iJRASET
International Journal For Research in Applied Science and Engineering Technology



INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 14 **Issue:** IV **Month of publication:** April 2026

DOI: https://doi.org/10.22214/ijraset.2026.79324

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International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 14 Issue IV Apr 2026- Available at www.ijraset.com

An Analytical Study on the Influence of Personality Traits on Financial Risk Taking Behaviour

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Abstract: ***The study focuses on personality traits that affect the risk taking behaviour of investors. We focus on the Big Five personality traits which are represented by the acronym OCEAN: Openness (O) measures creativity, curiosity and willingness to try new things; Conscientiousness (C) measures organization, responsibility and goal-oriented behaviour; Extraversion (E) measures sociability, assertiveness, and energy levels; Agreeableness (A) measures kindness, trust, and cooperation; and Neuroticism (N) measures emotional stability, anxiety, and propensity for stress. The main objective of the study is to find out whether there is any relation between Big Five personality traits and risk taking behaviour. The study is based entirely on secondary data collected from reliable academic sources. The study compares the personality traits of the investor and the amount of risk he takes while investing.***

This research paper analyses and synthesizes existing literature, scholarly articles, and previously published empirical studies to examine how personality dimensions influence financial decision-making. The study critically reviews established findings to identify consistent patterns between OCEAN personality traits and levels of financial risk tolerance. The research also includes perspectives from behavioural finance to explain how psychological tendencies shape investment attitudes, portfolio selection, and reactions to uncertainty in financial markets. Particular attention is given to how traits such as openness and extraversion may encourage higher risk acceptance, whereas conscientiousness and neuroticism may be associated with more cautious and structured investment strategies. By integrating theoretical frameworks with past research evidence, the study aims to provide a clearer understanding of investor psychology. The findings contribute to the growing body of secondary research linking personality and financial behaviour, while also offering insights that may support personalized financial planning, improved risk assessment, and future academic exploration in behavioural finance.

Keywords: ***Big Five Personality traits, Financial Risk, Investment Behaviour, Investor.***

I. INTRODUCTION

Financial decision making is an essential component of individual life . It impacts the stability, wealth creation, and security of the individual. From managing the finances to investing in the market, the individual needs to consider several factors to achieve the right balance of gains and losses. Earlier, financial decisions were made in a logical and objective manner to attain maximum utility. However, the emergence of the concept of behavioral finance has forced researchers to consider the assumption that the decision is not made in an objective manner. It is observed that the decision is also impacted by psychological, emotional, and cognitive factors. Of these factors, the impact of personality on the individual is considered.

Risk taking behaviour in finance is defined as making decisions where the outcomes of the decisions are uncertain, and there is also the possibility of financial losses. It has been found that people with the same knowledge, income levels, and the same market conditions have different risk taking behaviour. Financial risk taking behaviour is an important factor, and this affects the investment decisions of the people, their diversification of the portfolio, and their long-term financial well-being. Some people may be more inclined towards risk taking behaviour and have more opportunities to earn returns, while others may prefer to have safe options. It is very important to understand the difference between the two, as risk preferences are directly related to the investment strategies of the people, their saving habits, and their financial planning. It has also been found that if personality traits affect the financial behaviour of the people, then it would be easy to predict the financial behaviour of the people.

The five personality traits, as proposed by the Big Five personality model, offer a detailed perspective on the various personality differences that exist among humans. The five traits, which include Openness, Conscientiousness, Extraversion, Agreeableness, and Neuroticism, offer a broad perspective on the different ways of thinking, feeling, and behaving. These traits have been shown to be stable over time, influencing various life choices, such as occupations, interpersonal relationships, and health habits, among other factors. The five personality traits have a huge influence on the way people behave financially.

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In the case of the Indian subcontinent, the importance of personality-based financial research has increased. The results of various research studies, such as the ones by Shah (2024) and Thomas (2014), prove that personality traits play an important role in influencing investment decisions as well as behavioural biases present in the stock markets.

The main objective of the present study is to critically review the existing literature pertaining to the relationship between personality traits, such as the Big Five, and financial risk-taking behaviour, along with the results of various Indian doctoral research studies, so that an overall analytical framework could be presented regarding the role of stable personality characteristics in the financial decision-making process.

II. REVIEW OF LITERATURE

Brooks, C,.Williams, L. (2020) Behavioral finance literature increasingly recognizes that financial risk attitudes are shaped by psychological characteristics, not only by economic variables. Early research primarily focused on emotions and cognitive biases, showing that affect influences risk-taking behaviour. However, more recent studies argue that stable personality traits provide deeper explanations for why individuals differ in risk tolerance.

