

## RESEARCH TITLE: IMPACT OF PERSONALITY TRAITS ON FINANCIAL RISK TOLERANCE OF INVESTOR WITH REFERENCE TO ANAND DISTRICT

Ms. Mitalkumari Mohanbhai Parmar\*, Dr.Vashishthdhar J Dwivedi\*\*

**Abstract:** *Investment decisions made by individuals must be guided by an understanding of the relationship between personality attributes and financial risk tolerance. This study examines the influence of Big Five Personality Traits on individuals' financial risk tolerance. Purposive sampling is used to collect data using a questionnaire distributed to the investor who invest into the stock market through stock broking firm. The study utilises a quantitative research methodology. Result indicated that Extroversion, Agreeableness, Neuroticism, Openness to experience have significantly positive impact on financial risk tolerance whereas Conscientiousness has insignificant impact on FRT. Software packages SPSS was used to analyse the data.*

**Keywords:** *Extroversion, Agreeableness, Conscientiousness, Neuroticism, Openness to experience, Financial Risk Tolerance*

### INTRODUCTION

In the unpredictable world of finance, understanding why individuals react differently to financial risks is crucial for both investors and financial advisors. The risk appetite of individual investors differs person to person at the time of investment. When stock market fluctuates some of the investors remain calm and steady while the other becomes anxious and sell their investments. Research on personality traits and financial risk tolerance has given varied results. The Big Five attributes and risk tolerance has been the subject of various studies. While

some(Vaibhav & Mehak, 2020) found no significant associations, others (Wong & Carducci, 2013) showed positive links for extraversion and openness and negative links for conscientiousness and agreeableness. As stated by (Rai et al., 2021) personality traits as a second-order component showed a high association with financial risk tolerance, with agreeableness, conscientiousness, and openness being significantly associated with financial risk tolerance. In addition to the Big Five, it was discovered that risk tolerance was positively impacted by dynamic personality

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\* Assistant Professor, Sardar Patel College of Administration and Management –MBA,  
Email: [mitalparmar18@gmail.com](mailto:mitalparmar18@gmail.com)

\*\* Principal, Shri RP Arts, KB Commerce and Smt. BCJ Science College, Sardar Patel University, Email: [dr.vjdwivedi@hotmail.com](mailto:dr.vjdwivedi@hotmail.com)

qualities like resilience, financial self-efficacy, and positive emotions, and adversely impacted by intolerance for uncertainty, trait anger, and negative emotions (Mukhtar et al., 2023).

## LITERATURE REVIEW

(Vaibhav & Mehak, 2020) This study examines on how personality traits affect an individual's capacity to tolerate risk. Openness, extraversion, conscientiousness, neuroticism, and agreeableness were the personality traits selected based on the Big Five Model. The research methodology used in the study is quantitative. People in India who had experience in finance were given a survey. There was a hypothesis that suggested a correlation could exist between risk tolerance and the Big Five Traits. To look into the same, a correlation study was done. The Big Five Traits and risk tolerance did not appear to be significantly correlated. We talk about the potential causes of the same.

(Pak & Mahmood, 2015) The paper aims to examine the correlation between risk-taking attitude, personality traits, and investment decisions made by potential private investors in Kazakhstan, a post-Soviet transition country. The respondents' financial decisions, risk-taking behavior, and personality attributes are measured using a quantitative research methodology. The results showed that an individual's risk-tolerance behavior, which in turn affects judgments about stocks, securities,

and bonds to invest in, can be influenced by personality factors.

(Mathur & Nathani, 2019) The purpose of the current study is to determine the nature of the association between teenage risk tolerance and personality types as described by the BIG Five model. Each of the five personality traits was given a five-point rating. Five statements on a scale created by Mayfield, Perdue, and Wooten (2008) and adjusted by Wong, Chuah, Kui, Soo, and Ang (2016) were used to rate each trait. The sample respondents, who ranged in age from 22 to 27, were either recent graduates or had fewer than five years of total work experience. The findings showed that risk tolerance was highly connected with agreeableness, neuroticism, and openness, but not significantly correlated with extraversion or conscientiousness.

