# Integrating Personality Traits and Behavioral Theories in Mutual Fund Investments: Unveiling Investor Dynamics

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**Abstract-** This article explores the interplay between personality traits, particularly the Big Five model, and the Theory of Planned Behavior (TPB) in shaping individual investment decisions in mutual funds. Utilizing the TPB's framework, the study examines attitudes, subjective norms, and perceived control, linking them to investor intentions. Focusing on India's growing mutual fund industry, the article highlights key industry metrics, indicating robust growth in assets under management and retail participation. Comparisons with developed countries underscore India's untapped potential in mutual fund investments. The research delves into the determinants of investment decisions, considering rationality, socioeconomic factors, and the impact of personality traits. Theoretical frameworks and literature synthesis support the proposed behavior intention model. The findings emphasize the vital role of personality, particularly openness to experience, in influencing investment behavior. In conclusion, the study contributes insights for asset management companies in tailoring schemes to align with investor commonalities.

***Keywords:*** Investor, personality traits, Theory of Planned Behavior, Mutual Funds investment

## 1. INTRODUCTION

Mutual fund investment decisions are intricate and multifaceted, influenced by a plethora of factors that extend beyond traditional financial metrics. While economic theories and market trends have traditionally explained investment behaviors, there is a growing recognition of the significance of psychological frameworks in comprehending the complexities of decision-making. This article delves into the interplay of personality traits and the Theory of Planned Behavior (TPB), specifically utilizing the Big Five personality model, to elucidate the dynamics behind individual investment decisions in the realm of mutual funds.

Introduced by Ajzen in the late 1980s, the **Theory of Planned Behavior** provides a comprehensive framework for analyzing the connection between people's attitudes, subjective norms, perceived behavioral control, and intentions regarding a specific behavior. By examining the relationship between this theory and personality traits within
the context of mutual fund investing, we aim to gain a more nuanced understanding of investors' decision-making processes.

The **Big Five personality model**, encompassing traits like Agreeableness, Extraversion, Conscientiousness, and Neuroticism, serves as a lens to comprehend individual differences in cognitive and emotional responses to investment opportunities. Our objective is to uncover the inherent attitudes, motivations, and perceived controls shaping investors' intentions and subsequent actions in the mutual fund market through the amalgamation of these personality traits with the TPB.

Recognizing the importance of exploring investor behavior beyond traditional economic rationale, we acknowledge the substantial roles played by human emotions, cognitive biases, and personality in financial decision-making, as evident in the field of behavioral finance. Our aspiration is to contribute to a more holistic understanding of the factors influencing mutual fund investment decisions by integrating the TPB and the Big Five personality model. Through this approach, we aim to offer insights that can assist financial practitioners, advisors, and policymakers in fostering successful and well-informed investment strategies.

**Recent years** have seen a notable expansion of the mutual fund industry in India, as evidenced by a notable rise in total assets under management (AUM) and a substantial increase in investor engagement. As of November 9, 2023, the Association of Mutual Funds in India (AMFI) released the most recent data, which showed that the industry's net asset value (AUM) was Rs 46,71,687 crore, with an average AUM of Rs 47,80,422 crore as of the end of October 2023.

The addition of more than 25.50 lakh crore investors is a noteworthy milestone that will enable MF folios to reach an unprecedented high of 15,96,46,790 in October 2023. An important indicator of retail participation, the systematic investment plan (SIP), saw an all-time high monthly inflow of Rs 16,927.86 crores in October 2023.

For the thirty-two consecutive month, equity-oriented funds have seen net inflows; in October 2023, they reached Rs 80,586 crore. Small-cap funds, at Rs 4,495 crore, were closely trailed by arbitrage funds, which drew in the largest inflows of all the equity asset classes, at Rs 5,523 crore. The statement highlights the unrealized potential in small and mid-cap market segments while expressing confidence in the continuous inflows into these funds.

Within the nation's financial markets, the mutual fund industry in India is one of the fastest-growing segments. It has developed into a safe haven for ordinary investors who want to get into the Indian stock market but lack the substantial funds needed to handle its volatility. Through aggregating capital from multiple small investors and allocating it to a variety of instruments, the sector has established a comprehensive investment approach.