Liu, Chung & Woo, Kai & Hon, Tai. (2016) Behavioral finance research has long emphasized that investment decisions are influenced not only by economic factors but also by psychological characteristics. Personality traits, particularly those captured by the Big Five model, are widely used to explain differences in risk tolerance among investors. Studies show that personality shapes how individuals perceive uncertainty, evaluate returns, and choose investment portfolios.

Mei-Hua, Chen & Chien-Mei, Hsiao. (2024) Research in behavioral finance consistently shows that personality traits significantly influence investors' risk tolerance and decision-making. Studies using the Big Five personality framework indicate that individuals differ systematically in their willingness to take financial risks. Traits such as extraversion and openness are generally associated with higher risk acceptance, whereas neuroticism is linked to risk aversion.Earlier empirical evidence also demonstrates that portfolio choices and investment behaviors are shaped by stable psychological characteristics, suggesting that personality is an important determinant of financial risk-taking.

Sarwar, Danish & Sarwar, Bilal & Raz, Asif & Khan, Hadi & Muhammad, Noor & Azhar, Usman & Zaman, Nadeem Uz & Kasi, Mumraiz. (2020). Behavioral finance challenges traditional finance by emphasizing the role of psychological factors in investment decisions. The Big Five Personality Theory (OCEAN) is widely used to explain how personality traits influence financial behavior. A study published in the Journal of Asian Finance, Economics and Business examined the relationship between personality traits, risk aversion, and investment intention among investors. Findings revealed that openness, extraversion, agreeableness, and conscientiousness positively influence investment intention, while neuroticism negatively affects it. Risk aversion emerged as the strongest predictor, highlighting the importance of personality in financial decision-making.

Khaitan, Jyotsna & Singh, Divya. (2025). This systematic review examines the relationship between Big Five personality traits and financial risk tolerance among retail investors. The literature indicates that openness and extraversion are generally positively associated with higher risk tolerance, while neuroticism and conscientiousness often show negative or weak relationships. Agreeableness presents mixed findings. Several studies highlight the mediating roles of financial literacy, behavioural biases, and demographic factors. Although personality significantly influences investment decisions, the review identifies gaps regarding broader psychological traits, diverse samples, and longitudinal analysis, suggesting scope for more comprehensive future research.

Rushdi, N. J. (2014) The review of literature in Impact of Psychological Influences on Investment Behaviour of Salaried Investors in India traces the shift from traditional finance theories, which viewed investors as fully rational, to behavioural finance perspectives that recognise the role of psychology, personality, and demographics in decision-making. Earlier studies highlighted that investment choices are not driven only by risk and return but are influenced by factors such as cognitive biases, emotional tendencies, personality traits (like the Big Five), knowledge levels, and perceived risk. Research also shows that demographic variables such as age, gender, income, education, and employment shape investment attitudes and strategies, creating diverse investor profiles.

Shah, D. (2024): This study investigates the complex relationship between the Big Five Personality Traits (BFPT) and investment decision behavior (IDB) among retail investors in India, challenging traditional rational finance models by highlighting the significant mediating roles of subjective financial literacy (SFL) and information search behavior (ISB). The findings demonstrate that specific traits, such as openness and conscientiousness, drive unique patterns in how individuals acquire financial information and perceive their own knowledge, which in turn influences their trading frequency and overall decision-making.

Thomas, T. C. (2014): Behavioral finance challenges traditional rational-actor models by demonstrating how psychological traits and cognitive biases, such as the Big Five personality dimensions and the BB&K behavioral model, lead individual investors to

make irrational, suboptimal decisions. This research in the Indian capital market highlights that biases like overconfidence, recency, and conservatism are directly influenced by an investor's personality, such as the link between neuroticism and recency bias, as well as demographic factors like age and income. By acknowledging these inherent psychological tendencies, investors and financial advisors can develop disciplined strategies to improve asset allocation, mitigate unnecessary risks, and enhance overall market stability.

Sachan, A. (2017): Behavioral finance replaces the "Rational Economic Man" model with a "normal" investor profile. It recognizes that human decisions are often illogical and affected by cognitive and emotional biases. Foundational research by Kahneman and Tversky shows how memory errors, complex choices, and language lead to poor financial results. To address these issues, frameworks like Behavioral Portfolio Theory recommend that wealth managers adjust to client biases based on wealth levels and whether the error is cognitive or emotional. Recent studies further this understanding by linking specific biases to demographics and Big Five personality traits.

Mehraj, A. (2024): Past research on behavioral finance has challenged the conventional wisdom of rationality on the part of investors while making financial decisions. Researchers like Daniel Kahneman and Tversky have emphasized the importance of psychological factors and the role of cognitive limitations on the part of investors, which leads to biases like overconfidence, herd behavior, etc. Behavioral finance is the integration of psychology and financial theory, which explains irrational financial decision-making. Researchers have also emphasized the role of personality factors like the Big Five personality traits, which include extroversion, agreeableness, conscientiousness, neuroticism, and openness to experience, on the financial decision-making of investors. Demographic factors like age, gender, and income have also been found to play an important role in influencing investment decisions, but very little research has been done on this in the Indian context.

