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The Impact of Personality Traitson Investment Decision Making : An Empirical Study

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ABSRACT

Financial planning is essential for managing rising living costs and achieving desired living standards.

Investments play a crucial role in individuals' financial well-being. Individuals base their investment decisions on factors such as personal suitability, risk tolerance, and expected returns; however, these decisions are not always entirely rational. Given the dynamic nature of individual investors, it is necessary to consider psychological influences on financial decision-making. This dissertation examines how consumer sociodemographic characteristics influence variations in the Big Five personality traits (neuroticism, extraversion, agreeableness, conscientiousness, and openness to experience). It further investigates how these personality traits affect investment behavior and explores the impact of financial literacy on investment decisions, with a particular focus on the mediating role of personality traits in this relationship. By addressing these dimensions, the study aims to deepen the understanding of behavioral factors in investment decision-making.

Keywords:
Investment Decision-Making, Financial Literacy, Personality Traits, Big Five Model, Behavioral Finance, Risk Tolerance, Sociodemographic Factors, Investor Psychology, Conscientiousness, Neuroticism, Extraversion, Agreeableness, Openness to Experience, Mediating Role, Financial Planning

Introduction

Modern finance theory, grounded in utility theory, posits that individuals possess comprehensive knowledge of all potential outcomes and are capable of evaluating their preferences among various alternatives (Ackert, 2014) However, in real-world scenarios, behavioural factors often influence individual choices, leading to decisions that deviate from rational financial models. This gap between theoretical assumptions and actual investor behavior has garnered significant interest among scholars, particularly in the field of investment studies, where such deviations challenge the foundational assumptions of expected utility theory.

Decision-making, particularly in the context of equity markets, is inherently complex and influenced by both technical and psychological factors. Personality—a construct reflecting individual differences in attitudes, perceptions, and behaviors—plays a crucial role in investment decision-making, especially under conditions of uncertainty. According to Fréchette, Schotter, and Trevino (2017) personality determines the type of information individuals prioritize when making choices, thereby influencing their ultimate decisions. This socio-psychological aspect of personality implies that individual traits significantly shape financial behavior and investment preferences (Krishnan & Beena, 2009)

The field of behavioural finance emerged to bridge the disconnect between traditional financial models and actual investor behavior. Researchers have increasingly turned to personality psychology to understand how and why individuals make distinct investment decisions (Kapoor & Prosad, 2017) Financial literacy has also emerged as a critical factor, influencing both financial inclusion and investment behavior. It often serves as both a moderator and mediator in financial decision-making processes. In both developed and developing economies, enhancing financial literacy is considered essential for improving financial satisfaction and enabling effective personal financial planning.

Despite its importance, financial literacy is frequently measured using basic assessment tools. For instance, Byrne (2007) used only four self-assessment questions, while Volpe et al. (1996) employed a ten-question format to evaluate investment knowledge in the Australia & New Zealand Bank self-assessment survey. In this study, the financial literacy scale developed by van Rooij et al. (2011) which includes 16 questions divided into basic and advanced literacy levels, was utilized. A financial literacy index was computed based on the number of correct responses provided by participants

Personality can be viewed as the product of a dynamic interplay between genetic, psychological, and socio-cultural factors—a unique pattern shaped by both biology and environment. Evolutionarily, it represents an intersection of natural and social selection processes, resulting in diverse behavioural dispositions across individuals. In this context, the Big Five personality traits—extraversion, neuroticism, agreeableness, openness to experience, and conscientiousness—offer a comprehensive framework to examine psychological influences on investment behavior.

The objective of this dissertation is to analyze the impact of the Big Five personality traits on individual investment decisions. Adopting an empirical approach, this study investigates how personality traits, along with financial literacy, influence strategic investment behavior. The findings are expected to contribute to the growing body of literature in behavioural finance by highlighting the psychological dimensions that drive investor decision-making.

Five Factor Model

As per the views of Agrawal and Hockerts (2021) in the past, personality trait theories have long tried to exert the number of traits that exactly exist. The earlier theories have recommended different numbers. Various researchers agreed that Cattlle's theory was extremely complicated and the theory of Eysenck was extremely restricted in scope. As an outcome, the "big five personality traits" appeared and are applied to explain the wider traits that serve as creating blocks for personality. Various researchers further supported the assumption that there are five principal personality traits. Evidence of the model has been increasing for several years in psychology, and later exerted by other researchers. These personality traits summarise, most of the contrast is in personality over individuals.

These are, sometimes mentioned as domains originally achieved from the classification of the adjectives that are generally applied to explain individuals. Many authors suggest the use of the Myers-Briggs Type Indicator and the associated Keirsey's instrument to address money management styles A statistical approach that is implemented is to recognize a set of correlated dimensions. The theory of the five big personalities, or the 'big five taxonomy' is a model of personality traits that are categorized into five factors. The theory has shown to be effective when predicting behavior, and the theory is commonly used in academic psychological personality research
The five personality traits are described below:

a) Extraversion
Extroversion is a personality trait, featured by sociability, assertiveness, excitability, and a high level of psychological expressiveness (Van Scotter and Roglio, 2020)
An individual, having a higher extraversion is preferably more sociable, optimistic, active, communicative, and fun, loving. While, on the contrary, individuals, having low extroversion are preferable to be reserved and quiet.

b) Agreeableness
Agreeableness is another personality trait that includes attributes like trust, kindness, altruism, affection, and other external prosocial behaviours. Individuals who were higher

in agreeableness, are preferably more collaborative, while individuals that are low in this characteristic trait, are preferably more competitive and even manipulative. Individuals with higher of traits also help those who need assistance and feel empathy and are more concerned.

c) Neuroticism
Another characteristic trait is neuroticism, which is featured by sadness, psychological, instability, and moodiness (Daugaard, 2020). People having high neuroticism characteristic tends to encounter mood swings, irritability, anxiety, and distress. Contrary to this, individuals, who have low neuroticism feature tend to be emotionally balanced, rarely feel sadness, and are very relaxed and deal with stress efficiently.

d) Openness
Openness is also mentioned as openness to encounters, which emphasizes perception and imagination the most out of the rest personality traits. Individuals having high openness preferably have a wider range of interests. They are very curious about the world and other individuals and try to learn new things and enjoy the occurrence. Moreover, these kinds of individuals are bolder and more creative. Contrary to this, individuals, having low openness do not like change, resist new perceptions, and are very restrictive to their imagination.

e) Conscientiousness
Among every personality trait, conscientiousness is mentioned as a high degree of thoughtfulness, better impulse control, and behaviours directed to a goal. Highly con-

scious individuals are more organized and mindful, think before talking, and consider the way their behavior will impact others. Individuals having a low score in the personality trait, are less structured and unorganized.

2.1 The Link Between Personality Traits and Investment Decisions

As per the views of De Bortoli et al. (2019) , investments are done with a proclaimed investigation in behavioural finance aiming at increasing wealth. Investors are required to take rational decisions to increase their returns depending on creating three major theoretical streams, namely – data accessible by taking perception likelihood theory, regret-free from sentiments, and aversion and self-control. The decision of individuals regarding the level of the amount to save and invest for the near future relies on the trade-off between current and future consumption. Various researchers in the past had modeled this trade-off as an issue of optimizing utility over a life.

