

PERSONALITY TRAITS AS A PREDICTOR OF THE DECISION-MAKING PROCESS FROM THE PERSPECTIVE OF BEHAVIOURAL FINANCE

TRĂSĂTURILE DE PERSONALITATE CA PREDICTOR AL PROCESULUI DE LUARE A DECIZIILOR DIN PERSPECTIVA FINANTELOR COMPORTAMENTALE

Daniel ANTOCI, student,
Universitatea Europeană Viadrina, Frankfurt (Oder), Germania
ORCID: 0009-0001-6854-136X
dantoci2003@gmail.com

Daniel ANTOCI, student,
Viadrina European University, Frankfurt (Oder), Germany

CZU: 159.923

DOI: 10.46727/c.v1.21-22-03-2024.p178-181

Rezumat. Studiul trăsăturilor de personalitate ca predictor al procesului de luare a deciziilor legate de finanțe este un domeniu actual de cercetare în societatea contemporană. Din cauza crizelor globale care au apărut în ultimele două decenii, este deosebit de important să tratăm eficient sau chiar să prezicem răspunsurile viitoare din perspectiva factorilor umani, pentru a amortiza eventualele impacturi negative sau chiar a le evita în general. Cercetarea trăsăturilor de personalitate poate fi utilă pentru a rezuma, prezice și explica comportamentul unui individ, mai ales în contextul economico-financiar. Această lucrare își propune să identifice care sunt trăsăturile de personalitate dominante în procesul de luare a deciziilor în sfera economică și să analizeze modul în care acestea determină alegerile umane din perspectiva abordării finanțelor comportamentale și a versiunii interacționiste a teoriei trăsăturilor în contextul economiei comportamentale.

Cuvinte-cheie: Trăsături de personalitate, finanțe comportamentale, proces de luare a deciziilor, economia comportamentală.

Introduction

The study of personality traits as a predictor of finance-related decision-making process is a current area of research in the contemporary society (Atif Sattar, Toseef & Fahad Sattar, 2020). Due to the global crises that arose during the last couple of decades, it is particularly important to efficiently deal with or even predict the upcoming responses from the perspective of the human factors, in order to cushion any potential negative impacts or even avoid them at all. The recent 2 events that marked the beginning of the 2nd decade of the 21st century are the SARS-CoV-2 pandemic and the war in Ukraine. These events caused immense disruptions in the world economies that have been poorly managed from both Economic and Financial perspectives by most governments that were experienced not only by the average human being, but also by key decision makers. Additionally, it cannot be ignored that the personality traits have been influenced as well, by the change of the priorities in both individual, economic, and social dimensions. A crucial determining component in the administrative and individual decision-making processes is the human factor, “an action that has been done but that was not intended by the actor; not desired by a set of rules or an external observer; or that led the task or system outside its acceptable limits” (Senders & Moray, 2020), which generally was the main cause of the further deepening of the damaging outcomes of the above-mentioned events (Atif

Sattar et al., 2020). As a result, the human factor is directly influenced by the personality traits which are a responsible for the shape of the impulse response. By better understanding and analysing the interaction between personality traits and the decision-making process, one can better predict a person's behaviour. The issue of the role of personality traits in financial decision-making is addressed at international scientific conferences ("CESifo Area Conference on Behavioral Economics 2023," 2024), is the object of the scientific researches carried out in the European research programs (European Finance Association 2023, 2023), etc. This article aims to identify what are the dominant personality traits in the decision-making process in the economic sphere and intends to analyse how they determine human choices from the perspective of behavioural finance.

Discussions

In psychology, decision-making is regarded as the cognitive process resulting in the selection of a belief or a course of action among several possible alternative options. It could be either rational or irrational (Simon, 1977). Poor decision making may be characterised by indecisiveness which is linked to fear of making mistakes according to Frost and Shows (Frost & Shows, 1993). Obviously, a decision could be influenced by the cultural background of the person making it. One example could be the way in which Western countries dealt with the economic consequences caused by Covid 19 pandemic. However, some East-Asian countries (e. g. Singapore), manifested quite different decision-making approaches in terms of fiscal and monetary policies, that helped them avert the destructing economic consequences experienced by the Western countries. This approach can be explained by the existing cultural variations in personality traits between East-Asia and West, which are influenced by a different emphasis on certain personality traits that these both cultures have (Funder, 2016, pp. 481-483).

