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Exploring the Impact of Personality Traits on Investment Decisions of Immigrated Global Investors with Focus on Moderating Risk Appetite: A SEM Approach

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Abstract

The study investigates the impact of the personality traits of immigrant global investors on their long-term and short-term investment decisions while moderating the impact of risk appetite. By analysing how traits such as extraversion, conscientiousness, openness, agreeableness, and emotional stability intersect with risk tolerance, this research aims to provide a nuanced understanding of how individual characteristics interact to shape investment decisions. The data was collected through a structured questionnaire. PLS-SEM was applied to test the developed hypothesis. The study insinuates that personality traits do have a positive impact on short-term as well as long-term investment decisions, except agreeableness and conscientiousness, in context to long-term and short-term investment decisions. The study also suggests that risk tolerance does not have a high moderating impact on the relationship between personality traits and investment decisions, except conscientiousness, which has a negative moderate relationship between personality traits and investment decisions. To the best of our knowledge, it is the first study in which an individual's personality traits have been studied in relation to long-term and short-term investment decisions with moderating the effect of risk tolerance in SMART PLS based on the reflective-reflective model.

Keywords: *Personality traits, Investment decisions, Behavioural finance, Rationality and efficient market hypothesis.*

1. Introduction

Traditional Financial belief was based on the postulation that most Investors behave rationally whenever it comes to ambiguity and uncertainty in making investment decisions, backed by theories like the Efficient market hypothesis (Fama, 1965, 1970) and Modern Portfolio Theory (Markowitz, 1952). However, the same paradigm was questioned and argued by Tversky and Kahneman (1974) and a new belief emerged that became popular with the name of behavioural finance, that believes investors' rationality is been influenced by several factors like personality cognitive and emotional biases (Nga

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& Yien, 2013). Studies divulge that investment decisions are dominated by several factors like demographic factors (i.e., income, gender, age and education) (Bali et al., 2009; Hallahan et al., 2003; Ozmen and Sumer, 2011; Mayfield and Shapiro, 2010), Markets (i.e., transaction cost, expected return, market environment, the actual rate of return etc.), (Morse, 1998; Chang, 2008; Ferguson et al., 2011) investor’s personal characteristics (i.e. Personality, emotions, values & risk appetite) (Mishra et al., 2010; Chitra & Sreedevi, 2011; Young et al., 2012) and many other related factors like financial risk perception & risk tolerance influence investors’ investment decisions (Mayfield, Perdue, & Wooten, 2008). Studies revealed investors’ financial decisions are influenced by psychological behavioural factors (Rober, 2003; Clark-Murphy, 2004; Chang, 2008; Kourtidis et al., 2011; Weller and Thulin, 2011). Previous studies had revealed theoretically and empirically that the personal features of an investor have a serious impact on investing and portfolio framing (Bajtelsmit & Bernasek, 1996; Byrnes et al., 1999; Barber & Odean, 2001; Felton et al., 2003 Oehler et al., 2017). Personality may help to explain the motivations underlying investing decisions because prior research has shown that personal ideas and values lay the foundation for decision-making (Durand et al., 2008). Investors can better control their illogical behaviour while making their own financial decisions by understanding the personality type to which they belong. Using psychometric surveys, portfolio managers also offer monetary guidance on structuring portfolios and allocating assets in accordance with the unique personality type of the particular investor. The basic purpose of the paper is to study the impact of personality traits on investors’ investment decisions by moderating the effect of risk appetite. However, there are several models to measure the personality of an individual investor (Model developed on personality by Rotter (1966); BB & K Model propounded by Bailard et al. (1986); MB Type index model proposed by Myers and Mc Caulley (1985); The Big five Personality trait model by Costa and McCrae (1992) etc. There are five key elements of personality, according to studies in this area (Peterson, 2012).