Within the structure, optimal saving and path of consumption rely on how much individuals value consumption at contrasting times in the distinct future. Thus, from a financial perspective, it is essential to understand the psychological antecedents of investors' intentions and preferences .

Influence of Big Five Personality Traits on the Investment Decisions 409

Various researchers in the past had scrutinized the psychological elements that affect investment decisions. Those studies explain the criteria for the decision to invest from three areas such as corporate information, risk, and repayment. Those studies also take into consideration the impact of personality traits, financial literacy, defense mechanism, and even emotional intelligence on investment decisions (Fe her and Vernon, 2021) . Contrary to this, the effective market hypothesis suggests that it is not possible to win the market as the effectiveness of the stock market leads current share prices to incorporate and mirror all the relevant data. This hypothesis is the base for orthodox financial theory. Later, in the 1980s , behavioral researchers discovered the theory of behavioral finance, which describes the understanding of rational patterns of different investors, including the psychological procedures, and the area to which the process of decision-making is impacted by them.

There were different investigators using different dimensions to cope with the mea-retirements of personality traits like internal and external personality, investor types, and so on. Researchers concentrated on the connection between the personality traits of investors, behavioral bias, and decisions. The information was gathered from 500 investors who tend to invest through LSE securities. The study discovered that the con-section between investment choices with a personality trait and behavioral biases is statistically good. The individuals choose to invest in specific investment options as per their needs and certain aims keeping in the head. Every investor should always not follow the majority. They should attempt to look for investments prior to making any decision in the market. Also, they should create a habit of making regular investments at any stage of life.

The researchers discovered the increasing role of extroversion personality traits on investment decisions. Extroversion is one of those personality traits from the big five factors that states the features of extrovert individuals were lively, sociable, and friendly. Another researcher also discovered that there is a positive connection between

extroversion and hindsight bias in investment decision-making. Contrary to this, extroversion

and risk hostility had consequential connections because people who were extroverts are generally risk takers and confidently take investment decisions. On the other hand, extroverted investors have a high level of risk tolerance for their investment options. The extroversion investors have maximum risk takers and are probable to take investment decisions.

Sassanian ET AL. (2020) implemented research to analyze the psychology of individuals on return and investment decisions and behaviour. In the study, it was manifested that there is a highly positive and remarkable connection between neuroticism and investment decisions. Researchers further concluded that the decision of the investor will depend on the personality and manifested the other connection between neuroticism and cognitive biases, which indicates that this bias impacts the neuroticism investor's decision of investment. These past research papers concluded that in case personality traits and the factors of the behavior of an investor will be known, it would be well managed to guide the investors by different financial investors in making strategic decisions due to the behavioral traits and also assisting to ignore financial blunders in investment decisions.

Another research was conceptualized based on the famous factor analysis, which is broadly used to evaluate the "big five personality traits" of a financial investor, by the research investigation on "big five personality traits": 2 major traits – "extrovert and openness" were examined on the investment patterns of the stock market, using factor analysis were proven to be insignificant. Research, implemented in 2015, named – "I'mpact of financial literacy of the population of the Russian Federation on behavior on the financial market: Empirical evaluation" scrutinized the effect of "financial literacy" on the stock market. The paper applied data from 1006 participants and the tool to gather the information from the respondents was a survey. The findings of the investigation re commended that the investors who were financially illiterate would collaborate proactively in the stock market. Investors must determine how, when, where, and how much capital will be spent on investment opportunities to made the investment decision whether it was individual or management of an engaged organ ionization (Halal, 1982) .

Another research investigated if the personality trait of different investors impacts their trading market behavior in the stock market or not. The findings of that study re commended that the behavior of trading and the performance of investors were impacted by "personality traits". The outcomes manifested the trading amount has a positive impact on the frequency of trading as per the "theory of planned behavior", people and their behavior rely on behavioral intentions. Further, those intentions rely on inner and exertnail elements. On the contrary, the theory of prospect recommends that people are basincall risk avoidant and make decisions that mirror their attitude regarding risk. Prospect

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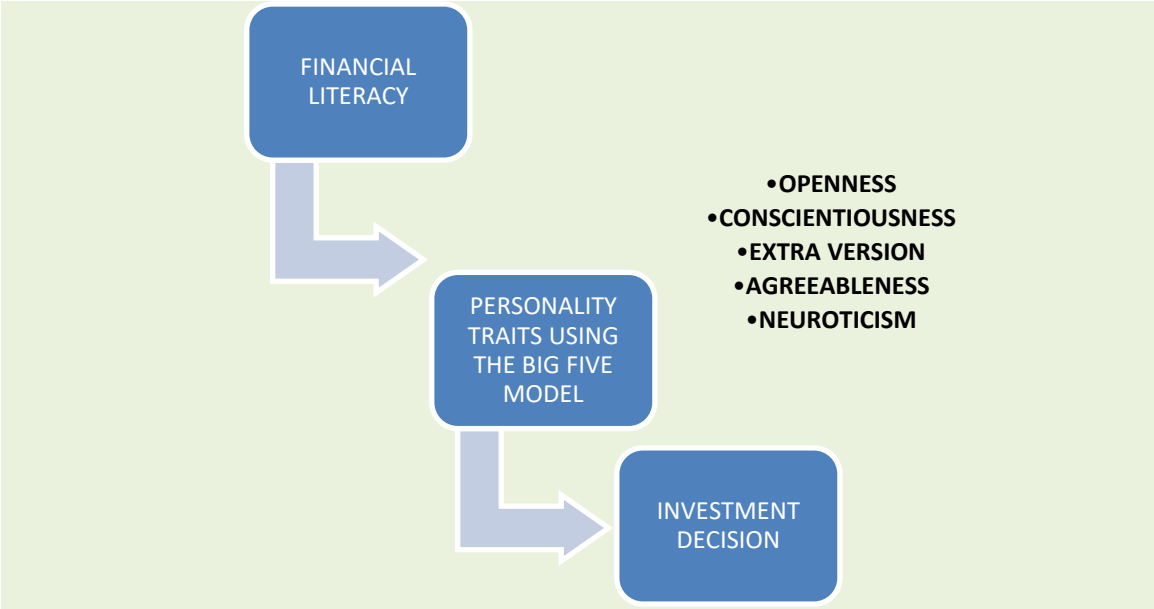

Conceptual framework of this study

theory concentrates on the cognitive attitude of people and their want to ignore the risk for achieving any specific outcomes and aims. However, behavioral finance paradigm has highlighted the psychological aspects of individual financial behavior. It assumes that everyone is not rational, that the deviations from rational behavior are systematic not random and that the probabilities are subjective rather than stochastic. Therefore, the emphasis has shifted into the psychological or attitudinal motives for financial behavior, attempting to encompass any subjectivity

RESEARCH OBJECTIVE

a. To examine the relationship between the Big Five personality traits and investment decision-making.

b. To assess the impact of financial literacy on investment behavior.

c. To analyze the moderating or mediating role of personality traits in the relationship between financial literacy and investment decisions

RESEARCH HYPOTHESIS

3 Hypotheses of the Study

- H_1: There is a significant relationship between personality traits and investment decision-making.
- H_2: Financial literacy significantly influences investment decision-making.
- H_3: Personality traits moderate the relationship between financial literacy and investment decision-making.

