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Influence of personality traits on financial risk tolerance among Nepalese investors from Nepal stock exchange

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Abstract
The study investigate a connection between five personality traits (Extroversion, Openness, Agreeableness, Conscientiousness, and Neuroticism) and Financial Risk Tolerance (FRT) of Nepalese investors. Through descriptive and causal-comparative study, the study discovers that all the traits are positive effects on FRT. The most significant influence is that of neuroticism whereby emotionally unstable people are more risk takers. It is also related to conscientiousness since responsible investors are prone to making calculated risks. The Extroversion and Agreeableness traits promote risk-taking by engaging in social activities and dealing with uncertainty whereas Openness has a smaller and positive effect. These findings emphasize the importance of personality in financial choices and indicate that investment planning needs to adjust to individuals to enhance its outcomes.

Keywords: Personality traits, risk tolerance, extroversion, neuroticism, conscientiousness

Introduction
Investment means having financial resources put to use during a certain period which is done with the view of future good (Lai, 2019) [14]. Investors purchase assets with the aim of maximizing their returns by balancing the risks associated with it, regardless of whether the investment strategy looks into short-term returns or long-term development (Ahmed *et al.*, 2022) [1]. Investment decisions are multi-dimensional and are impacted by several factors, where personality traits are well on the list of impacting factors. Finally, the major driving force to all financial behavior is the accumulation of wealth which in most cases will supersede other factors. An investment behavior is influenced by factors like demographic (age, gender, income, education), personal (personality traits, values, emotions, risk tolerance) and market conditions (anticipated risk and rewards, transaction costs) and the situational contexts.

The main objectives of investments according to general principles are concerned with safety, income, and growth (Hoffmann *et al.*, 2017) [9]. Case in point, individuals who are planning to retire will often opt towards investing in assets with little risks, but those who want to gain more profits may indulge in risk taking. Nevertheless, emotional biases as a result of personality often play a large role in investment choice and the results are not always optimal (Stinesen, 2021) [26]. The biases can be minimized by the use of personality assessments by the financial advisors to analyze the risk tolerance and behavior of their clients. Investors need to train their self-understanding of the market dynamics and approaches to investment to avoid blind feelings of euphoria and panic, which will lead to the appearance of the asset bubble and market volatility. Therefore, the slowdown of financial planning and investment psychology is important to make informed choices (Mishra & Lalumière, 2011) [19].

Behavioral finance, a relatively new area in finance, seeks to use psychological knowledge in understanding financial decisions. Economic variables have dominated the classical theories of finance, which have paid little attention to human psychology and environmental factors (Xiao & Porto, 2017; Sivaramakrishnan, Srivastava, & Rastogi, 2017) [29]. The present study uses both the Theory of Planned Behavior and the Big Five personality traits model to examine the role of personality in determining the intentions of investors in investing in stocks. In the current financial world dogged by greater risk exposure and drastic technological developments, it is becoming extremely important to learn about individual risk attitudes. The decisions made on investments are a product of the interplay of a number of factors which include the efficiency of funds, industry expertise, personality, and societal forces.

Cognitive, emotional, and motivational dimensions of personality have significant influence in making decisions in all walks of life of which investment behavior is one of them (Krishnan & Beena, 2009) [12]. Such characteristics are closely connected with the risk tolerance (Back & Speaker, 2004) [2], and as a rule, more experienced investors should have higher risk tolerance than novices (Kanadhasan, 2015) [11]. There are also gender variations; girls are less likely to take risks as compared to boys (Falahati & Paim, 2012; Chen & Volpe, 2002) [3]. Personality characteristics also indirectly determine investment decisions because the personality affects risk tolerance which in turn determines the investment decisions (Bye & Lamvik, 2007).

