thus performed contributes significantly in the field of Behavioral Finance by investigating the investment behaviour on the basis of personality traits and Risk tolerance.

In this study the relationship between various personality traits based on Big Five model is studied and decision making is studied and also the mediating role of perceived risk is also evaluated. Results suggest that openness to experience, conscientiousness, extroversion, neuroticism and decision-making is partially mediated by the financial risk averse (perceived risk) of individual Indian investors. But, the relationship between agreeableness and decision-making is not by the financial risk averse (perceived risk) of individual Indian investors.

Conclusion and Implications:

Findings from this research suggest that personality of an investor strongly determines the mutual fund investment behaviours in India, despite the returns of mutual funds are often not predictable. This study is contributing to the existing literature on behavioral finance by investigating the personality traits, risk perception and investment decision in Indian context. We also find evidence to suggest that risk has a partial mediating role between personality and decision making and this paper attempts to investigate the same. The study shall be beneficial to the financial planners, managers and investors in understanding the investment behaviours that may be surfacing due to the difference in their personalities.

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