

# A Study on the Personality Traits that Define Investor Behaviour in Karnataka

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**Abstract:** *Investment in stocks or mutual funds is associated with the socioeconomic condition of people. Openness is found as the most important characteristic that influences the stock market performance of people in Karnataka. In addition to this, investors have proper awareness regarding the market dynamics. Good investors must have the capability of risk tolerance in order to analyse the correct stocks. Along with that, understanding as well as accepting volatility is another component of having investor behaviour. These people are decisive and thereby good investors take proper decisions in order to gain a high amount of profitability from the market. In this study, a secondary qualitative type of data has been collected by the researcher. Articles published in the last 5 years are collected by the researcher in order to successfully fulfill the aim of the study. Along with that, the researcher used Google Scholar for determining the accurate data regarding personality traits in Karnataka. The findings of this study confirmed that working women in Karnataka with higher income levels take moderate risk while investing in mutual funds. On the other hand, male in Karnataka with proper awareness regarding the market and openness characteristics tend to invest more in different stocks. On the other hand, neuroticism has the opposite impact on the investment decisions of individual people in Karnataka.*

**Keywords:** Personality trait, stocks, investment, mutual funds, investment decisions

## 1. Introduction

Investors with behavioural biases typically make improper decisions regarding fund style as well as expenses. Trading frequency as well as timing of taking decisions can negatively affect the investment decisions of investors. Besides that, trend chasing appears to be associated with behavioural biases, alternatively interfering the managerial skill from previous performance. However, personality traits and behavioural biases affect the decisions of Mutual Fund investors highly. Behavioural bias is strongly associated with investment theory. Thus, the experiences, personalities and conditioning follow a non-existing thumb norm. Hence, the irrational, illogical investment decision taken by any Mutual Fund investor is strongly associated with behavioural biases. The aim of this paper is to analyse the importance of personality traits of Mutual Fund investors in Karnataka. Multiple research papers confirmed that investors can be classified as overconfident, narrow farmer, smart, gambler as well as mature. The main motive of this paper is to study different biases within the decision making process of investors in order to study behavioural finance. In addition to this, a foundational and analytical work will be followed in order to discover a lot of facts as well as knowledge associated with investment decisions.

Financial management is also known as the art of managing wealth and this is the lifeline within the economic system for the past few years. Multiple theories as well as assumptions are formed by researchers in order to determine the functioning pattern of the finance models. Companies and individuals in the view of some associated returns and risks are considered with allocation and procurement of financial resources [1]. Trading helps in getting quick and short term returns. On the other hand, the investment process helps in getting optimum returns from capital gains and cash flow. However, investing is a complicated procedure and these complexities are enhanced by current behaviour of the stock market. Thus, the primary reason for complexities within the

investment decisions is exhibiting varied emotions as well as behavioural patterns.

## 2. Materials and Methods

All the information for this study is collected from various secondary sources. An appropriate design of a research can help in fulfilling the aim of the study [2]. In this study secondary qualitative and quantitative data has been collected from different sources. Google Scholar is used as a search engine, for determining the appropriate articles associated with the study. Proper keywords such as "personality traits of investors", "investor behaviour in Karnataka", "investor mentality before investing" are used for collecting adequate journals with accurate information regarding the concerned research topic. However, a selection criteria was used in order to collect appropriate journals regarding the concerned topic of the research. As inclusion criteria, the researcher used filters for collecting journals published between 2019 and 2023. In addition, journals that are published in the English language that have accurate information are collected.