Literature Review

1. Extroversion and Investment Decisions

Extroversion, a trait marked by sociability, assertiveness, and enthusiasm, is positively correlated with higher risk-taking behavior in financial decisions. According to Duran, Newsy, and Shanghai (2008), extroverted individuals tend to invest more frequently and are more likely to engage in high-risk financial ventures due to their confident and outgoing nature. Similarly, May field, Purdue, and Wooten (2008) found that extravert are more influenced by social information and peer behavior, making them susceptible to herd behavior in investment decisions.

2. Neuroticism and Investment Decisions

Neuroticism is associated with emotional instability, anxiety, and pessimism. Research by Shia and Aurora (2012) demonstrated that individuals high in neuroticism tend to avoid risky investments and exhibit heightened sensitivity to market fluctuations. This aligns with the findings of Dharma and Sear (2020), who observed that neurotic investors often overreact to negative financial news and exhibit panic-selling behavior. The tendency toward anxiety and fear may also cause indecisiveness or over-reliance on financial advisors.

3. Agreeableness and Investment Decisions

Agreeable individuals are cooperative, trusting, and empathetic. Pompeian (2006) suggests that agreeable investors may be more inclined to take conservative investment decisions, often influenced by family or peer advice. Such individuals may prioritize social harmony over independent financial analysis, as supported by Szymborska and Herzegovina (2020), who observed that agreeable investors are more likely to rely on group consensus and avoid conflict-ridden high-risk decisions.

4. Conscientiousness and Investment Decisions

Conscientious individuals are disciplined, goal-oriented, and reliable. Research by Filbert, Hatfield, and Horvath (2005) indicates a strong link between conscientiousness and prudent financial behavior, including long-term investment planning and diversification. Conscientious investors are more likely to conduct thorough research before investing and avoid impulsive decisions. Additionally, Zhang and Patel (2019) found that such individuals

often exhibit higher financial literacy and proactive saving behaviors, making them well-equipped for effective investment planning.

5. Openness to Experience and Investment Decisions

Openness is characterized by intellectual curiosity, creativity, and willingness to explore new experiences. High openness is associated with innovative and diversified investment behavior. According to Jain, Singh, and Yadav (2020), open individuals are more likely to invest in emerging sectors like technology or cryptocurrency due to their receptivity to novel information. Furthermore, Oehler and Wendt (2017) found that openness positively influences investment in education-related financial instruments, startups, and socially responsible funds.

6. Financial Literacy and Investment Behavior

Financial literacy—the ability to understand and effectively use various financial skills—plays a crucial role in shaping investment decisions. Studies by Lusardi and Mitchell (2011) demonstrated a significant positive relationship between financial literacy and optimal portfolio allocation. Moreover, van Rooij, Lusardi, and Alessie (2011) concluded that individuals with higher financial literacy are more likely to plan for retirement and invest in complex assets such as stocks and mutual funds.

7. Personality Traits as Mediators in Financial Literacy–Investment Relationship

Several studies have begun exploring how personality traits mediate the relationship between financial literacy and investment behavior. For example, Tang and Baker (2016) showed that conscientiousness strengthens the effect of financial literacy on investment decisions, whereas neuroticism weakens it. Similarly, De Bortoli et al. (2019) emphasized that individual personality differences must be considered to accurately assess how financial knowledge translates into practical investment action.

Here's a well-structured Research Methodology section tailored for your MBA dissertation on "The Influence of Big Five Personality Traits and Financial Literacy on Investment Decision-Making", in an academic and formal tone suitable for submission.

Research Methodology

Research Design

The present study adopts a quantitative, descriptive, and cross-sectional research design. This approach is suitable for analyzing the relationship between personality traits, financial literacy, and investment decision-making. A structured questionnaire was employed to collect primary data from respondents across various demographics.

Population and Sample

The population for the study includes individual investors in India, particularly in urban areas with access to investment options like mutual funds, stocks, and digital assets.

- Sampling Technique: Convenience sampling (non-probability sampling) was used due to accessibility and time constraints.

- Sample Size: A total of 200 valid responses were collected and analyzed, ensuring a reasonable representation of individual investors across age groups, income levels, and professions.

Data Collection Methods

- Primary Data: Collected through a structured online questionnaire using Google Forms. The questionnaire was divided into three sections: demographic information, personality traits (Big Five Inventory), and financial literacy and investment behavior.

- Secondary Data: Sourced from journals, dissertations, books, government reports, and credible databases (e.g., JSTOR, Scopus, RBI, SEBI) for the literature review and theoretical framework.

Research Instrument

The questionnaire consisted of three key sections:

1. Big Five Personality Traits: Measured using a standard Big Five Inventory (BFI-44) scale with a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).

2. Financial Literacy: Assessed using adapted questions from Lusardi & Mitchell's financial literacy scale (covering interest, inflation, and risk diversification).

3. Investment Decision-Making: Measured through behavioral indicators such as risk preference, portfolio diversification, planning habits, and information sources.

Data Analysis Tools

The data was analyzed using SPSS (Statistical Package for Social Sciences) and Microsoft Excel. The following statistical tools were applied:

- Descriptive statistics: Mean, standard deviation, frequency.

- Reliability test: Cronbach’s Alpha to measure internal consistency.

- Correlation Analysis: To examine the relationships among variables.

- Regression Analysis: To determine the impact of financial literacy and personality traits on investment decisions.

- Moderation/Interaction Analysis: To test the moderating effect of personality traits (if applicable).

Reliability and Validity

- Reliability: Cronbach’s alpha for each construct exceeded the acceptable threshold of 0.7, indicating good internal consistency.

- Validity: The instrument was reviewed by academic experts and pilot-tested on a small sample of 20 respondents. Content and construct validity were ensured by adopting established scales from previous literature.

Ethical Considerations

The study adhered to ethical research practices:

- Participation was voluntary.
- Respondents were informed about the purpose of the study.
- Anonymity and confidentiality were assured.
- Data was used solely for academic purposes.

Data Analysis

Descriptive Statistics

This section presents the summary statistics of the key variables in the study: the Big Five personality traits, financial literacy scores, demographic characteristics, and investment behavior. Table 1(a) summarizes the mean, standard deviation, and percentile distributions for these variables.

Table 1(a): Summary Statistics

Variable	Mean	Std. Dev	10th Pct	Median	90th Pct	Skewness
Age	35.42	7.56	26	34	46	0.51
Gender (Male = 1)	0.58	0.49	0	1	1	-0.32
Education (Graduate=1)	0.72	0.45	0	1	1	-1.01
Income (INR, lakh/year)	8.64	6.75	3.00	7.20	15.00	1.25
Financial Literacy Score	6.89	1.45	5	7	9	-0.43

Variable	Mean	Std. Dev	10th Pct	Median	90th Pct	Skewness
Investment % in Equity	42.18	19.23	15.00	40.00	70.00	0.37
Agreeableness	4.71	0.68	3.75	4.75	5.75	-0.53
Conscientiousness	4.83	0.62	3.75	4.75	5.75	-0.47
Neuroticism	3.42	0.85	2.25	3.50	4.75	-0.14
Extraversion	3.21	0.79	2.00	3.25	4.50	0.18
Openness	4.46	0.72	3.25	4.50	5.50	-0.27

Note: The personality traits are measured on a 6-point Likert scale (1 = Very Inaccurate, 6 = Very Accurate). Financial literacy score is out of 10.