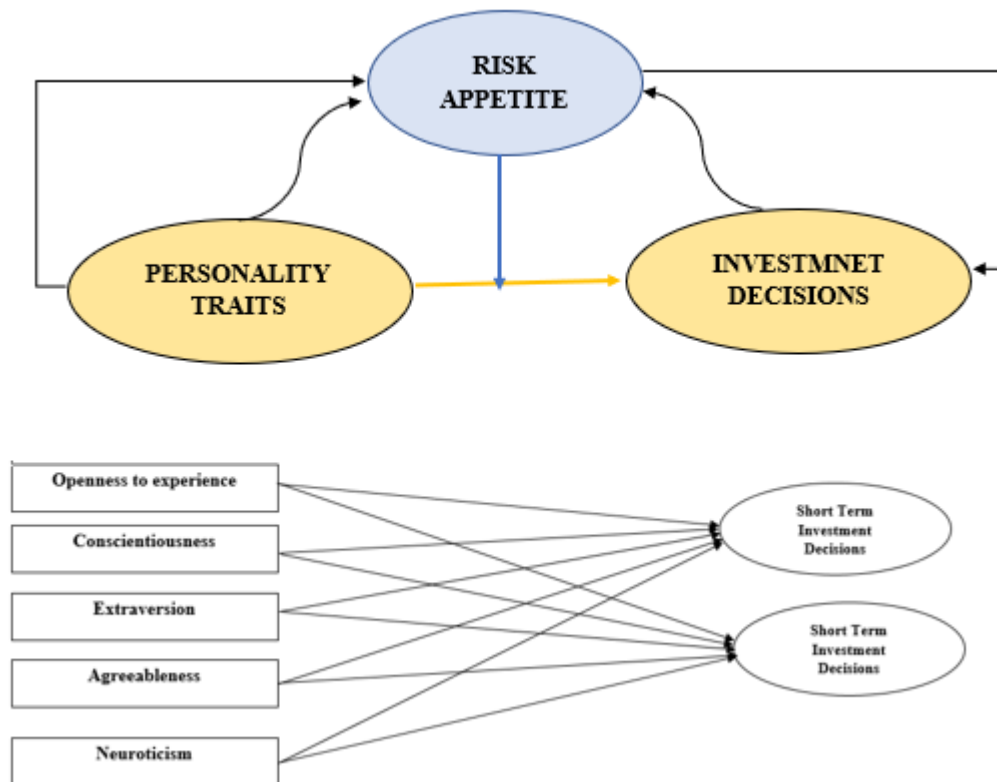


Figure 1. Theoretical Framework.

Source: Prepared by Author.

1.1 Objectives

To study the impact of personality traits on Investment Decisions.

To study the impact of Personality traits on long and short-term investment decisions with moderating the effect of risk tolerance.

Understanding the impact of personality traits on investment decisions is important for several reasons: Personality traits can influence an individual's decision-making process, leading to biases that can affect investment outcomes. Alignment with investment goals: A person's personality traits can impact their investment goals and preferences. By recognizing the role that personality traits play in investment decisions, investors can make more informed choices and ensure that their portfolios are diversified in a way that aligns with their unique risk tolerance and goals. By being aware of the potential impact of their personality traits on investment decisions, individuals can make more informed and effective choices, leading to better investment outcomes. In summary, understanding the impact of personality traits on investment decisions is important for avoiding behavioural biases, aligning investments with goals, promoting diversification, and ultimately, achieving better investment outcomes. In the context of global economics, immigrated global investors represent a diverse and influential cohort that significantly contributes to cross-border investments, technological transfer, and the internationalization of business practices. These investors, often driven by opportunities for diversification, higher returns, and access to emerging markets, bring with them not only capital but also expertise, networks, and innovation. Their presence fosters a dynamic exchange of ideas, cultures, and strategies, propelling economic growth and fostering collaboration on a global scale. As key players in shaping the contemporary landscape of international investments, immigrated global investors play an instrumental role in driving innovation, facilitating knowledge dissemination, and forging connections that transcend geographical boundaries.