The Indian mutual fund industry's **Assets Under Management (AUM)** increased five times in the last ten years, from 8.26 trillion on January 31, 2013, to 39.62 trillion on January 31, 2023. Numerous factors, such as a strong regulatory framework, advantageous tax laws, and an increase in household savings, are responsible for this quick growth. The industry has broadened its range of products beyond the conventional offerings of debt, equity, and balanced funds. With the introduction of money market funds, index funds, gilt funds, sector-specific funds, and tax benefit funds, investors now have a plethora of options to match their desired investing strategies and financial objectives.

**Asset Management Companies (AMCs)** have found that it is essential to comprehend investor behavior in order to improve scheme features and match them with typical investor preferences. The mutual fund industry is setting itself apart from other options in the financial market and is steadily becoming investors' first choice. Professionals in the corporate world, especially those with fixed salaries, are taking an active part in the market by setting aside a portion of their earnings for diversified investments.

Since mutual funds are becoming more and more popular than more conventional investment options like fixed deposits (FDs) and postal savings, many AMCs are now concentrating on the corporate professional market segment. Although these conventional choices are regarded as secure, mutual funds provide alluring returns over the long run. Mutual funds are a great option for value investing because of their inherent safety and the ability to compound interest. The main goal of the study is to comprehend corporate professionals' investment behavior and investigate the variables affecting their choices, especially when it comes to mutual funds.

Compared to countries like Australia (114%), the United States (91%), and the United Kingdom (51%), India has the lowest mutual fund investment to gross domestic product ratios (MF: GDP) globally, standing at 7%. This presents a substantial untapped opportunity for mutual fund houses in the country. In the financial year 2014-15, total financial investments accounted for 3.4% of total individual investors by households and retail. This indicates significant potential for growth in the mutual fund industry.

According to the 2016 annual report of the Reserve Bank of India, there has been a significant uptick in the rate of financial savings investment compared to physical assets among Indian households. In FY 2016, this constituted 11% of the Gross Domestic Product (GDP), marking an increase from 10.2% in FY 2015. Notably, the allocation to shares, debentures, and mutual funds rose substantially from 1.8% in FY 2012 to 6.6% in FY 2016, reflecting a growing trend toward financial instruments over traditional physical assets.

A report from the Association of Mutual Funds in India (AMFI) highlights the increasing preference of retail investors for the mutual fund route to channel their financial savings. As of November 2016, total retail investment in mutual funds had surged to Rs 7.87 lakh crore, a considerable jump from the Rs 2.85 lakh crore recorded in April 2008. The proportion of retail equity Assets Under Management (AUM) also witnessed growth, rising from 1.8% of GDP in December 2008 to 3.6% in November 2016. The inflow into equity mutual funds experienced a substantial increase, with average monthly inflows reaching around Rs 5200 crore in 2016, compared to Rs 640 crore between 2007 and 2014.

The data underscores a discernible shift in investor behavior towards mutual funds, prompting an exploration of the factors influencing these investment decisions. Previous research, such as studies by Lyons et al. (2007) and Filbeck et al. (2005), has delved into various perspectives on individual financial investment behaviors. One line of thought emphasizes the role of individual rationality as a fundamental factor in decision-making regarding mutual fund investments. Conversely, another perspective suggests that, in addition to rational thinking, socioeconomic factors such as gender, age, income, education, and knowledge significantly contribute to investment behavior in mutual funds.

Studies have explored the influence of gender, age, and income on investment behavior, revealing that males tend to be more actively involved in financial investments than females. Age has shown mixed results, with some studies suggesting a positive correlation between age and debt, while others highlight differences in saving-oriented approaches across age groups. Moreover, income levels have been positively linked to total savings and investment, indicating a strong relationship between financial capacity and investment decisions.

Financial education has also emerged as a crucial factor influencing investment behavior. Studies, including Bernheim et al.'s (2001) research, indicate that financial education enhances financial behavior, while lower financial education scores correlate with lower financial literacy, subsequently impacting financial behavior. Additionally, the significance of financial knowledge in promoting responsible financial behaviors has been observed in studies such as Perry and Morris (2005).

Contrastingly, proponents of behavioral finance argue that an individual's psychology or personal characteristics serve as motivators for investment behavior in mutual funds. The growing literature in behavioral finance consistently highlights the connection between personality traits, cognitive biases, and investment behaviors. The impact of cognitive biases on personality, as measured by the Myers-Briggs Type Indicator (MBTI), has been discussed, and studies have explored how personality differences influence investors' preferences for risky versus normal investments.