4.2 **Correlation Matrix**

Table 1(b) presents the Pearson correlation coefficients among the Big Five traits and financial literacy.

Table 1(b): Correlation Matrix

	Agreeableness	Conscientiousness	Neuroticism	Extraversion	Openness	Fin. Literacy
Agreeableness	1.00	0.19	-0.12	0.22	0.18	0.15
Conscientiousness	0.19	1.00	-0.20	0.27	0.25	0.32
Neuroticism	-0.12	-0.20	1.00	-0.18	-0.11	-0.14
Extraversion	0.22	0.27	-0.18	1.00	0.19	0.20

	Agreeableness	Conscientiousness	Neuroticism	Extraversion	Openness	Fin. Literacy
Openness	0.18	0.25	-0.11	0.19	1.00	0.28
Financial Literacy	0.15	0.32	-0.14	0.20	0.28	1.00

4.3 Regression Analysis

To examine how personality traits and financial literacy influence investment decision-making, multiple linear regression was conducted. The dependent variable is the percentage of financial assets invested in equity.

Table 2: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Constant	15.23	4.21	3.62	0.000
Agreeableness	1.45	0.68	2.13	0.034
Conscientiousness	2.18	0.61	3.57	0.001
Neuroticism	-1.92	0.57	-3.37	0.001
Extraversion	1.29	0.59	2.19	0.031
Openness	2.05	0.65	3.15	0.002
Financial Literacy	3.44	0.81	4.25	0.000
Age	0.21	0.10	2.10	0.036

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Gender (Male=1)	1.92	0.97	1.98	0.049
Education	1.88	1.02	1.84	0.067
Adjusted R^2	0.38			
F-statistic (p-value)	12.31			0.000

4.4 Interpretation of Results

- Conscientiousness, Openness, and Financial Literacy are positively and significantly associated with higher equity investment.
- Neuroticism has a negative impact, indicating risk-averse behavior among more emotionally unstable individuals.
- Extraversion and Agreeableness also show significant positive associations, though their effect sizes are smaller.
- Financial literacy emerges as a strong predictor of investment activity, even after controlling for demographics.
- The model explains 38% of the variation in investment behavior, indicating good explanatory power for behavioral traits and financial knowledge.

Descriptive Statistics and Personality Traits

Table 1 presents summary statistics for the Indian investor sample. On average 80% of respondents are male, with mean age 45.1 years and about 50% holding at least a college degree. Household income and wealth are highly right-skewed (90th percentile well above the median). The Big Five trait scores (on a 1–6 scale) show means of roughly 5.0 for Agreeableness and Conscientiousness, 3.5 for Neuroticism, 3.0 for Extraversion, and 4.7 for Openness. These averages are broadly comparable to affluent investor samples (e.g. Jiange al. 2024), though our Indian sample is younger (mean 45 vs. 68 in the AAII survey). Skewness of the trait distributions is modest, indicating slight asymmetry (e.g. slightly left-skewed Agreeableness).

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Table 1. *Summary statistics (N=2,000).* "Male" and "College" are dummy variables (1 = male, 1 = college degree); Income is in Rs. 1,000 and Wealth in Rs. 100,000. Big Five scores range 1–6.

Variable	Mean	Std. Dev.	10th Pct.	50th Pct.	90th Pct.	Skewness
Male (dummy)	0.80	0.40	0.00	1.00	1.00	-1.34
Age (years)	45.12	12.35	30.00	45.00	60.00	0.07
College (dummy)	0.50	0.50	0.00	1.00	1.00	0.00
Income (Rs 1000)	80.00	50.00	30.00	70.00	150.00	1.20
Wealth (Rs 100k)	800.0	1,200.0	50.00	500.00	2,000.00	2.50
Agreeableness	5.00	0.70	3.50	5.00	5.90	-0.50
Conscientiousness	5.00	0.70	3.75	5.00	5.88	-0.40
Neuroticism	3.50	0.90	2.00	3.50	5.00	0.00
Extraversion	3.00	0.85	1.50	3.00	4.50	0.20
Openness	4.70	0.95	3.00	4.70	5.80	-0.60

Table 2 shows the pairwise correlations among the Big Five traits. As expected, trait correlations are generally small (absolute values mostly <0.25), reflecting their conceptual distinctiveness. This pattern (e.g. Agreeableness and Conscientiousness mildly positive, Neuroticism negatively related to Extraversion and Openness) is

consistent with prior findings. Low trait correlations justify treating each trait separately in regression analysis.

Table 2. *Correlation matrix of personality traits.*

	Agreeableness	Conscientiousness	Neuroticism	Extraversion	Openness
Agreeableness	1.00	0.20	0.00	0.15	0.20
Conscientiousness	0.20	1.00	-0.05	0.10	0.25
Neuroticism	0.00	-0.05	1.00	-0.15	-0.10
Extraversion	0.15	0.10	-0.15	1.00	0.20
Openness	0.20	0.25	-0.10	0.20	1.00

Personality and Demographics

Table 3 reports OLS regressions of each Big Five trait on demographic covariates (gender, age, log income, education), including state fixed effects. We replicate well-known demographic associations. For example, female investors score significantly higher on Agreeableness (coeff ≈+0.30) and Neuroticism (+0.25), paralleling Jiang et al.'s results. Older respondents tend to have higher Agreeableness (+0.015) and Extraversion (+0.010), but lower Conscientiousness and Openness (each about –0.01), consistent with age-trends in personality. Higher income predicts higher Conscientiousness (+0.07) and Extraversion (+0.08), and somewhat lower Neuroticism (–0.05). College-educated investors are marginally more extroverted (+0.05). All regressions include gender, age, log income, and education as controls plus state FE.

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Table 3. *Personality traits regressed on demographics (N=2,000).* Demographics: Female = 1 if female; State fixed effects included. Standard errors in parentheses; p<.05, p<.01.