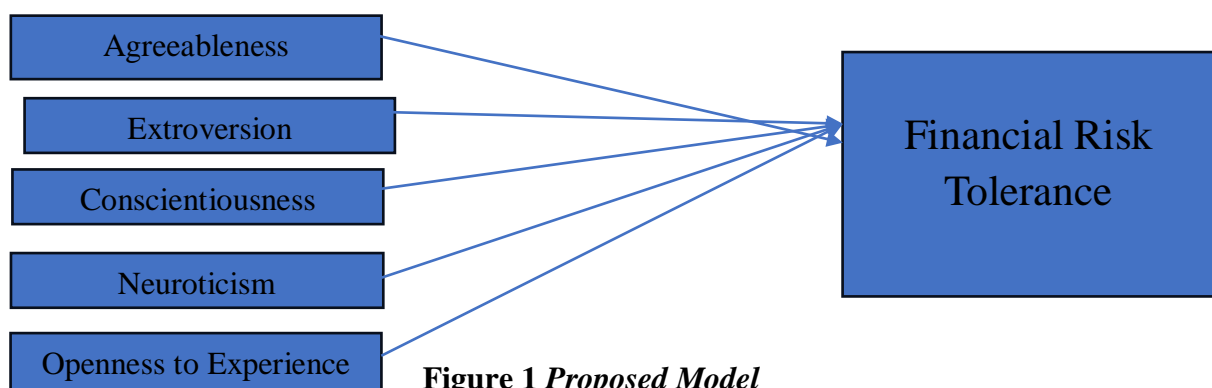
(Rai et al., 2021) The focus of the current research is on whether financial risk tolerance is directly impacted by the Big Five Personality traits. Using an online structured questionnaire, 599 investors in Delhi and the National Capital Region (NCR) who made investments through Angel Broking Co. (Securities co.) provided cross-sectional data. Regression tests were run using the structural equation modelling method to assess the strength of the association between the variables. According to the study, only agreeableness, conscientiousness, and

openness among the Big Five personality traits are significantly correlated with financial risk tolerance. However, personality traits as a second-order (higher-order) component are strongly correlated with investors' financial risk tolerance. As a result, the PT is the recommended model as a second order.

(Mukhtar et al., 2023)The aim of this study is to determine how dynamic personality traits—such as emotions, financial self-efficacy, trait anger, resilience, and intolerance of uncertainty—affect an investor's financial risk tolerance. To that end, the study uses data gathered from 486 stock market investors using a structured questionnaire, and the hypothesised relationships are evaluated through structural equation modelling. The results show that resilience, financial self-efficacy, and positive emotions increase an investor's financial risk tolerance, while intolerance of uncertainty, trait anger, and negative emotions have a negative impact. These findings are new to the literature on financial risk tolerance and expand our

knowledge of the risk factors that precede risky investments.

(Rodrigues & B.v, 2023)The purpose of this study is to examine how people's financial risk tolerance is influenced by their big five personality traits. The information consisted of 869 responses from people in India that were gathered by a convenience sample method and a self-administered structured questionnaire. The results of a structural equation modelling analysis indicated that neuroticism, extraversion, and openness to new experiences all significantly influenced financial risk tolerance. Multivariate study highlighted the relevance of distinct personality factors in determining the financial risk tolerance of generational cohorts. The mean difference indicated that while baby boomers and Generation X had lower levels of risk tolerance, millennial and Generation Z had the highest levels. His study sheds light on how personality affects Indian generational cohorts' willingness to take financial risks.



**Figure 1 Proposed Model**

## RESEARCH METHODOLOGY

For this study, primary data were collected by using purposive sampling method on the sample size consisting of 250 participants. The area of study covered in this research was the investors of Anand district who invested into the stock market through stock broking firm. A standardized online survey questionnaire has been used for the field survey.

The questionnaire consisted of three sections. The first section comprised six questions on the demographic data of the participants. Their name, age, gender, occupation, educational background, and trading or investment experience were all inquired about in these questions.

The second section comprised 25 questions which assessed people on the Big Five Factors of Personality. Among the 25 questions, 5 were used to measure extraversion, 5 were used to measure agreeableness, 5 were used to measure neuroticism, 5 were used to measure conscientiousness and 5 were used to measure openness to experience. Sample questions included:

- “I love to make new friends and able to maintain good relationship with them” for extraversion;
- “Some people think I'm not selfish and cheerful” for agreeableness;
- “I often feel impulsive and tense” for neuroticism;

- “I keep my belongings tidy and clean” for conscientiousness;
- “I love to learn new knowledge” for openness to experience;

The third section comprised 5 questions to measured financial risk tolerance of investors. The items were scored as 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5 strongly agree.

The aim of the present study was to investigate the impact of Big Five personality traits on financial risk tolerance of individual investors.

The study following hypothesis proposed.

H<sub>1</sub>: There is significantly positive impact of Extroversion on Financial Risk Tolerance.

H<sub>2</sub>: There is significantly positive impact of Agreeableness on Financial Risk Tolerance.

H<sub>3</sub>: There is significantly positive of Conscientiousness on Financial Risk Tolerance.

H<sub>4</sub>: There is significantly positive of Neuroticism on Financial Risk Tolerance.

H<sub>5</sub>: There is significant impact of Openness to Experience on Financial Risk Tolerance.

