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THE PSYCHOGRAPHIC DIMENSIONS OF INVESTORS AND THEIR RISKY INVESTMENT CHOICE

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ABSTRACT

The main aim of this research study is to find the relationship between the investors' significant psychographic dimension, personality typology and risky investment choices. The Bailard, Biehl and Kaiser five-way model factors are used as the independent variables for this study and the dependent variable is the risky investment choice. Data are collected from postgraduate finance students and analysed using JASP. The findings reveal that the adventurer and celebrity investors are having a significant and positive relationship with the risky investment choice. This study is useful for individual investors to understand themselves, financial advisors to design the portfolio according to the psychographic nature of the clients.

Keywords: *Behavioural Finance, Personality traits, risky investment choice.*

I. INTRODUCTION

The basic view of traditional theories is that all investors are rational and their only aim is to maximize their profits (Kubilay, Bilgehau and Bayrakdaroglu, 2016). Recent studies have however begun to prove that human actions do not arise based on traditional financial theories and have begun to shift away from logical actions (Kahneman and Tversky 1979). The investment decisions are affected by multiple non-rational factors such as emotion, culture, faith, ideology, etc .. (Macgoun, 2000). The studies of psychologists Daniel Kahneman and Amos Tversky made a major contribution to the literature on psychology in the 1970s and became the foundation for the development and growth of the modern field known as 'Behavioural Finance' in the 1980s.The cognitive, mood, emotional and environmental factors influence the investors' decisions. Personality is said to be the aggregation of all these variables. But the proposition of these variables varies from person to person. Individuals exhibit their own and unique pattern of thoughts, feelings and behaviours and the composition of these factors forms their personality (Phares, 1991). Throughout time and in various contexts, personality characteristics may be seen to be the fairly stable dispositions. In the neurobiological system, the origins of personality characteristics are believed to be stable (Gray 1987; Depue and Collins 1999; Nigg 2000; Depue and Morrone-Strupinsky 2005). Personality does shift during the transition to puberty, but it becomes increasingly stable after the age of 30 and reaches the plateau between the age of 50 and 70 (Roberts and DelVecchio 2000).

It is illogical to assume that personality traits have very little effect on behaviour, on the other hand, it is equally irrational to suggest that people do not change their actions according to circumstances and their actions are dictated by the personality alone. Characteristics of personality are manifestations of the attitudes of temperament. When individuals come to know how their dispositional traits bring biases in decisions, they will make efforts to avoid being victimised by their errors and flaws. This research study aims to understand the relationship between one of the crucial psychographic dimensions of the investors, personality typology and their risky investment choice.

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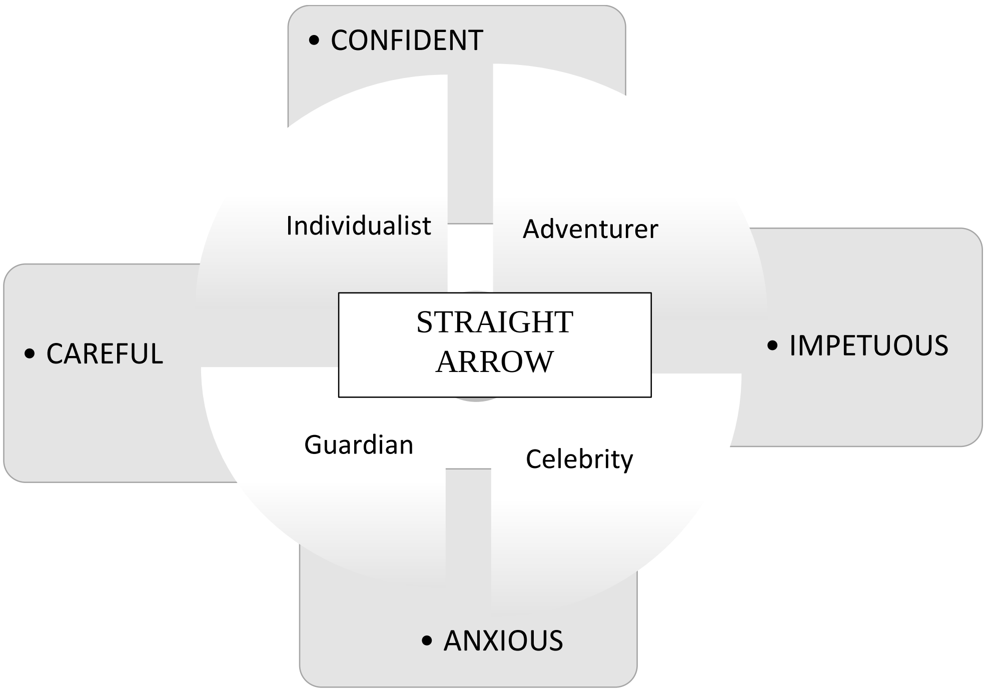
II. LITERATURE REVIEW

