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Role of Extraversion Personality on Mutual Investment Decision

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Abstract:

Behavioural finance assumes that characteristics of market participants and information structure systematically have an influence on individuals' investment decisions. This research paper aims at identifying the factors that influences the individual investor behaviour. Data collection is made with the help of structured questionnaires. Investment decisions have gained importance due to the general increase in employment opportunities and economic development of a nation. Mutual Funds provide a platform for a common investor to participate in the Indian capital market with professional fund management irrespective of the amount invested. The Indian mutual fund industry is growing rapidly and this is reflected in the increase in Assets under management of various fund houses. Mutual fund investment is less risky than directly investing in stocks and is therefore a safer option for risk averse investors. The main purpose of the study is to identify the role of extraversion personality affects the relationship between personality traits and investment management. However, in case of Long run Risk behaviour partially mediates the relationship of "Extraversion", "Agreeableness", "Openness to Experience", and "Conscientious".

Keywords: Mutual Fund, Investors, awareness, knowledge, Returns & Risk, Big Five Personality Traits, Extraversion

Introduction:

Investment is one of the foremost concerns of every individual investor as their small savings of today are to meet the expenses of tomorrow. Every individual investor possesses different mindset when they decide about investing in a particular investment avenue such as stocks, bonds, mutual funds, fixed deposit, real estate, bullion etc. In each life cycle stage, every individual desire his hard-earned money to be invested in most secure and liquid avenue. However, the decision varies for every individual depending on their risk-taking ability and the purpose for which such investment is to be done. Purpose of investment can be related with

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saving objective. Each individual investor selects the investment option for certain time period looking at their personal financial goals. Investment behaviour of an individual investor reveals how he/she wants to allocate the surplus financial resources to various instruments for investment available. The investment behaviour consists of why they want to invest, how much of their disposable income they want to invest, for how many years/months they want to invest and most importantly the timing of such investment. In various empirical studies, it has been found that information being an important factor on taking decision to invest, which influences them on choice of investment and later on how they act after investment (Kasilingam & Jayabal, 2008). The study was conducted mainly to know about the individual investor's perception towards the deciding on the objective for which they save money for future. In every life cycle stage, saving objective by an individual always changes. Such a change occurs not only due to the age of the investors, but also due to the occupation and income level category, where they fall.

Savings and investments play a major role in economic development of any country and the primary objective of all government's policy has been to promote savings and capital formation in the economy which is a primary instrument of economic growth. Personal Savings in India is attributed to growth in income of individuals and the rising rate of inflation. The role and importance of individual investors and their trading behaviour in Indian financial market is also imperative. Expected utility theory views, individual investment decision as a trade-off between immediate consumption and deferred consumption. But individuals do not always prefer according to classical theory of economics. Recent studies on individual investor behaviour have shown that they do not act in a rational manner, rather than several factors influences their investment decision. The purpose of this study is to analyse the determinants of individual investor's behaviour in Indian financial market.

The Indian Mutual fund industry has witnessed considerable growth since its inception in 1963. The impressive growth in the Indian Mutual fund industry in recent years can largely be attributed to various factors such as rising household savings, comprehensive regulatory framework, favourable tax policies, and introduction of several new products, investor education campaign and role of distributors.

The concept of Mutual funds has been on the financial landscape for long in a primitive form. The story of mutual fund industry in India started in 1963 with the formation of Unit Trust of India at the initiative of the Government of India and Reserve Bank. The launching

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of innovative schemes in India has been rather slow due to prevailing investment psychology and infrastructural inadequacies. Risk averse investors are interested in schemes with tolerable capital risk and return over bank deposit, which has restricted the launching of more risky products in the Indian Capital market. But this objective of the Mutual Fund industry has changed over the decades. For many years funds were more of a service than a product, the service being professional money management. In the last 15 years Mutual funds have evolved to be a product. A competent fund manager should analyse investor behaviour and understand their needs and expectations, to gear up the performance to meet investor requirements. It is the time for mutual fund companies to understand the fund selection/ switching behaviour of the investors' and to design the fund schemes according to the changing needs of consumer, otherwise survival of funds will be difficult in future. The present study made efforts in this regard to suggest ways to penetrate this mode of investment deep in Indian society it also provides the information that what present investor expects.

