Chapter 2

Influence of Personality Traits and Emotional Intelligence on Attitude Toward Financial Risk:

Evidence From Indian Investors

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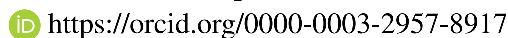
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ABSTRACT

Investment is crucial to everyone's existence in the modern world. The way investors invest and their attitude toward financial risk are both influenced by a number of factors. The current study has explored the influence of personality traits using the big-five personality model and emotional intelligence on investors' attitude towards financial risk (ATFR). The research was conducted in the Delhi NCR region with the convenience sample of 190 investors. The findings revealed that the personality traits such as extraversion, agreeableness, openness, and emotional intelligence significantly influence investors ATFR, whereas neuroticism and conscientiousness had non-significant effect on investors ATFR. Additionally, the demographic variables demonstrate differential effects in context of personality traits, emotional intelligence, and ATFR. A better understanding of personality traits may offer an opportunity to financial institutions to appropriately design financial products and policies and identify the investment decision pattern of investors and their attitude toward financial risk.

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1. INTRODUCTION

Investment has been a fundamental practice throughout human history. Investment dates back to ancient civilizations, when individuals would invest in various endeavours such as agriculture, trading trips, or real estate to build wealth and success. A financial investment is a financial commitment made with the hope of making a profit. The word 'investment' has several meanings in finance and economics. Economists speak of a real investment (such as a machine or house), whereas financial economists speak of a financial asset, such as money placed in a bank or the market and subsequently utilised to purchase a real asset (Lipe, 1998). Financial investment entails putting money into a variety of assets, including gold, bonds, real estate, and stocks. The goal of investing is to organize funds or resources in order to attain certain financial results (Dhiman & Raheja, 2018). Depending on their exclusive aims and conditions, investors pursue a variety of objectives. Capital appreciation is a frequent goal, in which investors seek investments that will improve in value over time, with the goal of selling them at a greater price later. Another goal is income creation, with investors seeking assets that pay out regular payments such as dividends or interest and wealth protection, which focuses on protecting capital from degradation caused by inflation or economic concerns. By establishing clear investment objectives, investors can align their decisions with their desired outcomes and work towards achieving their financial goals. Recent economic expansion as a result of globalization has increased household wealth while also providing a plethora of investment opportunities. Over time, investment practices have evolved and become more sophisticated. Financial markets, institutions, and investment vehicles have emerged to facilitate investment activities.

Nowadays, investments span a wide range of assets, including stocks, bonds, real estate, commodities, mutual funds, and more. The investment options differ in terms of risk and return basis (Nandan & Sourabh, 2016). Classification of investment options according to the risk level associated with them is presented through the investment risk pyramid in Figure 1.

An investment decision and behavior of an investor in the financial market is a process which is based on a combination of multiple factors such as demographic, psychographic and personal characteristics (personality trait) (Subrahmanyam, 2008). Early investment theories suggest that investors are rational and their decisions are majorly based on maximizing returns and limiting the risks (Joo & Durri, 2015). However, recent theories challenge these assumptions (DeBondt et al., 2010). They stated that the human mind does not always think rationally and neither do the markets always perform efficiently. According to Nandan and Sourabh (2016), humans make decisions using their social, emotional, and human brain. People do not always do intricate statistical computations before making a choice; instead, they depend on easy heuristics that can accurately forecast the values of the outcomes (Baker et al., 2021). According to many previous studies (Nga and Yien, 2013; Gokhan and Mutlu, 2019; Sadiq and Khan, 2019) psychographic features play a decisive role in determining an individual's investment behavior. Another important aspect to consider is that every investment opportunity entails a certain amount of risk. The set of personality traits exhibited by an individual is one of the elements that influence investors' risk perception (Muradoglu & Harvey, 2012). The psychological traits of individual investors are examined by Kasemsap (2015), who also identifies how emotions may prevent a successful investing approach from working. The process that an individual investor goes through while making financial investment decisions is frequently disregarded in the field of finance research. A behavioral paradigm must be developed in order to study the influencers of investors' financial decision-making processes (Bikas et al., 2013).

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