2. Literature Review

2.1 Investment Decision and Personality Trait

Researchers have shown great interest in studying the impact of personality traits on investment decision-making (Rao and Lakkol, 2022). Isidore and Arun (2022) have shown how there is a high correlation between personality dimensions and investors' decision-making. Zeb et al.(2020) studied the impact of personality traits on individual investment decisions in Pakistan. Extraversion, neuroticism and financial literacy are found to have positive and significant impacts on the investment decision; however, financial literacy does not have a moderating effect on this relationship(Rehman and Dhiman, 2022). Financial literacy has been found to have a significant influence from factors like financial literacy and saving behaviour, self-control and family financial socialisation (Ali, Ammer and Elshaer, 2022; Ammer and Aldhyani, 2022). Similarly, the investment intention of Immigrated global investors has been found to have influence from various factors like financial self-efficacy, own or peers' experience, financial ecosystem, operational literacy, charges for financial services by experts and deficiency in liquidity (Misra, Goel and Srivastava, 2021). Singh, Kumar and Colombage (2017) included the factors derived from market expectations like emotional intelligence and thinking style to find the impact on decision-making. While buying and selling in the stock market, the relationship of perpetual errors was studied with an individual's financial decision (Sadi et al., 2011). The authors find a significant correlation between perpetual error and personality traits. In this connection, understanding the irrationality in the financial decision-making behaviour of generation Y undergraduates is an important topic covered by Nga and Yien (Nga and Ken Yien, 2013). The researchers found that neither gender nor course major taken by undergraduates influences their financial

decision making but the latents of personality traits do have a significant impact on the various decision-making dimensions of risk aversion, cognitive biases and socially responsible behaviour. Generation Y students have also been studied by Nandan and Saurabh (2016) in India for finding the relationship between personality traits and investment intentions mediated by financial risk attitude. Again, the relationship is found to be significant. For Indian corporate bond investors, the big five personality traits and investment intentions were studied by Matha et al. (2022) to conclude that personality traits did not have a direct influence on investment intention. Akhtar and Das (Akhtar and Das, 2019) found attitude to play a partial mediating role in the relationship between financial awareness and investment intention. Further, between the relationship between personality traits and investment intention, self-efficacy is found to have a dual role (Akhtar and Das, 2019). The attitude of working women is found to have a significant impact on investment management (Lakhangaonkar and Kishore, 2022).

2.2 Direct and Moderating Role of Risk Tolerance

Investment advisors may consider the personality traits for judging the risk appetite of the individual before advising investment. Thanki, Goyal and Junare (2020) finds that risk aversion is negatively related to long-term investment decisions, while personality traits are found to be positively related. Attitudes to return as well as risk are found to be positively related to investment intentions in the covid -19 period among students in India (Wicaksono and Jihadi, 2022). Stock market participation has an impact from investment intention and investment intention in the stock market is found to have a significant impact from factors like risk tolerance, herding behaviour and social interactions (Yang et al., 2021). Along with the factors like loss aversion and herding behaviour, FOMO (Fear Of Missing Out) is also found to significantly influence the investment behaviour of retail investors (Gupta and Shrivastava, 2022). Shanmugam, Chidambaram and Parayitam (2023) finds that financial attitude and financial decision influences and risk propensity are positively related. Using the structural equation model, Mayfield, Perdue and Wooten (Mayfield, Perdue and Wooten, 2008) find that extraversion leads to short-term investing while individuals with neuroticism and risk aversion nature tend to avoid it. Further, openness to experience leads to an inclination towards long-term investing intentions.

Financial literacy is found to have a partial role in the relationship between personality traits and investment intention (Jain et al., 2022). Sadiq and Khan (2019) concluded no moderating impact of financial literacy on the relationship between risk behaviour and investment decision; although it has a significant impact on short-term and long-term investment intentions. A similar study on the relationship between personality traits, risk appetite and investment decisions in Kazakhstan reveals that personality traits do have some impact on risk appetite which in turn influences the investment decision (Pak and Mahmood, 2015). Along with the risk capacity, Rajasekar et al. (2022) included investment priority also as a moderator in the relationship between personality traits and investment behaviour in the Indian context. The moderating effect of the first moderator (risk capacity) is found to be significant. Further, the relationship between the variables (personality trait and investment behaviour) moderated by risk capacity is found to be moderated by investment priority mediated through investment attitude. Yanuar and Arifin (2022) in Indonesia found no significant relationship between financial risk and investment decisions: although personality traits do have significant influence.

2.3 Hypothesis of the Study

Hypothesis:

- H1: Openness has a positive impact on long-term investment decisions.
- H2: Openness has a positive impact on short-term investment decisions.
- H3: Agreeableness has a positive impact on long-term investment decisions.

H4: Agreeableness has a positive impact on short-term investment decisions.

H5: Extraversion has a positive impact on long-term investment decisions.