Mutual Funds have become a widely popular and effective way for investors to participate in financial markets in an easy, low-cost fashion, while muting risk characteristics by spreading the investment across different types of securities, also known as diversification. It can play a central role in an individual's investment strategy. They offer the potential for capital growth and income through investment performance, dividends and distributions under the guidance of a portfolio manager who makes investment decisions on behalf of mutual fund unit holders. Over the past decade, mutual funds have increasingly become the investor's vehicle of choice for long-term investment. It becomes pertinent to study the performance of the mutual fund. The relation between risk-return determines the performance of a mutual fund scheme. As risk is commensurate with return, therefore, providing maximum return on the investment made within the acceptable associated risk level helps in segregating the better performers from the laggards. Many asset management companies are working in India, so it is necessary to study the performance of it which may be useful for the investors to select the right mutual fund.

In the big 5 theory of personality, extroversion (often known as extraversion) is one of the five core traits believed to make up human personality. Extroversion is characterized by sociability, talkativeness, assertiveness, and excitability.

People who are high in extroversion tend to seek out social stimulation and opportunities to engage with others. These individuals are often described as being full of life, energy, and

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positivity. In group situations, extroverts (extraverts) are likely to talk often and assert themselves.

Extraversion and Investment Intention

An Extraversion is "active, optimistic, excitement seeking and tend to socialize in large crowd" (Leary, Reilly, & Brown, 2009; McCrae & Costa J, 1997). Pan and Statman (2013) revealed "extraversion deliberate only positive information, which influences their assessment of the probability of success and instigated overconfidence in financial decision making". Mayfield et al. (2008) directed a study among business school undergraduates and revealed that extraversion trade frequently and tend to invest their more money in stock market. Furthermore, he finds negative association between extraversion and risk aversion. Another study who examine the association between personality traits and financial decision making of household, finds that "extroversion is associated with unsecured debts and financial assets" (Brown & Taylor, 2014). R. B. Durand et al. (2008) in his study divulged that" individuals with higher degrees of extraversion appear to take more risk to achieve higher returns".

Literature Review:

Lenard et. al. (2003) empirically investigated investor"s attitudes toward mutual funds. The results indicate that the decision to switch funds within a fund family is affected by investor"s attitude towards risk, current asset allocation, investment losses, investment mix, capital base of the fund age, initial fund performance, investment mix, fund and portfolio diversification. The study reported that these factors are crucial to be considered before switching funds regardless of whether they invest in non-employer plans or in both employer and non-employer plans. Ronald T. Wilcox (2003) examined how investors choose a mutual fund and found that investors pay a great attention to past performance and also indicated that the educated investors demonstrated greater knowledge of basic finance made poorer, not better, decisions than their less financially savvy. Paula A. Tkac (2004) found that investors are irrational or in some other sense cannot look out for their own best interests. Mutual fund industry provides a variety of products and price structures to heterogeneous consumer preferences and budgets. Consumer who prefer more style, features or power willingly pay higher prices and the investor rely on and pay to the financial advisors or brokers for processing and formulating guidance regarding fund allocation. They are facing risk because of misconduct by advisory firms. They are not demanding any disclosures of their fund. The risks reduced to zero if investors are

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willing to pay with their own time and energy to monitor their fund position. J.Lilly and DrAnasuya (2014) published a research paper "An empirical study of performance evaluation of selected ELSS mutual fund schemes" which examined the performance of 49 selected tax saving elss schemes by applying Sharpe ratio, Treynor ratio, Sortino ratio and Jensen's alpha measure and found out LIC NOMURA MF GROWTH and dividend schemes has the highest return and are risk borne when compared to other schemes. Sadiq and Ishaq (2014) conducted a study to examine the effect of demographic factors on investors level of risk tolerance on the choice of investment with 100 investors from two cities of Pakistan. Results of their study indicated that demographic factors of investors: academic education, income level, investment knowledge and investment experience effect the investors level of risk tolerance. Further, study revealed that gender, marital status, occupation and family size did not show any effect on investment level of risk tolerance. There is another study carried out to examine the impact of demographical factors on investment decision on Vietnam Stock Market by Ton and Nguyen in 2014. Results of their study made known that the demographic factors (gender, age and marital status) influenced on the decision making of investors on Vietnam Stock Market. Rosemary and Bitrus (2016) conducted a study with the aim to identify the fundamental factors influencing individual investors in the shares of Nigerian capital market. Primary data was collected from 130 individuals using structured questionnaires. Study identified the followings influencing factors on individual investors decision making: past performance, expected bonus issue, growth potential, future dividend and the profitability of the company. Chavali and Mohanraj (2016) studied to examine the impact of demographic variables and risk tolerance on investment decisions in India. 110 investors participated in the survey and data was collected using questionnaires. The study found that gender had an impact on the investment pattern and decision making of respondents. Perera (2016) examined the influence of investor's gender attitudes on investor behaviour in Colombo Stock Exchange. The Outcome of the study revealed that individual's gender differences significantly influenced on cognitive factors, emotional factors and herding factors. Also study found that there was a strong correlation among the investor's demographic factors, market factors, risk bearing capacity, lifestyle characteristics and behaviour. The accurate measurement of risk tolerance in an investment portfolio proves to be a difficult task (Kannadhasan, Aramvalarthan, Mitra, Goyal, 2016). However, the various factors, influencing risk tolerance, aid in overcoming said difficulties. Risk tolerance is influenced by a variety of factors, including, but not limited to demographic variables, financial well-being, life satisfaction as well as personality traits. Other factors