The American Psychological Association asserts the personality trait as "a relatively stable, consistent, and enduring internal characteristic that is inferred from a pattern of behaviors, attitudes, feelings, and habits in the individual. The study of personality traits can be useful in summarizing, predicting, and explaining an individual's conduct" ("APA Dictionary of Psychology," 2023). Consequently, by studying personality traits placed under different economic contexts it is possible to better streamline, forecast and prevent possible harmful consequences caused by the human factor in the decision-making process from the perspective of the behavioural finance.

Personality traits such as risk aversion or risk-seeking behavior can profoundly influence an individual's willingness to take on financial risks. Risk-averse individuals may prefer safer investment options, even if they offer lower returns, while risk-seeking individuals may be more inclined to pursue higher-risk investments in pursuit of greater rewards. Personality assessments can help advisors tailor investment strategies that align with their clients' risk preferences.

Loss aversion, a concept popularized by behavioral economists like Daniel Kahneman and Amos Tversky (Tversky & Kahneman, 1992), refers to the tendency for individuals to strongly prefer avoiding losses over acquiring equivalent gains. People with high levels of loss aversion may be more inclined to hold onto losing investments in the hope of avoiding realizing losses, even when it may be more rational to cut their losses and move on. This behavior can lead to a reluctance to sell investments at a loss, resulting in a phenomenon known as the "disposition effect".

Impulsive individuals may be more susceptible to making snap decisions without fully considering the long-term consequences. In the context of investing, this can manifest as chasing trends, reacting hastily to market fluctuations, or making emotional investment decisions driven

by short-term market noise rather than fundamental analysis. Developing strategies to mitigate impulsivity, such as implementing predetermined investment plans or utilizing automated investment tools, can help impulsive investors avoid detrimental financial decisions.

Personality traits can also influence emotional biases that impact decision-making, such as anchoring bias, confirmation bias, and herd mentality. These biases can lead individuals to rely on irrelevant information, seek out confirming evidence, or follow the crowd without conducting proper due diligence. Recognizing and addressing these biases through education, self-awareness, and cognitive strategies can help investors make more rational and informed financial decisions.

Such trait as overconfidence can lead individuals to overestimate their abilities and underestimate risks, potentially resulting in poor investment decisions. Overconfident investors may trade excessively, engage in speculative investing, or fail to adequately diversify their portfolios. Financial advisors must be aware of their clients' levels of overconfidence and provide guidance to help them make more rational decisions.

Behavioural finance suggests that psychological factors and biases impact how investors and financial professionals make decisions. These influences and biases are believed to be responsible for various market anomalies, including significant fluctuations in stock prices. (Hayes, 2003).

The decision-making by the personality is closely related to the affective, cognitive, and sensitivity spheres of the personality. This fact is highlighted in C. Jung's Theory (Jung, 1969, cited by Ryckman, 2008). Jung proposed four functions to describe how individuals interact with the world: sensing, thinking, feeling, and intuiting. Sensing involves experiencing phenomena firsthand, without employing reasoning or evaluation. Thinking then allows us to comprehend events using logic and rationality, providing meaning to our experiences. Feeling involves evaluating events, determining their goodness or acceptability. Lastly, intuiting comes into play when faced with unfamiliar situations, relying on gut feelings in the absence of established facts (Progoff, 1953, p. 100, cited by Ryckman, 2008). Extraversion can result in positive outcomes when it prompts individuals to make wise decisions, such as seeking assistance when needed. Conversely, it may lead to negative consequences when individuals act imprudently, such as blindly accepting every authority's statement to gain.