## 3. Results

### *Investment theory and requirements for investment*

The market hypothesis represents that stock markets are proper and thereby share prices can incorporate the available knowledge. Thus, classical finance theory is developed on the efficient market theory. According to the theory of modern portfolio, it can be stated that the uncertainties in the security market cannot be handled through investor preferences. Additionally, the "expected utility theory" is associated with the selection among alternatives which are having uncertain outcomes. However, the main aim is to attain a tradeoff between return and risk. Along with that, the "Capital asset pricing model" helps in ascertaining the relationship between expected return and systematic risk of an asset [3]. Investment refers to the employment of different funds with the target of achieving additional

growth and income in value. Thus, investment is associated with the employment of various funds judiciously through reducing the risk of loss as well as getting maximum return. However, investing in multiple investments as well as avenue investors are associated with their lifestyle, occupation, education and economic status.

The term investment refers to the commitment of funds in expecting positive returns and rates. Moreover, the requirements for investment are as follows;

- **Longer expectancy of life:** Proper planning for lifecycle development and increased medical care are developing the population rate which ensures a high requirement for investment. In addition to this, the earning of an individual can be calculated through analysing the principal as well as a return that can support the family needs [10].
- **Return and rate:** Varieties rate of return are offered for multiple schemes, depending on the riskiness and safety of the investment. However, return stability can be considered as an essential part of raising a proper interest rate.
- **Income:** Stable and regular income is a must for any kind of investment. Thereby, a person must analyse the income range after clearing all the taxes [4]. After independence, a lot of initiatives were taken by the government of India in order to generate higher employment in the country.
- **Inflation:** Along with the rising prices of everything, investors are taking a lot of critical decisions related to investment due to the increasing inflation rate. Hence, balancing the portfolio of all investors is essential for investing accurately among to purchase different stocks

[11]. Hence, the price level is judged by the investors that help in exploring the possibility of profit and loss in their investment.

- **Enhanced rate of taxation:** Investment in India is associated with a lot of tax burdens. Therefore, an investor can invest accurately through analysing the tax benefits. However, tax reliefs, LIC policies and post office certificates are some examples of tax saving investments.
- **Tangibility:** Some securities overlook their value due to the growing rate of inflation. Therefore, investors prefer to keep a part of their wealth by investing in proper mutual funds or shares [12].
- **Safety principle:** All investors want their money to securely invest; thereby it is a necessary precaution that is required to be taken by the investors. All the economic trends are important to be analysed carefully before selecting various kinds of investment that can ensure safety.

#### Psychological traits of investor behaviour

Investor behaviour refers to the method selected by an investor for satisfying the requirements through showing the choices. In this regard, psychological factors are highly associated with the purchasing behaviour for any service or goods. Thus, there are multiple psychological factors that can impact on the decisions of investors [13]. There are many other psychological factors associated with the investor decisions such as conservatism, investor beliefs and confidence level. According to the findings of a previous research it can be stated that the highest correlation between investment area and investor belief is found. The results of the research is presented below;

Psychological factors (IV)	Investment Area (DV)										
	BD	POD	IS	RE	MF	ES	MMI	DI	GS	Deb.	G/S/OM
Confidence Level		-.098**	-.041		.107**			-.147**			-.039**
Investor Optimism	.119**		.033**	.032**		.044**	-.061**		-.209**	.035**	
Conservatism		.007**			-.011**			-.045**			.007**
Investor Beliefs		.211**	.003**		.078**	.048**		-.205**	-.229**		.025**

Remarks: \*\*. Correlation is significant at the 0.01 level (2 tailed)

\*. Correlation is significant at the 0.05 level (2 tailed)

**Figure 1:** Correlation between investment area and psychological factors

Source: [5]

As represented in the above figure, investor belief and investor behaviour value is 0.78 while investor optimism and investment area value is 0.44. Therefore it can be stated that a negative correlation between investment and investment belief can be observed. The “r” value of investor belief as well as investment in government security are -

.229 and - .205 respectively. Furthermore, conservatism is found to have a direct association with bank deposit as the value is represented as .229. In addition to this, investor optimism can impact negatively on the government securities and post office deposits along with the r value of - .209 and - .220.