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include environmental and economic factors (Kannadhasan et al., 2016). Caspi, Roberts, Shiner (2005) suggest that an individual's level of risk tolerance is more stable over time than their personality traits. Furthermore, Kannadhasan et al. (2016) argue that an investor's personality traits heavily influence his decision-making processes. The five main personality traits according to the five-factor model are (i) neuroticism, (ii) extraversion, (iii) openness to experience, (iv) agreeableness, and (v) conscientiousness (Cooper, 2003; Rothmann & Coetzer, 2003; Vazifehdoost et al., 2012). Mayfield, Perdue, & Wooten (2008) found in their study that personality traits have a strong association with investment management. They found that neuroticism has no impact on investment management while people with extraversion and openness to experience traits are involved in both short term and long term investment intentions. They argued that anxious individuals feel more insecure, so it is possible that they would be less preferred to engage in shortterm investing. Conversely, optimistic and outgoing people can involve in both short term and long term investment intentions. Personality traits are determinants of investors' behavior (Baik, Kang, & Kim 2010; Akhtar & Batool 2012; and M. Moradi et al. 2013). They studied that some personality traits have strong association with both short-term and long-term investment and some have are associated with either short-term or long-term investment intentions.

Objectives:

1. To analyze the demographic variables of the mutual fund investors.
2. To find out the relationship between the risk acceptance and occupation level of extraversion personality investors.
3. To evaluate the awareness level about the mutual fund among investors
4. To know the relationship between occupation of investors and the time holding of investment in mutual fund

Research Methodology:

The basic design of survey instrument consists of structured questionnaires. It is so designed to collect all required information from investors of mutual funds. Based on their knowledge, information source and investment decision factors related to their selection of a particular scheme fund. Descriptive type of research was used for this study. Data used for the research has been collected from primary and secondary sources. Percentage analysis, Graphical Representation and Hypothetical test were used for data analysis.

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Data Analysis and Interpretation:

Table 1

Demographic Variable		**Frequency**	**Percentage**
Gender	Male	100	100
	Female	0	0
Occupation	Private job	32	32.0
	Government job	50	50.0
	Retired	18	18.0
Educational Qualification	ITI	39	39.0
	SSLC	30	30.0
	Degree	7	7.0
	Post Graduate	24	24.0
Marital Status	Married	92	92.0
	Unmarried	8	8.0

Source: Primary Data

Interpretation:

a) Gender

From table 1 it is clear that, all the respondents (100%) are males.

b) Occupation

From the above table 1, it depicts that most of the respondents are government employees i.e., 50%. 32% of the employees fall under the private job. Only 18% of them are retired.

c) Educational Qualification

From the above table 1, educational qualification of the employees reveals that 7% of the respondents have only taken degree. Most of the employees (39%) are qualified with ITI. 30% of employees just have the basic qualification. 24% of the employees have post graduation qualification.

d) Marital Status

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From the above table 1, it is clear that 92% of the employees are married and only 8% employees are unmarried.

- **Relation between risk acceptance and investor's occupation**

To know whether there is significant difference in the risk acceptance with different occupation the following hypothesis are framed:

H_0 : There is no significant difference in the risk acceptance with different occupation

H_1 : There is significant difference in the risk acceptance with different occupation

These hypotheses are tested using one way ANOVA and the result is exhibited in the table below.

Mean, F value and P value of different occupation

Table 2

Experience	**N**	**Mean**	**F value**	**P value**
Private job	32	88.8167	1.301	0.277
Government job	50	88.8307		
Retired	18	90.0296		
Total	100	89.0420		

P value is greater than 0.05 thus there exist no significant difference in the mean of risk acceptance with different occupation and thus accepted the null hypothesis.