Research methods and sources

Theoretical – scientific documentation, systematization, theoretical modelling; *analytical and synthetic* – interpretation of theoretical scientific sources and experimental data; *empirical* – observational methods, questioning and testing methods (instruments: 16PF Test by Cattell, Frost indecision test); *mathematics and statistics* (Bravais-Pearson test, t-Student test).

The research will implicate a sample of 50 participants from various backgrounds, that will be evaluated by a personality traits test, in order to identify their main and secondary personality traits and their certainty in the decision-making process. Subsequently, the test participants will be involved in solving financially related case studies simultaneously being exposed to different stimuli similar to those experienced in the real-life financial sphere, case studies involving financial dilemmas, budgeting, investment choices, or other major financial decisions, which will cause different psychological conditions in the manifestation of personality's traits in order to assess their level of financial knowledge and riskiness. The case studies will initially start with minor financial decisions such as taking a loan, or purchasing a car, and gradually will progress in difficulty, size, and importance of the outcome, eventually

ending at nation-wide decision problems, similar to those done by the key decision makers. As a result, the potential perceived consequences (by the subject) will increase from the minor ones, up to the major ones relating to the macroeconomic and even global scale. In the last part of research, the collected information will be analysed, interpreted, and conclusions will be drawn. In this step, different statistical methods (t-Student) will be used to find distinct characteristics, correlations and patterns of the acquired data. The obtained results will be disseminated through communications at scientific events, the publication of scientific papers and the organization of training seminars.

Conclusion

The results of that research project will prove the important role the human factor plays in the decision-making process from the perspective of behavioural finance. The gathered data will tell us which of the personality traits bring the most leverage into the financial decision-making processes, helping individuals improve their “traits inventory” in order to facilitate the development of the “advantageous” personality traits for their financial benefit. Additionally, knowing the characteristic dominant personality traits of the key decision makers such as the world leaders, ministers, board of directors’ members etc. will help us predict and eventually prevent any negative effect caused by their policies and choices. Additionally, the collected data will help us better understand how we do financial decisions by being simultaneously exposed to different life related stimuli which will cause psychological responses such as stress, anxiety or depression.

Even though other studies have tackled similar problems, however, they focused only on a limited scale of individual investors in the decision-making process from the financial behaviour perspective, without looking at the bigger picture. (Lai, 2019; Szakadátová, 2023) The findings made by this study cannot be considered and interpreted as being definitive. Further research on this topic is required as this study cannot be considered as conclusive. A larger number of subjects and other case studies performed under certain conditions that could isolate specific personality traits for a more profound study, would improve and add new information and date to the one brought by this paper.

Bibliography:

1. APA Dictionary of Psychology (2023, November 15). Retrieved from <https://dictionary.apa.org/personality-trait>
2. Atif Sattar, M., Toseef, M., Fahad Sattar, M. (2020). Behavioral Finance Biases in Investment Decision Making. *International Journal of Accounting, Finance and Risk Management*, 5(2), 69. <https://doi.org/10.11648/j.ijafm.20200502.11>
3. CESifo Area Conference on Behavioral Economics 2023 (2024, January 16). Retrieved from <https://www.cesifo.org/en/behavioral-economics2023>
4. European Finance Association 2023 (2023, December 14). 2023 European Finance Association Annual Meeting. Retrieved from <https://efa2023.efa-meetings.org/>
5. Frost, R.O., Shows, D.L. (1993). The nature and measurement of compulsive indecisiveness. *Behaviour Research and Therapy*, 31(7), 683–692. [https://doi.org/10.1016/0005-7967\(93\)90121-A](https://doi.org/10.1016/0005-7967(93)90121-A)
6. Funder, D.C. (2016). *The personality puzzle* (Seventh edition). New York, London: W.W. Norton & Company.
7. Hayes, A. (2003, November 19). Behavioral Finance: Biases, Emotions and Financial Behavior. *Investopedia*. Retrieved from <https://www.investopedia.com/terms/b/behavioralfinance.asp>
8. Lai, C. -P. (2019). Personality Traits and Stock Investment of Individuals. *Sustainability*, 11(19), 5474. <https://doi.org/10.3390/su11195474>