Psychological factors (IV)	Investment preference (DV)										
	BD	POD	IS	RE	MF	ES	MMI	DI	GS	Deb.	G/S/OM
Confidence Level		-.102**			.025**			.018**			.167**
Investor Optimism	-.103**		-.027**	.212**		.066**	.126**		.145**	.077**	
Conservatism		-.209**			-.047**			.038**			-.071**
Investor Beliefs		.090**	.027**					.078**	-.101**		.154**

Remarks: \*\*. Correlation is significant at the 0.01 level (2 tailed)

\*. Correlation is significant at the 0.05 level (2 tailed)

**Figure 2:** Correlation between investment preference and psychological factors

Source: [5]

The above image represents a correlation between investment preferences of investors in Karnataka and their psychological factors. However, a strong relation between investment preference and investor belief has been found in this study. Besides that, a strong correlation between preferences and investor belief can be found. However, the investor optimism towards equity shares can be observed through the above table.

Thus, the psychological factors of an investor have a strong influence on the investment decisions taken by individuals in the Karnataka region. In addition to this, studies showed that working women in Karnataka are facing a strong risk in the money market and real estate market. Therefore, investing in mutual funds is strongly attractive to the women investors in Karnataka [6]. Apart from that, investor optimism is also associated with the stock market instruments. Studies showed that investment optimism is negatively associated with government securities and post office investment. Working women's optimism as well as confidence level of investors is highly associated with working women. Furthermore, investor beliefs are strongly adsorbed with the choices of investment by working women in the country. However, financial market instruments, derivatives, debentures investment are strongly associated with investor beliefs.

In addition to this, conservatism is highly associated with the preferences of investment avenues as well as investment objectives of working women in Karnataka. Conservatism is associated with investment in bank deposits, insurance, post office deposits [7]. Therefore, conservatism is correlated with marketability and liquidity of the avenues of working women in Karnataka. However, an optimistic behaviour is observed from all high income working women in the country. Therefore, working women in the Karnataka region are neither heavy risk takers nor risk averse. People in Karnataka are moderate risk takers that help in earning good returns through their investment [14]. Thus, financial decisions are important to be taken accurately by both male and female candidates in order to make proper investment decisions.

#### ***Impact of socio economic condition on investment decisions***

According to the findings of previous researchers, it can be stated that the personality traits of individual customers can be impacted through their socio - economic situation. People who are having an income range from Rs.1000000 to 2000000, which is 75.36% participated in the survey program while people above Rs 2000000 accounts for around 13.35%. The findings of the study indicated that 60.99% of people prefer to invest in different equity shares [6]. In addition to this, 39.01% of the sample size are having no investment in equity shares. Furthermore, 15.40% of the respondents in the study invested in different Private Chit Funds while 84.60% of them are not having investment. Good investors must have a high level of self - awareness that helps in completing risk tolerance [7]. However, good investors do not have the accurate assets which exceed the risk taking capacity. The personality traits of investors include extraversion, neuroticism, agreeableness, conscientiousness and openness.

Among these personality traits, the most impactful trait is known as neuroticism and openness on the stock investment. Conversely agreeableness is basically characterised as the concerned and cooperative feature that affects the psychological condition of people. According to the findings of multiple researches, it is found that 80% of the investors over the age group of 60 are investing approximately \$1 million [6]. On the other hand, women mostly hesitate more than men while investing in different stocks. The risk taking capability of women is lower than the risk taking capacity of men. Along with that, employers and financial advisers are stating that young investors are investing more in order to have retirement security.

#### **4. Discussion**

The results of this research confirmed that investors in Karnataka prefer to invest in some specific stocks that can provide handsome returns to them. Less risky stocks are preferred by investors in order to get higher profitability. Along with that, investment securities are important to be achieved through getting proper awareness regarding the market dynamics. However, most of the investors still prefer to invest in mutual funds by taking hedging risk. In addition, some of the investors still prefer to invest in safe investment avenues that are highly profitable [8]. Thus, pension funds, equities are also preferred by investors for getting high profit from the target market. The findings suggested that people with open personalities prefer to invest more in the stock market. Thus, people are taking moderate risk in investing in stock markets rather than taking too much risk to generate more revenue [9]. However, personality traits of an individual are highly impactful on the investment behaviour of a person. People with openness are not afraid of taking risks and thereby they are investing more in other portfolios. In addition to this, neuroticism is having a negative impact as it is the main reason for the unstable mind of investors.