H6: Extraversion has a positive impact on short-term investment decisions.

H7: Conscientiousness has a positive impact on long-term investment decisions.

H8: Conscientiousness has a positive impact on short-term investment decisions.

H9: Neuroticism has a positive impact on long-term investment decisions.

H10: Neuroticism has a positive impact on short-term investment decisions.

H11: Risk appetite moderates the relationship between openness and long-term investment decisions.

H12: Risk appetite moderates the relationship between openness and short-term investment decisions.

H13: Risk appetite moderates the relationship between Agreeableness and long-term investment decisions.

H14: Risk appetite moderates the relationship between Agreeableness and short-term investment decisions.

H15: Risk appetite moderates the relationship between Extraversion and long-term investment decisions.

H16: Risk appetite moderates the relationship between Extraversion and short-term investment decisions.

H17: Risk appetite moderates the relationship between Conscientiousness and long-term investment decisions.

H18: Risk appetite moderates the relationship between Conscientiousness and short-term investment decisions.

H19: Risk appetite moderates the relationship between Neuroticism and long-term investment decisions.

H20: Risk appetite moderates the relationship between Neuroticism and short-term investment decisions.

3. Methodology

3.1 Sample and Data

The sample for this research comprised Immigrated global investors who came to India from different countries and settled as India's burgeoning markets, skilled workforce, and growing digital infrastructure, it has become an attractive destination for international investors seeking diverse opportunities. A structured questionnaire was distributed through Google forms to 425 Immigrated global investors. However, only 208 were received back, out of which 200 were valid and considered for data processing and evaluation. Numerous other studies of a similar nature were carried out by (R.Durand & Trepongkaruna, 2013; Nga & Ken Yien, 2013). Because of their financial expertise, this set of individuals can adequately respond to inquiries involving investment decision-making (Salehi & Mohammadi, 2017).

3.2 Measurement

The scale of measurement is divided into four parts. The first part deals with demographic factors, the second part deals with personality traits, the third part deals with risk tolerance and the fourth part covers investment decisions, both short-term and long-term.

For personality traits and investment decisions the scale developed by Mayfield et al. (2008) was used. The standardised scale for Risk tolerance was also taken from which is a reliable and validated 9-item Likert scale (Gananasekar and Arul, 2013)

3.3 Measurement model

A measurement model is a tool that is used to assess the quality of the constructs present in the study. It follows a systematic approach to test the quality criteria that starts with the evaluation of factor loading followed by construct reliability and construct validity.