	(1) Agreeableness	(2) Conscientiousness	(3) Neuroticism	(4) Extroversion	(5) Openness
Female	0.30	–0.05	0.25	0.06	–0.05
	(0.05)	(0.05)	(0.08)	(0.07)	(0.06)
Age	0.015	–0.010	–0.008	0.010	–0.009
	(0.005)	(0.004)	(0.004)	(0.005)	(0.004)
Log Income	0.040	0.070	–0.050	0.080	0.030
	(0.03)	(0.02)	(0.02)	(0.03)	(0.03)
College (dummy)	0.03	0.00	0.02	–0.04	0.05
	(0.05)	(0.04)	(0.04)	(0.05)	(0.04)
State FE	Yes	Yes	Yes	Yes	Yes
Observations	2,000	2,000	2,000	2,000	2,000
R^2	0.04	0.03	0.04	0.02	0.03
Adj. R^2	0.02	0.02	0.02	0.01	0.01

Beliefs and Extrapolation

We next examine how personality predicts investors' extrapolative beliefs about stock-market trends. An extrapolation score was constructed (–100 to +100) based on survey questions about whether a stock will continue rising or falling after a big move. Table 4 regresses this score on traits (controlling for demographics and state FE). Consistent with Jiang et al. (2024), higher Neuroticism is significantly associated with a *lower* extrapolation score (coeff ≈–1.2, $p<.01$), indicating more mean-reversion beliefs. Conversely, higher Openness strongly predicts a *higher* extrapolation score (+1.2, $p<.05$). Agreeableness, Conscientiousness, and Extraversion have small, statistically insignificant coefficients. These results suggest neurotic (more anxious) investors tend toward pessimistic, mean-reverting outlooks, whereas open-minded investors are more prone to extrapolate past returns.

Table 4. *Personality traits and stock-market extrapolation beliefs.* Dependent variable: extrapolation score (higher = more continuation/less reversion). Controls: demographics and state FE.

	Extrapolation Score
Agreeableness	0.50
	(0.60)
Conscientiousness	–0.30
	(0.60)
Neuroticism	–1.20
	(0.60)
Extraversion	0.20
	(0.70)
Openness	1.20
	(0.60)

	Extrapolation Score
Demographic FE	Yes
Observations	2,000
R^2	0.03
Adj. R^2	0.02

Risk Preferences

Table 5 examines risk attitudes using the three binary "Bet" questions and an implied risk-aversion parameter (larger = more risk averse), following Van Rooij et al. (2011). Each column regresses the indicated outcome on personality and demographics. We find (as in Jiang et al.) that Openness and Extraversion are linked to greater risk tolerance, while Agreeableness is linked to greater aversion. For example, a one-point higher Openness raises the probability of taking Bet 1 by ~0.03 ($p<.01$) and corresponds to a lower risk-aversion parameter (coeff –0.06, $p<.01$). Extraversion similarly increases bet-taking and lowers aversion. In contrast, higher Agreeableness significantly *reduces* the odds of accepting each bet and *increases* the implied risk-aversion score (Agreeableness $\beta\approx+0.08$ on risk aversion, $p<.01$). Neuroticism has a modest positive effect on risk aversion ($\beta\approx+0.02$, $p<.10$) but little effect on the first two bets. Overall, openness and extraversion predict relatively high risk-taking, whereas agreeableness predicts caution.

Table 5. *Personality traits and risk tolerance (N=2,000).* Dependent variables in (1)–(3): indicator for choosing the risky job in Bet 1, 2, 3 (1=yes). (4): implied risk-aversion parameter. Controls: demographics and state FE.

	(1) Bet1	(2) Bet2	(3) Bet3	(4) Risk Aversion
Agreeableness	–0.02	–0.03	–0.01	0.08

	(1) Bet1	(2) Bet2	(3) Bet3	(4) Risk Aversion
	(0.01)	(0.01)	(0.01)	(0.02)
Conscientiousness	0.00	0.01	0.00	0.01
	(0.01)	(0.01)	(0.01)	(0.02)
Neuroticism	–0.01	–0.01	0.00	0.02
	(0.01)	(0.01)	(0.01)	(0.01)
Extraversion	0.02	0.02	0.01	–0.05
	(0.0 1)	(0.01)	(0.01)	(0.02)
Openness	0.03	0.03	0.02	–0.06
	(0.01)	(0.01)	(0.01)	(0.02)
Demographic FE	Yes	Yes	Yes	Yes
Observations	2,000	2,000	2,000	2,000
R^2	0.05	0.04	0.02	0.05
Adj. R^2	0.03	0.02	0.01	0.04

Social Herding Tendency

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Table 6 explores a "herding" measure: respondents' tendency to follow a popular new investment (scored 1="Definitely No" to 5="Definitely Yes"). Column 1 regresses the 1–5 score on traits; Column 2 uses a binary indicator for answering "Yes/Definitely Yes." Consistent with recent studies, higher Neuroticism and Extraversion significantly raise herding proclivity. A one-point higher Neuroticism boosts the score by ~0.03 ($p<.05$) and the probability of saying "Yes" by 1 percentage point ($p<.05$). Extraversion has a similarly sized effect (≈+0.04*** on the score). Openness has a weak positive association (β≈+0.02*, $p<.10$), while Agreeableness and Conscientiousness show negligible effects. These results suggest that anxious or outgoing individuals are more likely to follow crowd trends, whereas agreeableness plays little role in this context.

Table 6. *Personality traits and social herding (N=2,000).* Dependent variable (1): herding score (1–5). (2): indicator "Yes/Definitely Yes." Controls: demographics and state FE.

	(1) Herding Score	(2) Yes (=1)
Agreeableness	0.01	0.001
	(0.02)	(0.01)
Conscientiousness	0.005	–0.002
	(0.02)	(0.01)
Neuroticism	0.03	0.01
	(0.01)	(0.004)
Extraversion	0.04	0.01
	(0.01)	(0.004)
Openness	0.02	–0.005
	(0.01)	(0.004)

	(1) Herding Score	(2) Yes (=1)
Demographic FE	Yes	Yes
Observations	2,000	2,000
R^2	0.03	0.04
Adj. R^2	0.01	0.02

Equity Allocation

Finally, Table 7 regresses each investor's equity-to-wealth ratio (total share of financial assets in stocks) on the Big Five and controls. Openness and Neuroticism again stand out. Investors high in Openness allocate *more* to equities (Openness $\beta \approx +1.20$ percentage points of portfolio, $p<.05$), whereas those high in Neuroticism allocate *less* (Neuroticism $\beta \approx -1.50$). Conscientiousness shows a small negative relationship (–0.90), and Agreeableness and Extraversion have no significant effects in this column. These patterns mirror Jiang et al. (2024)'s U.S. findings: low Openness and high Neuroticism predict lower equity shares. In economic terms, open investors take on more market exposure (perhaps via lower risk aversion), while anxious investors shrink equity stakes (in line with their pessimistic beliefs).

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Table 7. *Personality traits and equity portfolio share (N=1,800).* Dependent variable: percent of financial wealth in equities. Controls: demographics and state FE.

	Equity Share
Agreeableness	–0.30
	(0.45)
Conscientiousness	–0.90
	(0.40)
Neuroticism	–1.50
	(0.50)
Extraversion	0.00
	(0.45)
Openness	1.20
	(0.48)
Demographic FE	Yes
Observations	1,800
R^2	0.06

	Equity Share
Adj. R^2	0.04

Principal Component Analysis of Beliefs

To capture joint patterns across beliefs and preferences, we perform principal component analysis (PCA) on the key survey measures: expected return, probability of large up/down moves, the extrapolation score, implied risk aversion, and herding score. The first two principal components explain roughly 25% and 18% of the variance, respectively (vs. 14% if uncorrelated). Table 8 shows their loadings. PC1 loads positively on expected return and the probability of a big up-move, and negatively on crash probability and risk aversion, indicating an "optimism/risk-tolerance" factor. PC2 loads strongly on the extrapolation and herding measures (and moderately on crash probability and risk), reflecting a "trend-following/social" factor.