Carducci and Wong (1998) examined personality as deciding factors for taking the financial risk. The individuals were divided into Type A and Type B in their research and were told to make decisions towards various levels of risks. Hunter and Kemp (2003) focused personality on the terms of dis-inhibition, vulnerability to boredom, the quest for knowledge, transparency in both feelings & behaviour and impulsiveness. They found that the e-commerce investor scored higher in those variables relative to the Online Company investors. Yang et al (2012) found that the volume and confidence of the investors trading are affected by the personality of the trader. They also found that if investors show attentive and extraverted behaviour, investors will become more optimistic, which in turn will make them more trade. Charles and Kasilingam (2014) segregated investors into Type-A, Type-B and Type-C personalities and demonstrated that the personality is a determining factor for the investors' success. Kubilay and Bayrakdaroglu (2016) considered the relationship between personality traits, psychological biases and financial risk tolerance of the investors. They demonstrated that extroverts, neurotics and people open to experience have high-risk tolerance and agreeable and conscientious people possess low financial risk tolerance. Raheja and Dhiman (2017) assessed risk tolerance investment decisions and concluded that personality certainly matters when making investment decisions The psychographic model of behavioural finance makes use certain behaviours, tendencies and characteristics to classify the investors. The psychographic models for investor behaviour are as follows:

Bailard, Biehl and Kaiser (BB&K) Five-way model (1986)

The BB&K model classified investors based on their level of confidence and method of action. The graphical representation of the model is shown in figure 1.

Figure 1: The adopted graphical representation of BB&K model



The Adventurer: Investors who have a lot of confidence and ready to put it all in one go. These investors will have their own ideas of investing and it is very difficult to advise them. They very often take risks and are viewed as volatile in nature

The Celebrity: These investors want to be a part of the action and are not ready to be left out. They do not have their own notions for investing even though they have their own ideas for other aspects of life. This kind of investors will be targeted maximum for the turnover of the brokers.

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The Individualist: These investors will have their own style and most probably be an independent professional or small business person. They look at things deeply, possess a good degree of confidence and take decisions being analytical, careful and methodical. These kinds of investors are most sought by portfolio managers.

The Guardian: When people become older and start considering retirement they become the guardian. They become more cautious and a little concerned about money. They tend to identify that their span for earning is little and so have to save more. They do not prefer excitement or fluctuations in the market. They seek guidance as they tend to lose confidence and ability to forecast.

The Straight Arrow: These investors are well balanced and in the centre as they do not come under any other quadrant. They are average investors with all four investor types. They are ready to take a medium amount of risk.

Barnewall Two-Way Model (1987)

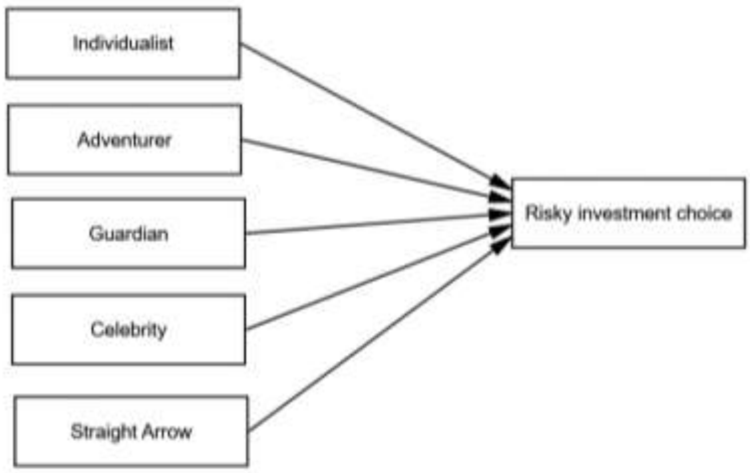
Marilyn MacGruder Barnewall's psychographic investor model differentiates between two relatively simple investor types: passive investors and active investors.