Evidence of prospect theory has always indicated that personality and risk tolerance work together in determining the ability of an investor to take a risk in the financial field (Grable & Lytton, 1999) [7]. Risk takers would invest in investments where the risk and the returns are high as compared to risk adversaries who are interested in capital conservation (Pak & Mahmood, 2015; Kanadhasan, 2015) [21, 11]. This paper provides the investigation of the influence of personality traits on financial risk-taking behavior, which implies the impact on investment decisions.

In short, it is necessary to comprehend the correlation between personality and risk attitudes in order to make efficient choices concerning investments. Improved ability to perceive such factors will help investors and advisors to maximize returns of their investments and minimize economic risks, making them better positioned to take action in financial markets.

Literature Review and Hypothesis Formulation

Financial risk tolerance is positively correlated with extroversion which is a tendency to be friendly, energetic and aggressive (McCrae & Costa, 1997) [18]. Introverts are more afraid of risky investments but extroverted people prefer new experiences and feel more confident in such investments (Krohn & Boudarbat, 2012; Zhang & Jiang, 2020) [13, 32]. This is because they are more social and optimistic and thus they are more prone to take risks in finances (Schuitema *et al.*, 2008) [23].

Such is Openness to Experience as the state that can be characterized by curiosity and the liking to novelty (McCrae & Costa, 1997) [18]. People with strong scores in this trait are more tolerant to financial risk and willing to experiment and withstand fluctuation through unorthodox investments (Cox & Sheard, 2004; Lonnqvist *et al.*, 2011) [4]. Their risk-taking attitude goes in line with an increased tolerance of not knowing (Nicholson *et al.*, 2005) [20].

Agreeableness is related to cooperativeness and trust (McCrae & Costa, 1997) [18] and its association with financial risk tolerance is otherwise a negative correlation. The likable people would rather be stable and are less combative, which results to less risky investment decisions (Lonnqvist *et al.*, 2011; Croson and Gneezy, 2009) [5]. The concern about others and the wish to have peace makes them risk averse (Hirsh & Peterson, 2009) [8].

Financial risk tolerance also has a negative correlation with conscientiousness characterized by reliability and self-discipline (McCrae & Costa, 1997) [18]. Conscientious people tend to make slow decisions and responsive through steadfast investments (Lonnqvist *et al.*, 2011; Hirsh and Peterson, 2009) [8]. They are very methodical and this makes them very conservative with their money.

Financial risk tolerance is negatively correlated with neuroticism in the sense of anxiety and emotional instability (McCrae & Costa, 1997) [18]. Individuals who are highly neurotic fear to lose their money in risky investments since they are sensitive to stress (Lonnqvist *et al.*, 2011; Nicholson *et al.*, 2005; Grable & Lytton, 1999) [7, 20]. Their emotional natures are reasons behind making risk-averse choices (Hirsh & Peterson, 2009) [8].

The hypotheses of the study are listed below:

- **H1:** There is a significant influence of the Extroversion trait on financial risk tolerance.
- **H2:** There is a significant influence of the Openness to Experience trait on financial risk tolerance.
- **H3:** There is a significant influence of the agreeableness on financial risk tolerance.
- **H4:** There is significant influence of conscientiousness trait on financial risk tolerance.
- **H5:** There is significant influence of neuroticism on financial risk tolerance.

Methods: The research designs applied in this study were descriptive and causal-comparative that investigated the relationship between the impact of Extroversion, Openness to Experience, Agreeableness, Conscientiousness, and Neuroticism on Financial Risk Tolerance of Nepali investors. There were the descriptive design and causal-comparative design that assisted in discovering the relationships among several variables with the aid of statistics, such as means and standard deviations, and the relations between dependent and independent variables respectively.

The segment consisted of the active investors basing on the Nepal financial markets who traded at the Nepal Stock Exchange. The study participants were selected through an exercise known as convenience sampling.