Taking the supporting literature into account, this study aims to accomplish two goals. The behavior intention decision model's theoretical underpinnings are covered in the first section. Attitudes, subjective norms, and views of behavioral self-control all serve as indicators of behavioral intention. The actual behavior of the person changes if all of these predictors match behavioral intention. This framework offers financial counselors and educators useful direction. The subsequent section of the study concentrates on determining two predictors, namely perceived risk and personality, by measuring the behavioral intention to invest in mutual funds using the Big Five personality dimensions. Finding the influence of personality on investment intention is the main goal; finding the connections between perceived risk and investment intention is the secondary goal.

**Theory of Planned Behaviour:**

The Theory of Planned Behavior, developed by Icek Ajzen, is a widely used social psychology theory designed to predict and explain human behavior. According to TPB, individual behavior is determined by three main factors:

***Attitude toward the Behavior (A):*** An individual's positive or negative evaluation of performing a specific behavior.

***Subjective Norms (SN):*** Perceptions of social pressure or approval/disapproval from others regarding the behavior.

***Perceived Behavioral Control (PBC):*** Beliefs about one's ability to perform the behavior and perceived obstacles or facilitators.

These three factors combine to influence the intention to engage in a behavior, and intention, in turn, is a key predictor of actual behavior.

**Connection to Big Five Personality Model:**

While the TPB focuses on cognitive and social factors influencing behavior, researchers have explored how personality traits from the Big Five model may influence these factors. Here are some potential connections:

***Openness to Experience:*** Individuals high in openness may be more open to trying new behaviors and may have more positive attitudes toward novel activities.

***Conscientiousness:*** Conscientious individuals may exhibit strong self-control and greater perceived behavioral control over their actions.

***Extraversion:*** Extraverts may be more influenced by subjective norms, as social approval may be particularly important to them.

***Agreeableness:*** Agreeable individuals may be more sensitive to subjective norms and social expectations, influencing their intentions and behaviors.

***Neuroticism:*** Individuals high in neuroticism may have more negative attitudes toward certain behaviors due to increased anxiety or fear.

**LITERATURE REVIEW**

According to Ajzen and Fishbein's (1980) Theory of Planned Behavior, attitudes toward a particular behavior, subjective norms, and a perceived sense of behavioral control can all have an impact on behavioral intentions, which are cognitive in nature.

According to this theory, behavioral intentions are reliable indicators of actual behavior. Stronger behavioral intentions are a result of more positive attitudes, subjective norms, and perceived behavioral control, according to Ajzen (1991) and the Theory of Planned Behavior. This in turn leads to the actual behavior of those who are subject to volitional control. According to the theory, targeted behaviors and behavioral intentions are closely related.

The **influence of personality** on the behavior of investors in mutual funds has been studied by many researchers. Extraversion and openness to experience are positively correlated, while agreeableness, conscientiousness, and neuroticism are negatively correlated with risk-tolerance behavior, according to research on the impact of personality traits, especially as measured by the Big Five personality model, on decision-making (Olga, 2015). Notably, openness to experience and risk tolerance ($r = 0.238$, $p < 0.001$) and agreeableness and risk tolerance ($r = -0.194$, $p < 0.05$) were found to have statistically significant correlations. Nevertheless, no meaningful associations were found between personality characteristics and financial choices. However, it seems that individual risk tolerance behavior plays a big role in influencing investing choices.

The intention to invest in stocks is positively correlated with higher levels of risk tolerance ($r = 0.526$, $p < 0.001$).

According to the preliminary regression results, risk tolerance is significantly and favorably impacted by the personality trait "openness to experience" (significant at 1 percent), whereas "agreeableness" has a significant negative impact (significant at 5 percent). This implies that people who have strong opinions and like to try new things are more likely to invest in stocks. Individuals with prior investment experience tend to be more risk-averse than women (significant at 5%), and men show less risk aversion overall.

This may be explained by investors' propensity to proceed with greater caution when making decisions about their investments if they have previously had bad investing experiences. Crysel et al. (2012) have brought attention to the impact that personality traits have on people's investing choices.

There are differences between the services that Asset Management Companies (AMCs) actually offer and the services that they really provide, according to Walia and Kiran (2011). The findings show a sizable discrepancy between the services that AMCs actually provide and what they advertise.

The results also show that people would rather stay away from extremes of risk, viewing mutual funds as a dangerous tool. Cross-domain risk-taking behavior was examined by Belcher (2010), who observed that "the mean responses of the portfolio choice variables were not statistically significant.