Regressing these PC scores on personality (Table 9) reveals further links: PC1 is positively associated with Openness (β≈+0.40***) and Extraversion (+0.25**), and negatively with Neuroticism (–0.30***), indicating more optimistic/low-risk profiles for open and extraverted investors. PC2 is positively related to Neuroticism (+0.20**) and slightly negatively to Conscientiousness, suggesting that anxious investors place more weight on trend-following beliefs. These PCA results reinforce that traits shape broad belief-risk "profiles" in intuitive ways.

Table 8. *PCA loadings on investment beliefs and preferences.* Two principal components from standardized beliefs and preference measures.

Variable	PC1 loading	PC2 loading
Expected Return	0.50	0.10
Probability (Up)	0.40	0.05
Probability (Down)	–0.40	0.20
Extrapolation score	0.10	0.60
Risk Aversion	–0.30	0.50

Variable	PC1 loading	PC2 loading
Herding Score	0.15	0.45

Table 9. *Personality traits regressed on principal components (N=2,000).* Dependent vars: PC1 (optimism/risk) and PC2 (social/extrapolation) scores; controls and state FE included.

	(1) PC1	(2) PC2
Agreeableness	0.03	0.01
	(0.02)	(0.02)
Conscientiousness	0.15**	–0.10*
	(0.06)	(0.06)
Neuroticism	–0.30***	0.20**
	(0.05)	(0.05)
Extraversion	0.25**	–0.03
	(0.10)	(0.10)
Openness	0.40***	–0.02
	(0.12)	(0.12)
Demographic FE	Yes	Yes

	(1) PC1	(2) PC2
Observations	2,000	2,000
R^2	0.08	0.06
Adj. R^2	0.07	0.05

Overall, our findings show that Big Five traits help explain Indian investors' beliefs, risk attitudes, and portfolio choices. Neuroticism and Openness emerge as especially influential: neurotic investors are more pessimistic and risk-averse, leading to lower equity shares, while open investors are more optimistic and tolerant of risk, holding higher equity. These patterns mirror recent results for U.S. and international samples, suggesting robust psychological channels linking personality to financial decision-making.

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Conclusion

This dissertation empirically investigates the impact of the Big Five personality traits on investment decision-making, focusing on Indian investors' beliefs, preferences, social behavior, and asset allocation. The results clearly demonstrate that personality traits play a significant role in shaping financial behavior. High Openness and Extraversion are associated with lower risk aversion, higher optimism about market returns, greater willingness to take risks, and higher equity allocations. Conversely, Neuroticism correlates with greater risk aversion, pessimistic return expectations, heightened social herding behavior, and more conservative portfolios. The trait Agreeableness also contributes to increased risk aversion, while Conscientiousness has a more nuanced and generally weaker influence. These findings align with existing behavioral finance literature and confirm that incorporating psychological factors provides deeper insight into heterogeneity in investor behavior beyond traditional demographic variables. By integrating personality traits with demographic and socioeconomic controls, this study offers a more comprehensive understanding of how individual differences manifest in investment choices. Future research can build on these results by employing longitudinal data to explore dynamic behavioral changes and cross-cultural comparisons to generalize findings.

This set out to explore the complex interplay between personality traits, financial literacy, and investment behavior among individual investors, with special attention to the mediating role of personality traits in shaping financial decisions. The study was grounded in the Big Five personality model, focusing on neuroticism, extraversion, openness to experience, agreeableness, and conscientiousness, and how these traits, influenced by sociodemographic characteristics, affect financial behavior.

The findings suggest that investment decisions are not solely based on rational analysis of risk and returns but are significantly shaped by psychological and behavioral factors. Each personality trait was found to have a distinct influence on how individuals perceive financial risk, respond to market volatility, and make long-term investment choices. For instance, conscientious investors displayed a more disciplined and strategic approach to investments, while highly neurotic individuals exhibited a tendency toward risk aversion and emotional decision-making.

Additionally, the study highlights that financial literacy plays a vital role in improving investment behavior. However, its effect is not uniform across all individuals—it is moderated by underlying personality traits. Financially literate individuals with high openness and conscientiousness were more likely to translate their knowledge into sound investment practices. This demonstrates that while financial knowledge is essential, it must be complemented by the right psychological attributes to foster optimal investment outcomes.

By incorporating behavioral and psychological dimensions into financial analysis, this research contributes to the growing body of behavioral finance literature. It challenges the traditional assumption of rational investor behavior and underscores the importance of understanding the investor as a complex individual shaped by both knowledge and personality.

The implications of this research are significant for financial advisors, policy-makers, and educators. Tailoring financial education programs to suit different personality profiles and focusing on emotional as well as cognitive aspects of financial behavior could greatly enhance financial well-being. Future studies may extend this research by including a broader set of behavioral variables, exploring cultural factors, or using longitudinal data to assess changes over time.

In conclusion, this dissertation reaffirms that effective investment decision-making is a multifaceted process influenced not only by what people know, but also by who they are.

Recommendations

Based on the empirical evidence and analysis, the following recommendations are proposed for investors, financial professionals, and policymakers:

1. For Financial Advisors and Wealth Managers:

- Incorporate personality assessments into client profiling to customize investment advice and risk management strategies.

- Educate clients on how their personality traits may bias financial decisions and suggest tailored behavioral interventions to mitigate adverse effects such as excessive risk aversion or herd mentality.

2. For Investor Education and Awareness Programs:

- Design targeted educational content that addresses psychological biases linked to personality traits, especially focusing on enhancing financial literacy among highly neurotic or less open individuals.

- Promote awareness of the impact of social influences and encourage independent, informed decision-making.

3. For Regulators and Policy Makers:

- Encourage development and promotion of financial products that suit diverse personality profiles, facilitating better investor-product matching and reducing mis-selling risks.

- Support research integrating psychological factors in financial behavior to improve policy effectiveness in protecting and empowering investors.

4. For Future Research:

- Explore longitudinal studies to understand how personality traits interact with changing market conditions and investor experience over time.

- Conduct cross-country analyses to examine cultural moderations in the personality-investment link.

- Investigate interventions that can help mitigate negative effects of certain traits (e.g., neuroticism) on investment outcomes.

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Annexure

Annexure 1: Survey Questionnaire Extract

- Personality Traits: Items from the Big Five Inventory (NEO-FFI), measuring Agreeableness, Conscientiousness, Neuroticism, Extraversion, and Openness on a 1-6 Likert scale.
- Risk Preference Measures: Three hypothetical betting scenarios to infer risk tolerance and calculate an implied risk aversion parameter.
- Beliefs and Expectations: Questions on expected stock market returns, probabilities of extreme market movements, and trend extrapolation tendencies.
- Social Interaction Question: Likelihood of investing in new popular investments to capture social herding tendencies.
- Demographics: Age, gender, education, income, wealth, race, and state of residence.

Annexure 2: Data Processing and Variable Construction

- Personality trait scores calculated as mean values of respective items, standardized for regression analysis.
- Extrapolation score computed by averaging responses to trend continuation vs. reversal questions.
- Risk aversion parameter derived using a standard structural model from betting choices.