An understanding of the various facts that have been presented here has highlighted that people who have an open mindset are more likely to come up with investments and therefore, are the clear targets that must be catered to. Furthermore, a study that had been conducted in the case of women in Karnataka has revealed the fact that women are more likely to low to moderate risks and do not opt for high risk investment options [3]. This suggests the fact that with women, the idea of investment is to come up with best returns but taking minimal risks associated with the same. An appropriate analysis of the mindset of people here has highlighted the fact that risk taking capacity is consistently low among women than men. This is one of the critical traits that distinguish male from female, when it comes to the understanding of personality traits of investors in Karnataka.

The most likely investment options that are being constantly considered in the case of all demographics of Karnataka are the aspects of Mutual Funds and Stock Markets. Individuals are extremely positive about their chances in these cases, as the main area that is being considered before investing is security [6]. Besides, the use of Mutual Funds also allow minimal risks and good returns, in comparison to stocks, which means that Mutual Funds are more popular and likely to be used than stock markets. Nevertheless, the investments

in stock markets have also shown a positive trend in the case of Karnataka and this is indicative of the growing popularity associated with the same. Therefore, these aspects can be considered to be extremely critical in the generation of the best possible understanding of the likelihood of investments that are to be made.

Gold is an area where, investors are not preferring to invest, as it is showing major trends of low returns. Further, real estate is another area that has seen a fall in demand. However, there is a lack of awareness that is being noted in the case of the people, especially young people, who are taking up investment plans. It has been noted in the study here that the use of appropriate investment insights is largely from experiences of others, and personal knowledge gaining aspect and experimentation is low [8]. This is one of the key areas that defines the poor risk - taking capabilities of the individuals of Karnataka. However, there are exceptions to this rule as is seen in the case of the youth of the state. Nevertheless, the youth is more inclined towards stock markets. Besides, these individuals are also considering pension plans and PPFs, which means that the awareness levels are steadily rising.

However, in the long run, the main trend that is being noticed in the case of Karnataka is the rise in the overall demand for appropriate investment opportunities that has low to moderate risks and better returns [10]. The individuals are more inclined towards such schemes and therefore, the scenario that prevails is more conducive for mutual funds and stocks. This is a critical area that has been noticed in the case of this study, which has been highlighted through the analysis here.

## 5. Conclusion

According to the above highlights in this paper, it can be concluded that people with more openness prefer to invest in stocks. In addition to this, increased awareness is considered as an important factor that impacts on the investment decisions of individuals in Karnataka. Hence, creating more awareness is essential for influencing investors to purchase more stocks. Along with that, investors can make investment in insurance and equity shares as a security for the investment purpose for safeguarding the future of the investors' family members. Along with that, gold investment and pension funds are still managed by investors in attracting the preferences of investors. Hedge class security and long term investment is possible among all the traditional investors. However, Private Chit funds and Real estate are considered as the less secured investment areas that can create transnational issues as well as limited liquidity in the market. In addition to this, Investors in Karnataka invest more in insurance as well as equity shares as a secure region of investment. Traditional investments such as COD, ETF as well as Debentures are not preferred by modern investors as these are not providing long term returns. Another limitation of these investment areas is availability of limited liquidity in the market. Most of the people in Karnataka prefer to invest more in secure funds with long term growth. Further investigation regarding the investment market and stock performance can be conducted for analysing better results. More information can be

collected by conducting further research regarding share market dynamics and the gold market.

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