## DATA ANALYSIS

**Table 1 Cronbach Alpha**

Variables	Reliability Statistics	No. of items
Extroversion	.906	05
Agreeableness	.858	05
Conscientiousness	.894	05
Neuroticism	.866	05
Openness to experience	.880	05
Financial Risk Tolerance	.868	10

(Source: SPSS Output)

Table 1 shows the reliability of variables included: Extroversion, Agreeableness, Conscientiousness, Neuroticism, Openness to experience and Financial Risk Tolerance. Researcher has obtained the range of Cronbach alpha in between .858 to .906 from SPSS. Extroversion has obtained the highest

Cronbach alpha reached .906 and it categorized under excellent from the table of alpha coefficient range. George and Mallery (2003) state that a result is considered good or acceptable if it shows a value greater than 0.70. As a result, our overall alpha is higher than the 0.80 average.

**Table 2 Hypotheses Results**

Hypotheses	Regression weights		B	t	P-value	Results
H <sub>1</sub>	Extroversion	→ Financial Risk Tolerance	-.114	-1.927	.045*	Supported
H <sub>2</sub>	Agreeableness	→ Financial Risk Tolerance	-.236	-3.550	.000*	Supported
H <sub>3</sub>	Conscientiousness	→ Financial Risk Tolerance	.031	.638	.524	Not supported
H <sub>4</sub>	Neuroticism	→ Financial Risk Tolerance	-.125	-2.433	.016*	Supported
H <sub>5</sub>	Openness to experience	→ Financial Risk Tolerance	-.139	-2.282	.023*	Supported
<b>R</b> <b>F(5,244)</b>	.441 38.517					<b>*p&lt;0.05</b>

Note: Dependent Variable: Financial Risk Tolerance  
 Independent Variable: Extroversion, Agreeableness, Conscientiousness, Neuroticism, Openness to experience

The dependent variable (financial risk tolerance) was regressed on predicting variables of Extroversion, Agreeableness, Conscientiousness, Neuroticism, Openness to experience. The independent variables significantly predict the financial risk tolerance,  $F(5, 244) = 38.517$ ,  $p < 0.001$ , which indicates that the five factors under study have a significant impact on financial risk tolerance. Moreover, the  $R^2 = .441$  depicts that the model explains 44.10% of the variance in financial risk tolerance.

Additionally, coefficients were further assessed to ascertain the influence of each of the factors on the criterion variable (financial risk tolerance).

H<sub>1</sub> evaluates whether Extroversion significantly and positively affects financial risk tolerance. The results revealed that extroversion has significant and positive impact on financial risk tolerance ( $B = -.114$ ,  $t = -1.927$ ,  $p = .045$ ). Hence, H<sub>1</sub> was supported. H<sub>2</sub> evaluates whether agreeableness

significantly and positively affects financial risk tolerance. The results revealed that agreeableness has significant and positive impact on financial risk tolerance ( $B = -.236$ ,  $t = -3.550$ ,  $p = .000$ ). Hence, H<sub>2</sub> was supported. H<sub>3</sub> evaluates whether Conscientiousness significantly and positively affects financial risk tolerance. The results revealed that conscientiousness has insignificant impact on financial risk tolerance ( $B = .031$ ,  $t = .638$ ,  $p = .524$ ). Hence H<sub>3</sub> was not supported. H<sub>4</sub> evaluates whether neuroticism significantly and positively affects financial risk tolerance. The results revealed that neuroticism has significant and positive impact on financial risk tolerance ( $B = -.125$ ,  $t = -2.433$ ,  $p = .016$ ). Consequently, H<sub>4</sub> was supported. H<sub>5</sub> evaluates whether Openness to Experience significantly and positively affects financial risk tolerance. The results revealed that Openness to Experience has significant and positive impact on financial risk tolerance ( $B = -.139$ ,  $t = -2.282$ ,  $p = .023$ ). Hence H<sub>5</sub> was supported.

## CONCLUSION

The purpose of the study was to determine whether personality traits affect financial risk tolerance of investors. There were 250 questionnaires collected from the investor's investing in stock market through stock broking firm and living in Anand district. The statistics of regression analysis suggested that the Big Five Personality Traits have significant impact on financial risk tolerance level of individuals. It was observed that Extroversion, Agreeableness, Neuroticism, Openness to experience have significant impact on financial risk tolerance. As pointed out in literature Conscientiousness had no significant relationship with FRT(Mathur & Nathani, 2019).The outcomes of the research suggest that when advising individuals on investments, financial advisors should take into account their unique risk tolerance along with personal traits of investors. In order to

effectively handle their clients' financial needs and provide them with advice regarding pertinent financial services, financial planners and advisors may consider examining the personality characteristics of investors.

The study has several limitations. First, it was restricted to Anand District only. Second, our sample size is 250 only. Third, it considered only personality traits. Other personal factors, such as family background, financial conditions and individual life experiences, could also have significant influence on their risk tolerance and their investment decision. Despite these limitations, the study provides valuable insight in understanding the relationships between personality traits and financial risk tolerance in a transition economy context. Future research in this area could perhaps re-investigate the role of key demographic variables in influencing financial risk tolerance on individual investment decision making.

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