The investors who have inherited their wealth or make a lump sum of money by way of working as executives or professionals in large concerns are known as passive investors. They do not gamble to become wealthy and they believe in having more security which exceeds their level of risk tolerance. Barnewall classifies lawyers, journalists, bankers, small business owners who inherited wealth, corporate managers and doctors are passive investors. The investors who have risked their capital to gain wealth are known as Active investors. Their risk tolerance level is higher than their security need. They tend to control their investments. Professionals who lead their own firms, small business owners who developed their businesses from scratch and entrepreneurs are noted as active investors by Barnewall.

III. Research Methodology

The data are collected using a standardised questionnaire from the postgraduate students specialising in finance in Chennai city. The convenience sampling method is followed for data collection. A total of 300 questionnaires were issued in google forms and a total of 220 received back. 8 questionnaires were not completely filled filled hence, rejected making the total of a sample size to 212. Of these 120 were male students and the remaining 92 were female students. The conceptual framework of the study is given in figure 2.

Figure 2: Conceptual framework of the study



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IV. Results and discussion

The reliability values of all the variables are found to be above the threshold of 0.7, Individualist (0.762), Adventurer (0.780), Guardian (0.770), Celebrity (0.747), Straight Arrow (0.726) and Risky investment choice (0.734). The normality of the data is checked through the histogram of standardised residuals and it is found to be satisfactory. Followed by the normality test, the linearity of standardised residuals is checked through Q-Q plot. The linearity is found to be satisfactory, hence we proceeded with the regression analysis.

The multiple linear regression reveals that the adjusted R-square value of 0.307 is caused by the independent variables with the F value of 18.870. Among the five independent variables, Celebrity (standardised beta =0.360, t=5.532) and Adventurer (standardised beta=0.278, t=4.291) are found to have a significant and positive relationship with the dependent variable risky investment choice. Other independent variables are not having any significant relationship with risky investment choice. The celebrity investors are those who always want to be part of the action, hence, they attempt to take risky investment choices. On the other hand, adventurer investors are those who have a lot of confidence in them and risk is always their preference.

	Variables	Unstandardized Beta	Standard Error	Standardized Beta	t	p
1	(Intercept)	0.154	0.401		0.384	0.701
	Individualist	0.117	0.075	0.099	1.553	0.122
	Guardian	0.038	0.072	0.034	0.522	0.602
	Celebrity	0.382	0.069	0.360	5.532	< .001
	Straight Arrow	0.056	0.089	0.042	0.631	0.529
	Adventurer	0.284	0.066	0.278	4.291	< .001

Implications

For individual understanding, one's personality helps us to avoid the potential pitfalls in the decisions we make. According to the Goleman's model of emotional intelligence, Self-awareness and self- regulations are considered as the two of five major skills. The foundation of emotional intelligence is self-awareness (Goleman 1995; Bar-On 1997). The capability of one's strengths, weaknesses, values, emotions and drives refers to self-awareness. The self-regulation ability helps to think before acting and to control and redirect the disruptive moods and impulses. The self-regulation ability of an individual can be improved by understanding any predisposition and personality traits that lead to the dysfunctional patterns of the thoughts, (Goleman 1998). The financial advisors can make use of personality to understand their clients' real nature rather than going by their expectations and design the plans according to their real nature. This study also adds to the literature of behavioural finance by studying the new aspects of the personality of investors.

V. CONCLUSION

This research sets out to find the relationship between a crucial psychographic dimension, personality and risky investment choice. The findings reveal that only adventurer and celebrity investors are having a significant and positive relationship with risky investment choice. This study adds to the literature of behavioural finance and has implications for the individual investors, financial advisors and policymakers. The study, just like any other study, has its own limitations. First, the data are collected only from the finance students and second, the study is conducted only in Chennai. In future, studies can be conducted among the investors and across India.

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