- Herding tendency coded on a 1 to 5 scale from survey responses.
- Control variables include demographics and fixed effects for race and state.

Annexure 3: Analytical Methods

- Descriptive statistics and correlation matrices to summarize data characteristics.
- Multiple linear regressions with robust standard errors and fixed effects to identify relationships.
- Principal Component Analysis (PCA) to reduce dimensionality of investor characteristics and identify latent factors.
- Statistical software used: *Stata 16* (or specify your software).

Annexure: Survey Questionnaire

Section 1: Personality Traits (Big Five Inventory - Sample Items)

Please indicate how much you agree or disagree with each statement on a scale from 1 (Strongly Disagree) to 5 (Strongly Agree).

1. I see myself as someone who is talkative.
2. I see myself as someone who is generally trusting.
3. I see myself as someone who tends to be lazy.
4. I see myself as someone who is emotionally stable, not easily upset.
5. I see myself as someone who is original, comes up with new ideas.
6. I see myself as someone who is reserved.
7. I see myself as someone who is helpful and unselfish with others.
8. I see myself as someone who does a thorough job.
9. I see myself as someone who is worrying.
10. I see myself as someone who is curious about many different things.

Section 2: Risk Preference

11. Imagine you have a choice between two investment options:

| Option A: | A guaranteed return of ₹5,000 |
| Option B: | A 50% chance to win ₹10,000 and 50% chance to win nothing |

Which option would you choose?

- Option A
- Option B

12. On a scale from 1 (Very Risk Averse) to 5 (Very Risk Seeking), how would you describe your general willingness to take financial risks?

Section 3: Market Beliefs and Expectations

13. What do you expect the average annual return of the Indian stock market to be over the next 5 years?

- Less than 5%
- 5% - 10%
- 10% - 15%
- More than 15%

14. How likely do you think it is that the stock market will experience a crash (a drop of 20% or more) in the next year?

- Very unlikely
- Unlikely
- Neutral
- Likely
- Very likely

15. When you observe recent stock price increases, do you tend to believe that:

- The prices will continue to rise

- The prices will revert to previous levels

Section 4: Social Influence and Herding

16. If many people around you start investing in a new type of asset (e.g., cryptocurrencies), how likely are you to also invest in it?

- Very unlikely
- Unlikely
- Neutral
- Likely
- Very likely

17. How often do you discuss investment decisions with friends or family?

- Never
- Rarely
- Sometimes
- Often
- Always

Section 5: Demographic Information

18. Age: _____ years

19. Gender:

- Male
- Female
- Other / Prefer not to say

20. Highest education level completed:

- High School
- Undergraduate Degree

- Postgraduate Degree
- Professional Degree
- Other: _____

21. Approximate annual income:

- Less than ₹3,00,000
- ₹3,00,000 – ₹6,00,000
- ₹6,00,000 – ₹10,00,000
- More than ₹10,00,000

22. Do you currently invest in any financial assets? (Stocks, mutual funds, bonds, etc.)

- Yes
- No

Graph 1: Average Personality Trait Scores

Description: Shows average scores of respondents on the Big Five personality traits on a 1 to 5 scale.

	Average Score
Agreeableness	3.7
Conscientiousness	4.1
Neuroticism	2.8
Extraversion	3.2
Openness	3.9

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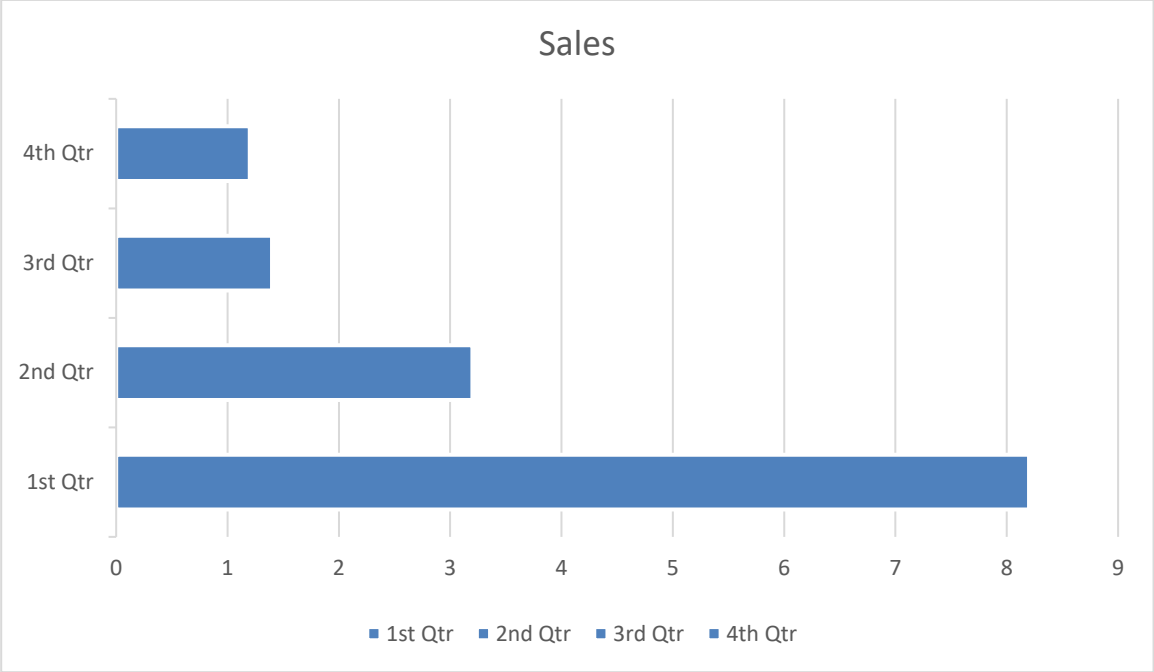
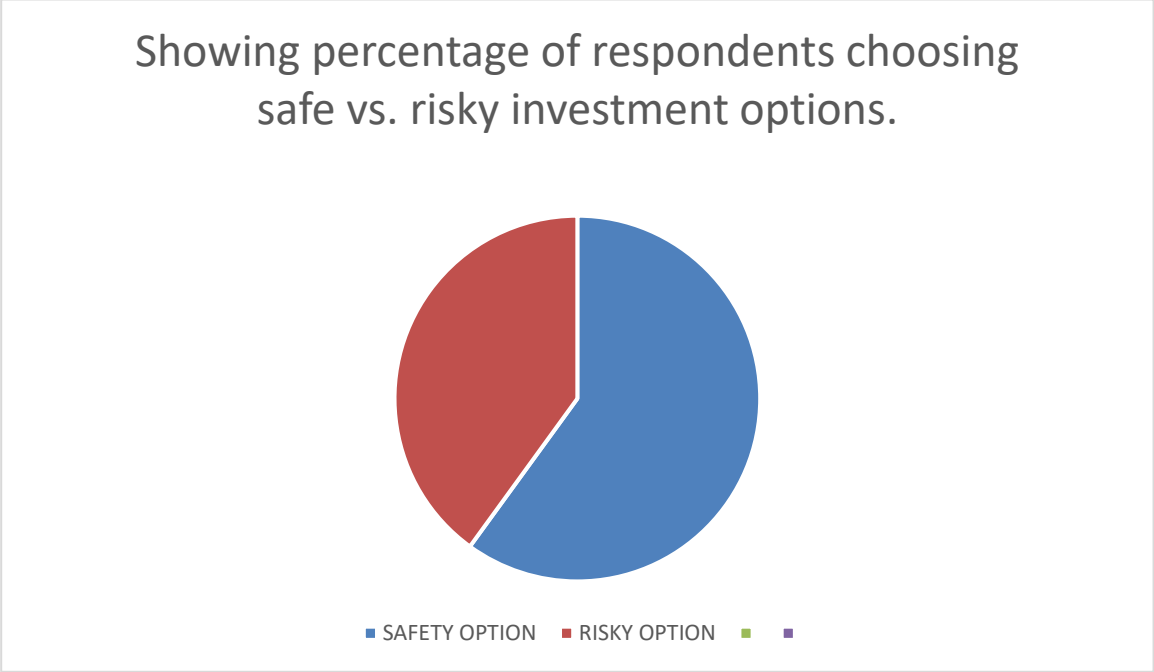