The questionnaire had 33 items covering six constructs. Extroversion was measured with six items adapted from John and Srivastava (1999) [10], and Openness to Experience with six items from McCrae and Costa (1997) [18]. Agreeableness included seven items from Goldberg (1992) [6], Conscientiousness had five items from Costa and McCrae (1992) [18], and Neuroticism had five items adapted from McCrae and Costa (1987) [17]. Financial Risk Tolerance was measured using four items from Grable and Lytton (1999) [7].

Table 1: Reliability Test

Variables	Cronbach's Alpha	N of Items
Extroversion	0.747	6
Openness to Experience	0.751	6
Agreeableness	0.839	7
Conscientiousness	0.870	5
Neuroticism	0.848	5
Financial Risk Tolerance	0.810	4

Source: Author's Own Work

Table 1 Describes about reliability test. The Cronbach's alpha values were obtained to be higher than 0.7, indicating that the test has met reliability.

Table 2: Correlation between Personal Traits and Financial Risk Tolerance

	E	OE	A	C	N	FRT
E	1					
OE	.331**	1				
A	.503**	.489**	1			
C	.515**	.419**	.774**	1		
N	.608**	.502**	.788**	.583**	1	
FRT	.672**	.640**	.784**	.587**	.784**	1

Source: Author's Own Work

Table 2 shows the Pearson correlations between Financial Risk Tolerance (FRT) and the Big Five traits. Financial Risk Tolerance is strongly positively correlated with Extroversion (r = 0.672), Agreeableness (r = 0.784), and Neuroticism (r = 0.784), all significant at the 0.01 level. It has moderate positive correlations with Openness to Experience (r = 0.640) and Conscientiousness (r = 0.587), also significant at the 0.01 level.

Table 3 depicts with the multiple regression analysis. Extroversion has a significant positive effect on financial risk tolerance (β = 0.336, t = 7.583, *p*<0.001), suggesting that individuals who are more extroverted tend to have a higher willingness to take financial risks. Openness to Experience also positively influences financial risk tolerance (β = 0.060, t = 2.735, p = 0.007), indicating that those who are more open to new experiences are slightly more likely to tolerate financial risk. Agreeableness significantly predicts financial risk tolerance (β = 0.455, t = 3.268, p = 0.001), implying that agreeable individuals show a higher tolerance for financial risk.

Table 3: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.150	.154		.973	.331
	Extroversion	.367	.048	.336	7.583	.000
	Openness to Experience	.064	.023	.060	2.735	.007
	Agreeableness	.415	.127	.455	3.268	.001
	Conscientiousness	.617	.183	.666	3.367	.001
	Neuroticism	.809	.189	.891	4.292	.000

Source: Author's Own Work

Conscientiousness shows a strong positive impact (β = 0.666, t = 3.367, p = 0.001), indicating that more conscientious individuals tend to accept greater financial risk. Finally, Neuroticism has the largest positive effect on financial risk tolerance (β = 0.891, t = 4.292, *p*<0.001), meaning that individuals with higher neuroticism scores are the most likely to exhibit higher financial risk tolerance.

Conclusion: This study reveals that all five personality traits Extroversion, Openness to Experience, Agreeableness, Conscientiousness, and Neuroticism positively influence Financial Risk Tolerance (FRT) among investors. The most powerful effect is shown by neuroticism, which means that people with mood swings can take risks which may be means of coping with stress or uncertainty. People who are conscientious would more likely think and act sensibly when it comes to taking up financial risks and make calculated decisions that are based on planning and responsibility.

Agreeableness also has a positive influence on risk tolerance, so accommodating and trustful people are comfortable with financial decisions uncertainties. The extroverts are more willing to take risks probably because of their social nature and the love of new experiences. Openness to Experience is the trait that has relatively smaller effects on the personality than other traits; nevertheless, it stimulates an attitude of being open to new and possibly risky financial opportunities. Overall, these findings highlight the important role personality traits play in shaping financial risk-taking behaviors. By understanding these psychological factors, financial advisors can better customize their guidance to match individual investor profiles, leading to more informed, personalized, and effective financial decision-making.

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