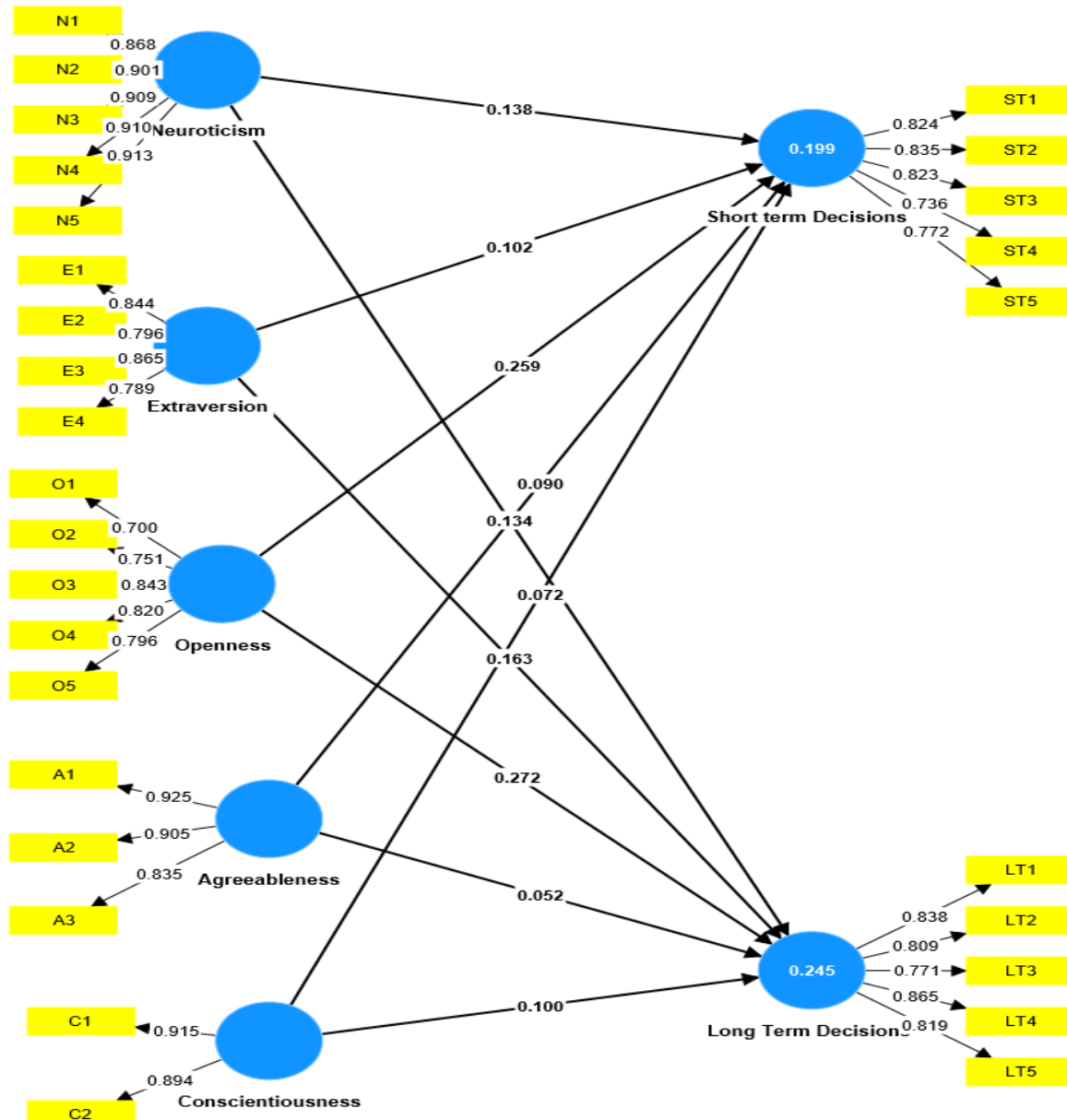


Figure 2: Measurement Model without Moderator

A measurement model is a tool that is used to assess the quality of the constructs present in the study. It follows a systematic approach to test the quality criteria that starts with the evaluation of factor loading followed by construct reliability and construct validity.

3.3.1 Factor loading

Factor loading refers to the extent to which each item in the correlation matrix is related to the given principal component. It can range from -1 to 1, higher magnitude indicates a higher correlation with its underlining factors and a lower value indicates a lower

correlation. It is clear from the results of the factor loading presented in table 1, that none of the items presented in the study has a factor loading lower than the benchmark value i.e., 0.5(hair et al. 2016).

Table 1: Factor Loading

	A	C	E	LT	N	O	R	ST
A1	0.912							
A2	0.898							
A3	0.85							
A4	0.644							
C1		0.699						
C2		0.716						
C3		0.653						
C4		0.643						
C5		0.669						
E1			0.844					
E2			0.796					
E3			0.865					
E4			0.789					
LT1				0.837				
LT2				0.81				
LT3				0.773				
LT4				0.864				
LT5				0.819				
N1					0.868			
N2					0.901			
N3					0.909			
N4					0.91			
N5					0.913			
O1						0.7		
O2						0.751		
O3						0.844		
O4						0.82		
O5						0.797		
R1							0.782	
R2							0.863	
R3							0.908	
R4							0.916	
R5							0.883	
ST1								0.809
ST2								0.83
ST3								0.832
ST4								0.753
ST5								0.775

3.4 Reliability analysis

Reliability is the measurement of the internal consistency of the responses given by the respondents and is defined as the extent to which the measurement instrument is stable and consistent (MARK 1996). There are several methods through which are used to test reliability, however, the most common are Cronbach alpha and composite reliability. Table 3 presents the result of both these tests. The Cronbach's alpha ranged from 0.778 to 0.942. similarly, the composite reliability ranged from 0.784 to 0.962. both the statistical

parameters indicate reliability as the minimum criteria is 0.700(hair et al. 2011, upper wala), so the construct reliability is present in the data.