III. PERSONALITY TRAITS AND FINANCIAL RISK-TAKING BEHAVIOUR

The study adopts a secondary research approach, which involves a systematic review and interpretation of existing scholarly literature rather than collecting primary data.. The secondary research is suitable as the topic is widely researched and explored across psychology, behavioral finance, and economics, making it possible to compare the findings. By analyzing the findings from prior research, this study aims to develop an understanding of how Big 5 Personality traits influence financial behaviour.

1) Theoretical Foundations: The relationship between Big 5 personality traits which are Openness, Conscientiousness, Extraversion, agreeableness, Neuroticism, and financial risk taking behaviour is dependent on major theoretical perspectives: personality psychology and behavioural finance. Personality psychology studies individuals emotions, cognition and behaviour across various situations. Behavioral Finance challenges the assumption that financial decision making is only based on logic and emphasizes the role of personality, emotions and behaviour. By combining these perspectives researchers argue that personality traits act as factors influencing risk taking behaviour.

2) Openness to Experience and Financial Risk Taking: Openness is a personality trait characterized by creativity, curiosity, and a preference for novelty. People who exhibit this personality trait have a higher tendency to experiment with various financial investments. Rodrigues and Gopalakrishna (2023) discovered a positive correlation between openness and financial risk tolerance for generational cohorts. Studies suggest that openness enhances information seeking behavior and adaptability, which may lead to diversification of portfolios and adopt long term growth strategies. However excessive openness may also involve the chances of loss in investment.

3) Conscientiousness and Risk Behaviour: Conscientious people are disciplined, organized, and goal-oriented. It has been found that conscientious people relate to systematic financial planning and rational risk-taking behaviors (Nandan & Saurabh, 2016). Conscientious people may favor long-term investments, diversified portfolios, structured financial planning,maintain savings and evaluate risk before taking any decision. On one hand, conscientious individuals may avoid high risk investment due to cautious and responsible behaviour. On the other hand, long term investment encourages calculated risk. Though they may be averse to risky speculations, their disciplined nature helps them achieve consistent financial growth and wealth creation. Overall, these individuals are associated with more deliberate and less impulsive financial behavior.

4) Extraversion and Risk Preference: Extraversion is marked by assertiveness, sociability, and optimism. Brooks (2021) found that extraversion is a positive predictor of financial risk tolerance. For instance, extraverted investors tend to be confident and optimistic about their decision-making abilities which may increase their willingness to invest in high return opportunities, as well as being actively engaged in the trading process. However, extraversion may also lead to an overconfidence bias, causing the investor to make excessive trades while underestimating the risk increasing exposure to financial risk.

5) Agreeableness and Financial Decisions: Agreeableness is a personality trait that involves trust, empathy, and cooperation. Rahmah (2023) noted that people who exhibit agreeableness tend to have moderate to low financial risk tolerance. Highly agreeable individuals tend to prioritize security and stability, making them make more conservative investment decisions. They may also get more influenced by advice from others and more sensitive to losses. Agreeable people tend to seek professional advice for their investments. They also prefer safe investments. It may also limit opportunities for higher returns.

6) Neuroticism and Risk Aversion: Neuroticism is characterized by instability, anxiety, and susceptibility to pressure. A negative correlation was observed in the study done by De Bortoli et al. (2019), which related to neuroticism and financial risk tolerance. People who exhibit high levels of neuroticism may overreact to market volatility and may display premature selling behavior due to downturn.

Individuals high in neuroticism tend to experience anxiety, worry, and sensitivity to stress, which can heighten perceptions of financial risk. Emotional decision making may impair the performance of the portfolio. Conversely, emotionally stable individuals are better able to tolerate uncertainty and maintain long term investment strategies.

The Big 5 Personality traits provide a comprehensive study for understanding financial risk taking behaviour. However research suggests that no single trait fully influences the risk preferences instead they shape the decision making process. For example, individuals with both extraversion and conscientiousness may take calculated risk, and individuals with neuroticism with low extraversion may result in strong risk avoidance.

There are also some limitations in the findings. There is also a lack of research in diverse cultural and socio economic contexts, which may restrict generalizing the findings.

IV. CONCLUSION

The study aimed to understand the relation between The Big 5 Personality traits and the financial risk taking behaviour by reviewing the existing research. The research clearly show that personality influences an individual's financial decision and how much risk they take with money.