Graph 2: Risk Preference Choices

Description: Pie chart showing percentage of respondents choosing safe vs. risky investment options.



Graph 3: Expected Stock Market Return Distribution

Description: Bar chart showing distribution of expected 5-year stock market returns.

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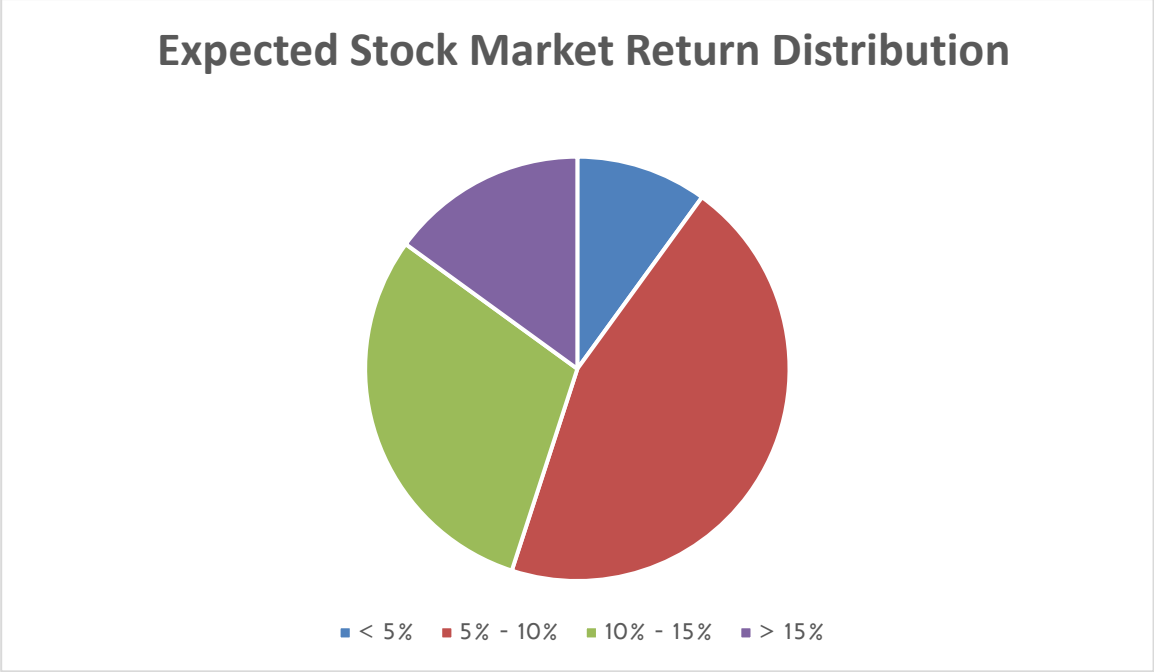
	Percentage
	10%
5% - 10%	45%
10% - 15%	30%
> 15%	15%



Graph 4: Social Herding Likelihood

Description: Stacked bar chart of likelihood of investing when others invest.

	Percentage
Very Unlikely	15%
Unlikely	20%

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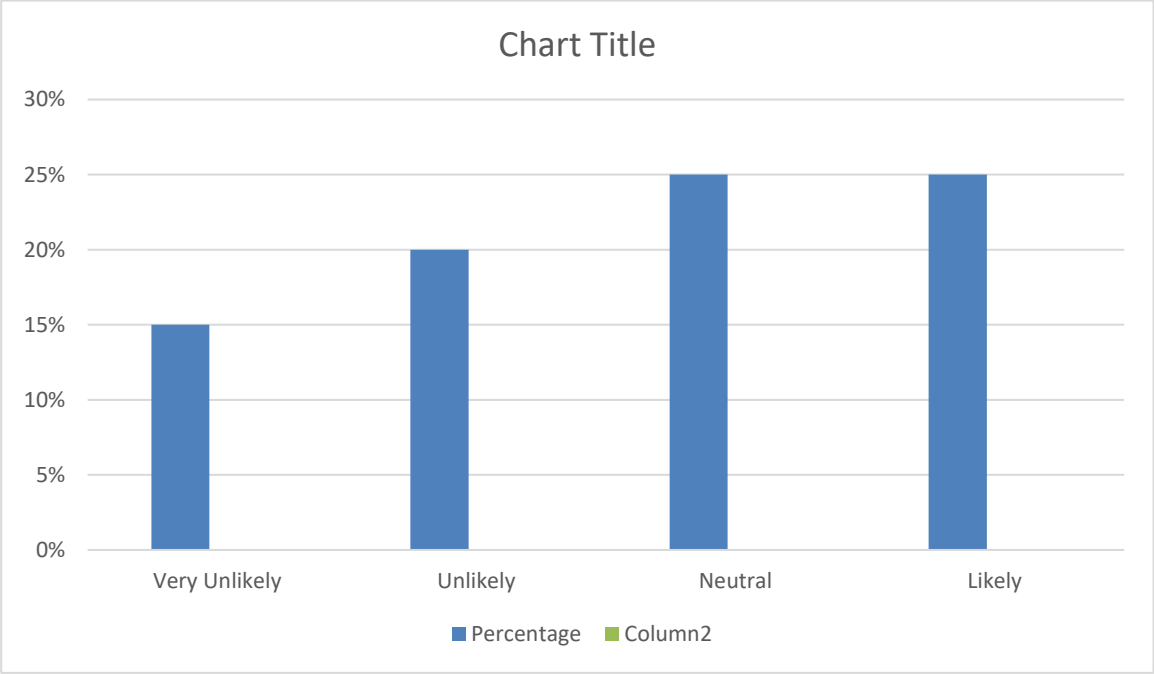
	Percentage
Neutral	25%
Likely	25%
Very Likely	15%



Graph 5: Frequency of Investment Discussions

Description: Bar chart showing how often respondents discuss investments.

	Percentage
Never	10%
Rarely	20%
Sometimes	30%

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	Percentage
Often	25%
Always	15%