Table 3: Construct Reliability Analysis (Cronbach Alpha and Composite Reliability)

	Cronbach's alpha	Composite reliability (rho_a)
A	0.872	0.962
C	0.778	0.784
E	0.845	0.859
LT	0.879	0.888
N	0.942	0.943
O	0.845	0.873
R	0.921	0.94
ST	0.861	0.883

Source: Calculated by Authors using SMART PLS4

3.5 Construct Validity

To establish the construct validity, two tests are applied, i.e. convergent validity and discriminant validity in PLS-SEM.

3.6 Convergent Validity

Average Variance Extracted (AVE) is a popular method of evaluating convergent validity (Fornell & Larcker, 1981). A construct's unidimensionality is explained by the AVE with a minimum value of 0.5. (Hensler et al., 2015). It can be deduced from Table 4 that all of the constructs' AVE values are above 0.5, establishing convergent validity.

Table 4: Results for Average Variance Extracted

	Average variance extracted (AVE)
A	0.791
C	0.818
E	0.679
LT	0.674
N	0.811
O	0.615
R	0.76
ST	0.639

Source: Calculated by Authors using SMART PLS4

3.7 Discriminant validity

Discriminant validity is a statistical measurement that measures the degree to which different constructs are distinct. It is noteworthy that if two or more two constructs are unique or similar, then their correlation should not be too high.

3.7.1 Fornell and Larcker Criteria

The AVE's square root of each construct in this procedure must be greater than the greatest correlation between that construct and others that it has. According to Table 5, all constructs have larger square roots of AVE than their connection with other constructs. The Fornell-Larcker criterion is used to establish discriminant validity as a result.

Table 5: Fornell and Larcker Criteria

	A	C	E	LT	N	O	R	ST
A	0.889							
C	0.168	0.905						
E	0.217	0.267	0.824					
LT	0.201	0.277	0.356	0.821				
N	0.292	0.041	0.132	0.229	0.901			
O	0.213	0.439	0.505	0.436	0.2	0.784		
R	-0.084	0.274	0.143	0.105	0.02	0.208	0.872	
ST	0.214	0.236	0.286	0.603	0.228	0.387	0.274	0.8

Source: Calculated by Authors using SMART PLS4

3.8 Structural Model

A structural model is composed of three basic components: structure, input, and output. The structure component defines the relationships between the variables and the connections between the inputs and outputs. This component includes the mathematical equations that describe the relationships between the variables. The input component refers to the variables that influence the system's behaviour, while the output component refers to the variables that are being analysed (Tseng et al., 2016). Structural models are widely used in different domains to analyze the behaviour of systems and make predictions about their performance. For example, in engineering, structural models are used to analyze the behaviour of mechanical and civil structures. In physics, structural models are used to study the behaviour of physical systems, such as quantum systems and solid-state materials (Razmara et al., 2019).

Table 6: R Square and Adjusted R Square Table

	Without moderator		With Moderator	
	R-square	R-square adjusted	R-square	R-square adjusted
LT	0.245	0.226	0.262	0.219
ST	0.199	0.178	0.255	0.212

Source: Calculated by Authors using SMART PLS4

In the case of long-term investment decision-making, the values of R2 and adjusted R2 have changed from 0.245 to 0.262 and 0.226 to 0.219 respectively after regressing with the moderator. It insinuates that the moderator has an impact on personality traits and investment decisions but the impact is marginal. Similarly, in the case of short-term investment decision-making, the values of R2 and adjusted R2 have changed from 0.199 to 0.255 and 0.178 to 0.212 respectively after regressing with the moderator. It insinuates that the moderator has an impact on personality traits and investment decisions but the impact is marginal. However, the impact of moderators in case of short term is higher than that in long-term investment decision-making.