The research suggests that individuals high in openness and extraversion are more willing to take high risk financial decisions because they feel confident, comfortable and are more open to new information. On other hand, individuals high in neuroticism tend to avoid risk because they feel more anxious and are worried of potential losses. Agreeableness, here individuals make safer financial decisions, as they prefer stability and security. Conscientiousness helps individuals to make careful and planned decisions, leading to more balanced and calculated investment choices.

Overall the findings show that financial risk taking behaviour is not only influenced by income, knowledge or market conditions but also by personality traits of individuals. This helps to understand why different people with similar knowledge make different financial decisions. The study highlights the importance of considering personality while giving investment advice. When financial advice matches an individual's personality, individuals are more likely to make decisions according to it.

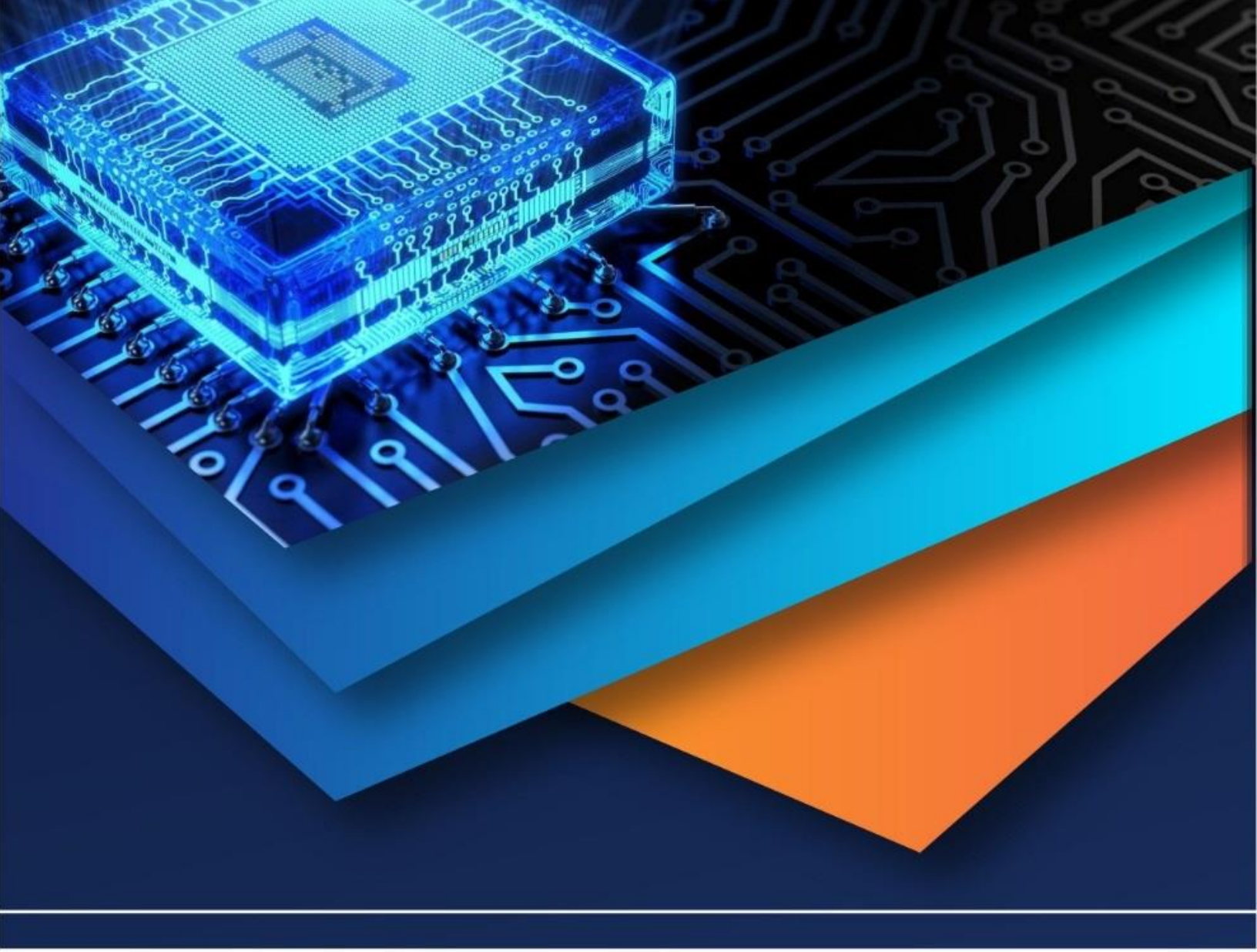
To conclude, the Big 5 Personality traits provide useful and practical ways to understand differences in financial risk taking behaviour. Understanding the role of personality can help to make better predictions of financial behaviour of individuals and help to make a more personalized approach to financial planning.

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