The relationship between the investor's degree of agreeableness and particular perceptions was investigated by Shollapur & Kuchanur (2008). Olsen (2008) proposed two characteristics of risk perception—cognitive and affective characteristics—and their relationship to investors' investment decision-making process. Using the Big Five personality model, Mayfield et al. (2008) looked into how different personality traits affected people's intentions to make both short- and long-term investments. The study utilized structural equation modeling (SEM) to ascertain the correlation between personality traits and both short- and long-term investments.

The results showed that while people who are more willing to try new things are generally very risk averse, they also have a strong desire to make short-term investments. People who are very risk averse are not as likely to invest for the long term. Mayfield et al. (2008) found a significant correlation between gender and investment intention, which is in line with previous research. The intention to participate in long-term investments ($r = -.147$; $p <.05$) and short-term investments ($r = -.244$; $p <.01$) was higher in males, but not in long-term investments only ($r = 0.119$). This implies that people might not be interested in long-term investments even though they have previous experience.

At the $p <.01$ level, the theory also suggests that people who are less risk averse and more receptive to new experiences are more likely to make short-term (risk aversion $r = -.456$; openness $r = 0.189$) and long-term (risk aversion $r = -.352$; openness $r = 0.272$) investments.

Using the Myers-Briggs Type Indicator (MBTI), Filbeck et al. (2005) investigated the connection between personality traits and risk tolerance. According to the findings, people with

higher levels of extraversion, intuition, perceptiveness, and thinking-orientedness also typically have higher risk tolerance.
Research conducted by Olsen & Cox (2001) on the investment behavior of men and women revealed that men place less emphasis on risk than do women.

Perceived risk in mutual funds has also been the subject of several studies. According to Kaur and Kaushik (2016), investing decisions were unaffected by mutual fund risk perception or belief. Mutual fund investors contend that their products fall short in terms of successfully reducing stock market risks. They do, however, recognize the dangers associated with mutual fund investing. Risks associated with mutual funds (beta=0.476), basic operational characteristics of investment criteria (beta=0.548), and return perception for conventional institutional investments (beta=0.440) are significant variables for mutual fund investment decisions.

**Factors influencing MF Investment**

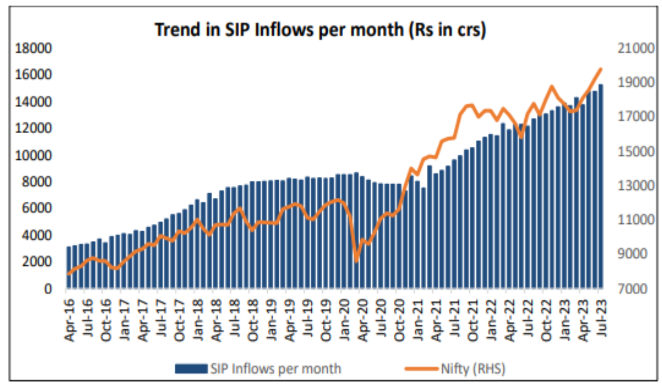
Mutual fund investments are influenced by a number of factors, including transaction costs, ease of investment, return, liquidity, and the perception of a lower return on traditional institutional investments (banks, post office schemes, etc.).

A significant weak correlation was discovered between perceptions of risk and individuals' own company shares. Additionally, Vlaev et al. (2009) outlined two factors influencing consumer beliefs about financial risk.
In a similar vein, Wang (2009) demonstrated a strong correlation among investors' objective knowledge, subjective knowledge, and risk-taking.
Gender was identified as a determinant of investors' levels of objective knowledge, subjective knowledge, and risk-taking, with the subjective knowledge of investors mediating the impact of their objective knowledge on risk-taking.
Bosner and LakehalAyat (2008) assessed the relationship between risk aversion and risk tolerance, noting that males tend to be more risk-tolerant than females.
Faff et al. (2008) examined the relationship between financial risk tolerance and risk aversion.
Hanna et al. (2008) discussed the association between risk aversion and portfolio recommendations based on Expected Utility Theory.
Shollapur & Kuchanur (2008) explored the relationship between the degree of investor agreeableness and selected perceptions.

Olsen (2008) proposed two attributes of perception to risk, namely cognitive and affective attributes, and their relationship with the investment decision-making process of investors.