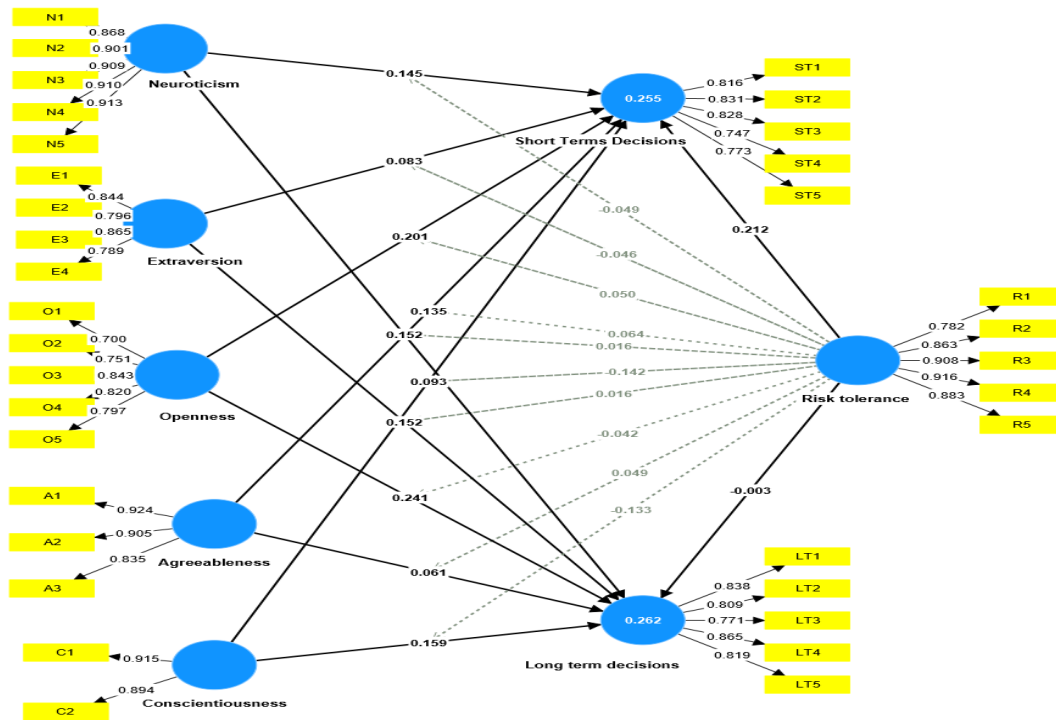


Figure 3: Measurement Model with Moderator

Table 7: R Square and Adjusted R Square Table

	Without moderator		With Moderator	
	R-square	R-square adjusted	R-square	R-square adjusted
LT	0.245	0.226	0.262	0.219
ST	0.199	0.178	0.255	0.212

Source: Calculated by Authors using SMART PLS4

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Table 8: Results of Hypothesis testing

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ((O/STDEV))	P values
A -> LT	0.061	0.072	0.058	1.048	0.147
A -> ST	0.135	0.143	0.07	1.927	0.027
C -> LT	0.159	0.161	0.092	1.726	0.042
C -> ST	0.093	0.094	0.1	0.934	0.175
E -> LT	0.152	0.149	0.074	2.06	0.02
E -> ST	0.083	0.077	0.087	0.954	0.17

N -> LT	0.152	0.159	0.066	2.295	0.011
N -> ST	0.145	0.15	0.076	1.898	0.029
O -> LT	0.241	0.245	0.07	3.447	0.001
O -> ST	0.201	0.2	0.1	2.019	0.022
R -> LT	-0.003	0.011	0.079	0.04	0.484
R -> ST	0.212	0.225	0.077	2.767	0.003
R x N -> LT	0.016	0.028	0.068	0.238	0.406
R x N -> ST	-0.049	-0.046	0.079	0.622	0.267
R x A -> LT	0.049	0.055	0.055	0.885	0.188
R x A -> ST	0.064	0.073	0.074	0.868	0.193
R x E -> LT	0.016	0.009	0.079	0.206	0.418
R x E -> ST	-0.046	-0.05	0.107	0.435	0.332
R x O -> LT	-0.042	-0.03	0.097	0.431	0.333
R x O -> ST	0.05	0.053	0.116	0.429	0.334
R x C -> LT	-0.133	-0.134	0.079	1.684	0.046
R x C -> ST	-0.142	-0.144	0.083	1.722	0.043

Source: Calculated by Authors using SMART PLS4

Relationship between personality traits and Investment decision without moderating effect

The bootstrapping approach was used to evaluate the structural model, using 5000 samples, a significance of 5%, two-tailed, and no significant changes. Bootstrapping, in the words of Hair et al. (2018), "may be regarded as a re-sampling strategy which pulls the routing model is repeatedly estimated using these samples under slightly different data configurations using random samples with replacement from the data. In order to assess the coefficient's statistical significance without relying on distribution assumptions, bootstrapping is also employed to determine standard errors of coefficient estimations, according to Vinzi et al. (2010).

