



Qualitative Insights into the Role of Personality Traits and Emotions in Risk Aversion and Investment Decision-Making

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Abstract-- This study explores the intricate relationship between personality traits, emotional states, and financial decision-making behaviors among individual investors. Grounded in the principles of behavioral finance, it examines how subjective and objective financial literacy, emotional experiences (fear, anger, sadness, hope), and the Big Five personality traits influence risk aversion, investment intention, and the eventual choice between risky and conservative financial instruments. A sample of 446 participants from Turkey was surveyed using a mixed-mode approach. The analysis revealed that neuroticism, openness, fear, and sadness were significant predictors of risk aversion, while anger and hope played nuanced roles in investment intentions. The findings emphasize the need for financial models to incorporate emotional and personality dimensions for more comprehensive investor profiling.

Keywords-- Behavioral Finance, Risk Aversion, Investment Decision-Making, Personality Traits, Emotional States, Financial Literacy

I. INTRODUCTION

Traditional financial theories, particularly neoclassical models, presume rational decision-making driven by risk-return calculations. However, real-world investment behavior often deviates due to the influence of psychological and emotional factors (Aren, 2018). Behavioral finance bridges this gap by examining the reasons behind such deviations, especially the subjective perception of risk. This paper investigates how emotions and personality traits, intertwined with financial literacy, shape individual risk tolerance, investment intention, and actual investment choices. The study contributes a nuanced understanding of how personal and affective characteristics influence financial decision-making in emerging market contexts.

While neoclassical finance assumes that investors are homogenous and utility-maximizing agents, real-life decision-making is often marked by inconsistencies, emotional reactions, and cognitive biases (Kahneman & Tversky, 1979). This deviation from rational behavior was notably highlighted during financial crises, such as in 2008, when investor panic and herd behavior led to widespread market volatility.

Such anomalies have strengthened the relevance of behavioral finance as a field that seeks to integrate psychological insights with economic theory to explain how and why investors deviate from the predictions of traditional models (Thaler, 1999).

Among the many psychological constructs studied, personality traits—especially the Big Five dimensions (openness, conscientiousness, extraversion, agreeableness, and neuroticism)—have shown considerable influence on financial decision-making (McCrae & Costa, 1997; Durand et al., 2008). These stable individual differences shape how risks are perceived and evaluated. For instance, neurotic individuals tend to display heightened risk aversion due to their predisposition to negative emotions, while those high in openness are generally more inclined toward risk-taking due to their curiosity and creativity (Pinjisakikool, 2017). Thus, understanding personality traits provides a foundational framework for profiling investor behavior beyond demographic attributes.

Emotions also play a pivotal role in influencing financial choices, often acting as mediators between external stimuli and behavioral responses. Emotions such as fear and sadness typically reduce risk-taking by amplifying the perceived threat of loss, whereas hope and anger can motivate more risk-seeking behavior depending on context (Lerner & Keltner, 2001; Reimann et al., 2014). This emotional modulation is crucial because financial decisions are frequently made under conditions of uncertainty, where cognitive reasoning alone is insufficient to guide behavior. The interplay of emotions and personality, therefore, forms a complex matrix that needs to be considered in any comprehensive financial model.

Additionally, financial literacy—both subjective (self-perceived) and objective (knowledge-based)—has emerged as a vital moderator in financial behavior. While higher financial literacy often correlates with improved investment outcomes, individuals with inflated self-assessments may still engage in poor decision-making due to overconfidence (Van Rooij, Lusardi, & Alessie, 2011). This discrepancy underscores the importance of distinguishing between perceived and actual knowledge when analyzing investor behavior.

As this study draws upon these multidimensional constructs, it aims to offer empirical insights relevant not only for academia but also for practitioners and policymakers in emerging economies.

II. LITERATURE REVIEW

2.1 Emotions and Investment Behavior

Emotions are crucial drivers in financial decisions. Sadness tends to amplify risk aversion (Dijk, 2017), while anger and fear influence risk differently depending on context and cultural norms (Lerner & Keltner, 2001). Hope, a forward-looking emotion, may encourage risk-taking under perceived threat conditions (Reimann et al., 2014). These emotional responses are not fixed and vary with individual experience, perceived uncertainty, and anticipated outcomes (Aren & Akgünes, 2018b).

2.2 The Big Five Personality Traits

Personality traits substantially affect financial behavior (Costa & McCrae, 1992). Openness is linked to innovative financial choices and higher risk tolerance (Akhtar & Batool, 2012), while conscientiousness often aligns with conservative investments (Pinjisakikool, 2017). Neuroticism, associated with emotional instability, may both inhibit and incite risk depending on the context (Durand et al., 2008). Traits like agreeableness and extraversion show mixed effects, with cultural and situational variables often moderating their impact (Becker et al., 2012; Tauni et al., 2017a).