- *Awareness level about mutual funds*

Hypothesis 1:-

Ho – There is no significant difference between the investors' age and the awareness about mutual fund.

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H1 – There is significant difference between the investors' age and the awareness about mutual fund.

Table No 3

The Investors' Age And Awareness About Mutual Fund.

ONE WAY ANOVA TEST				
	Sum of squares	Degree of freedom	Mean square	F
Between Groups	0.985	3.00	0.328	1.316
Within Groups	73.895	296.00	0.250	
Total	74.880	299		
SIGNIFICANT VALUE: 0.541				

Inference:-

The above table communicates the result with regarding to the calculated value of "F" test. The calculated "F" value is less than the tabulated value at 5% level of significance for v1 = 3, and V2 = 296 degrees of freedom. Hence, the null hypothesis is rejected and alternative hypothesis is accepted. It is proven from the analysis that there is a significant difference between the age of the respondents and awareness about mutual fund

Hypothesis 2:-

Ho – There is no significant difference between the investors' income group and the knowledge level about mutual fund.

H1 – There is significant difference between the investors' income group and the knowledge level about mutual fund.

Table No 4:

Income group and the knowledge level about mutual fund.

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ONE WAY ANOVA TEST				
	Sum of squares	Degree of freedom	Mean square	F
Between Groups	0.54	3.00	0.181	0.72
Within Groups	74.34	296.00	0.251	
Total	74.880	299		
SIGNIFICANT VALUE: 0.269				

The above table communicates the result with regarding to the calculated value of "F" test. The calculated "F" value is less than the tabulated value at 5% level of significance for v1 = 3, and V2 = 296 degrees of freedom. Hence, the null hypothesis is accepted and alternative hypothesis is rejected. There is a least significant difference between the means of the income group of investors and the awareness level.

- *Relationship between occupation of investors and the time holding of investment in mutual fund*

Table 5

Time of holding investments

Particulars	**Frequency**	**Percentage**	**Cumulative percentage**
Less than 1 year	50	13.8	13.8
1 – 3 Years	201	55.4	69.1
4 – 6 years	76	20.9	90.1
7 – 9 years	28	7.7	97.8
More than 10 Years	8	2.2	100.0
Total	363	100	

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As the tests revels that 69.1% investor prefer to hold the investment in mutual fund for one – three year period, 20.9% for four – six year period. So it can be concluded that about 90% investor hold their investment for not less than six years.

Table 6

Correlation between Time of holding Investment and Occupation of Investors

		Time of holding Investment	Occupation
Time of holding Investment	Pearson Correlation	1.000	0.313
	Sig. (2-tailed)	-	0.000
	N	363	363
Occupation	Pearson Correlation	.313	1.000
	Sig. (2-tailed)	0.000	-
	N	363	363

Table 4, shows that there is significant relationship in time of fund holding pattern of investor and occupation, $r(363) = 0.147$, $p < 0.05$.

Finding:

92% of the employees are married and only 8% employees are unmarried. Educational qualification of the employees reveals that 7% of the respondents have only taken degree. Most of the employees (39%) are qualified with ITI. 30% of employees just have the basic qualification. 24% of the employees have post graduation qualification. Most of the respondents are government employees i.e., 50%. 32% of the employees fall under the private job. Only 18% of them are retired. Extraversion type of personality has a great impact or role in the mutual funding investment. There is no significant difference in the risk acceptance with different occupation. The respondents' awareness level shows that many people have knowledge about Growth and Income Schemes rather than Balanced and Dividend Schemes. There is a least significant difference between the means of the income group of investors and the awareness level. There is a significant difference between the age of the respondents and awareness about mutual fund. There is significant relationship in time of fund holding pattern of investor and occupation.

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Conclusion:

Mutual fund companies should come forward with full support for the investors in terms of advisory services, participation of investor in portfolio design, ensure full disclosure of related information to investor, proper consultancy should be given by mutual fund companies to the investors in understanding terms and conditions of different mutual fund schemes, such type of fund designing should be promoted that will ensure to satisfy needs of investors, mutual fund information should be published in investor friendly language and style, proper system to educate investors should be developed by mutual fund companies to analyse risk in investments made by them, etc. Financial risk tolerance refers to the degree of uncertainty an investor is willing to accept, and can often be influenced by individual characteristics. However, personal psychological preferences play a prominent role in an investor's judgement and relationship with their finances. Extraversion type of personality has a great impact or role in the mutual funding investment. Mutual funding investment is risk associated. So that it suitable for extraversion type of investors.

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