From table ..., it can be inferred that the personality traits that don't have an impact on short and long-term investment decision-making are Agreeableness on Long term investment decision-making ($p = 0.147$ & $t = 1.048$), Conscientiousness on Short Terms Decisions ($p = 0.147$ & $t = 0.934$), Risk tolerance on Long term decisions ($p = 0.484$ & $t = 0.04$), hence hypothesis H3& H8 is not accepted while personality traits that impact the investment decisions are as Agreeableness on Short Terms Decisions ($p = 0.027$ & $t = 1.927$), Conscientiousness on Long term decisions($p=0.042$ & $t=1.726$), Extraversion on Long term decisions($p=0.02$ & $t=2.06$), Extraversion on Short Terms Decisions($p=0.017$ & $t = 0.954$), Neuroticism on Long term decisions ($p=0.011$ & $t = 2.295$), Neuroticism on Short Terms Decisions ($p = 0.029$ & $t = 1.898$), Openness on Long term decisions($p=0.00$ & $t = 3.447$), Openness on Short Terms Decisions($p = 0.022$ & $t = 2.019$) Risk tolerance on Short Terms Decisions ($P = 0.003$ and $t = 2.767$). Hence hypothesis H1, H2, H4, H5, H6, H7, H9 and H10 has been accepted.

Relationship between personality traits and Investment decision with the moderating effect of Risk tolerance

Risk tolerance as a moderator between neuroticism and long-term investment decision ($t = 0.238$, $p = 0.406$), risk tolerance as a moderator between neuroticism and short-term investment decision ($t = 0.622$, $p = 0.267$), risk tolerance as a moderator between agreeableness and long term investment decision ($t = 0.885$, $p = 0.188$), risk tolerance as a moderator between agreeableness and short term investment decision ($t = 0.868$, $p = 0.193$), risk tolerance as a moderator between extraversion and long term investment decision ($t =$

0.206, $\beta=0.418$), risk tolerance as a moderator between extraversion and short term investment decision ($t= 0.435$, $\beta=0.332$), risk tolerance as a moderator between openness and long term investment decision ($t= 0.431$, $\beta=0.333$), risk tolerance as a moderator between openness and short term investment decision ($t= 0.429$, $p=0.334$), therefore, it shows that all the above-mentioned relationships, risk tolerance do not have a significant moderating impact. Hence, hypothesis H11, H12, H13, H14, H15, H16, H17 and H18 are rejected. In the case of conscientiousness, and long-term and short-term investment decisions, risk tolerance has a significant negative moderating role. Hence, hypotheses H19 and H20 are accepted.

4. Discussion

The study insinuates that the personality traits like agreeableness, extraversion, neuroticism and openness have a significant impact on both long-term and short-term investment decisions. The findings are in compliance with the literature (Sarwar et al., 2020), (Mayfield, Perdue and Wooten, 2008), (Isidore and Arun, 2022), (Yanuar and Arifin, 2022), (Rajasekar et al., 2022). While agreeableness and conscientiousness do not have a significant impact on long-term and short-term investment decisions (Rehman et al., 2023). The findings are in line with those reported by (Matha et al., 2022). The study also reveals that risk tolerance as a moderator does not have a significant impact on the relationship between personality traits and investment decisions, however, it negatively impacts the relationship between conscientiousness and long-term and short-term investment decision. The results are similar to the findings of (Rajasekar et al., 2022).

5. Conclusion and Future Scope

It was revealed from the study that personality traits have a significant impact on short-term and long-term investment decisions so portfolio managers and financial advisors must be concerned about the personality of the Immigrated global investors before designing and investing in a portfolio. Further, risk tolerance is found to have a moderating role in this relationship, therefore, the financial advisor must consider the risk tolerance of the Immigrated global investors before designing a suitable portfolio.

As the study was limited to Immigrated global investors, the same relationship can be tested in other geographical locations and with respondents from different demographic details. In future, more variables could be added to test the mediation effect of the model.

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