2.3 Financial Literacy

Financial literacy—both subjective (self-assessed) and objective (knowledge-based)—influences investment decisions and risk assessment (Van Rooij et al., 2011). While objective literacy correlates strongly with sound investment behavior, individuals often overestimate their financial knowledge, creating gaps in decision quality (Guiso & Japelli, 2009).

2.4 Demographic Influences

Demographic variables such as age, gender, and marital status contribute to risk-taking behavior but are often moderated by psychological factors. For instance, men are generally perceived as more risk-tolerant (Croson & Gneezy, 2009), though results vary across studies. Education level does not consistently predict financial literacy or investment behavior (Aren & Canikli, 2018).

III. METHODOLOGY

3.1 Sample and Data Collection

A total of 446 participants were surveyed using both online (n=341) and face-to-face (n=105) methods in early 2019. The sample was demographically diverse, with 55% males, 45% females, and a majority aged 20–30. Educational backgrounds spanned from high school to doctoral levels. The voluntary and anonymous participation ensured reliability in self-reported measures.

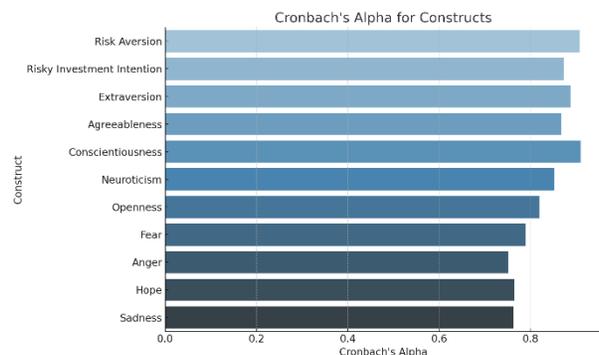
3.2 Measures and Instruments

- *Personality Traits:* Measured using a modified version of the Big Five Inventory (Benet-Martinez & John, 1998).
- *Emotions:* Assessed via established scales for fear (Leary, 1983), anger (Gambetti & Giusberti, 2012), sadness (Doherty, 1997), and hope (Snyder et al., 1991).
- *Risk Aversion & Investment Intention:* Adapted from Donthu & Gilliland (1996) and Aydemir & Aren (2017).
- *Financial Literacy:* Subjective literacy was self-rated; objective literacy was measured using a test adapted from Van Rooij et al. (2007).
- *Investment Choice:* Participants chose between stocks (risky) and bank deposits (conservative).

IV. ANALYSIS

4.1 Factor and Reliability Analysis

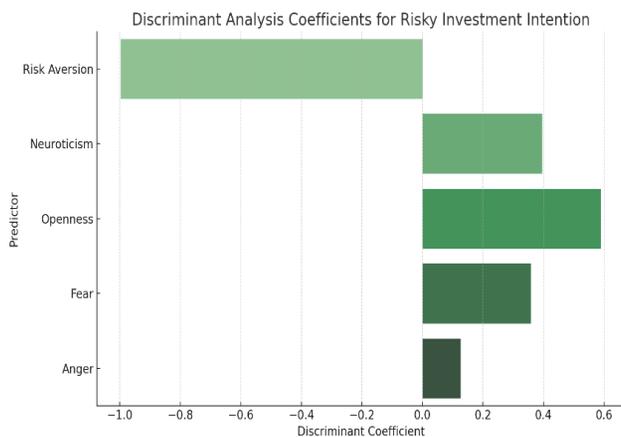
Exploratory factor analysis confirmed the validity and reliability of scales. Cronbach's alpha values exceeded 0.75 for all key constructs. The Kaiser–Meyer–Olkin measure and Bartlett's test confirmed sample adequacy and factorability.



4.2 Correlation and Discriminant Analysis

Risk aversion negatively correlated with risky investment intention ($r = -0.45, p < 0.01$). Significant predictors of risky investment intention included openness, neuroticism, fear, and anger. Subjective and objective financial literacy showed a statistically significant gap, with the former generally inflated.

Discriminant analysis showed that risk aversion, neuroticism, openness, fear, and anger collectively explained 15.05% variance in investment intention, supporting the hypothesis that personality and emotions significantly influence investment choices.



V. DISCUSSION

This study reinforces the behavioral finance paradigm by showing that investment decisions are not purely rational. Emotional states—particularly fear and sadness—reduce risk-taking, while anger and hope may increase it, depending on framing and prior experience. Personality traits like openness and neuroticism were consistent predictors across risk attitudes and investment intentions.

The observed discrepancy between self-assessed and actual financial literacy highlights a cognitive bias that can lead to suboptimal financial behavior. This miscalibration can be particularly problematic in emerging markets, where financial education is unevenly distributed.

VI. CONCLUSION AND IMPLICATIONS

Incorporating psychological and emotional constructs into financial models provides a more realistic depiction of investor behavior.

Financial advisors and policymakers should consider these traits in investor profiling and financial education programs. Tailored interventions that address emotional regulation and improve financial literacy may enhance investment outcomes.

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