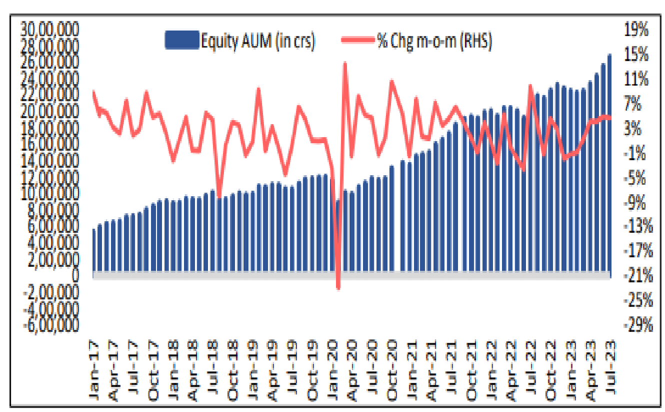
## MUTUAL FUND INDUSTRY REPORT

### SIP inflows per month



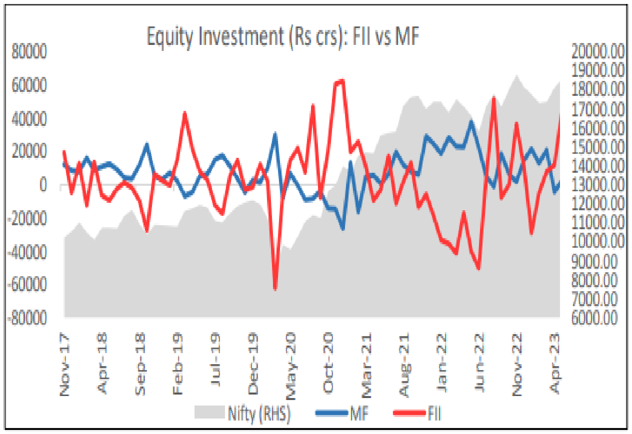

SIP inflows registered sharp rise of 3.5% on M-o-m and recorded contribution of Rs. 15,245 cr in July as against SIP inflows of Rs. 14,734 cr in June. Net addition of 15.2 lakhs SIP accounts is reflective of continued retail investor confidence in the mutual fund asset class.
(source: HDFC securities Limited, hdfcsec.com)

### Total equity AUMs and m-o-m changes:



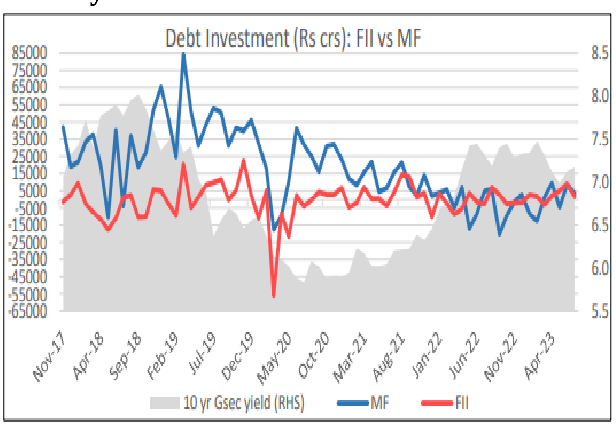

Equity AUM rose by 4.62% in July 2023 (m-o-m). Equity AUM in the industry ended at Rs 26.68 lakh cr in July 2023
(source: HDFC securities Limited, hdfcsec.com)

**Monthly Flows in equity from MFs and FIIs:**




FII bought securities worth Rs. 46,618 cr in July after being net buyer of Rs. 47,148 cr in June. MFs were net buyer of Rs. 7,707 cr in July 2023
(source: HDFC securities Limited, hdfcsec.com)

**Monthly Flows in debt from MFs and FIIs:**




FII bought debt securities worth Rs 1,499 cr in July. MFs bought amount of debt securities worth Rs. 3,071 cr in July. 10 yr G-sec yeild rose by 5 bps to 7.17% during July
(source: HDFC securities Limited, hdfcsec.com)

## CONCLUSION

In conclusion, this research bridges the realms of psychology and finance, unraveling the complex fabric of mutual fund investment decisions. The integration of the Theory of Planned Behavior (TPB) and the Big Five personality model offers a nuanced understanding of investor behavior beyond conventional economic paradigms. As evidenced by India's thriving mutual fund industry, marked by substantial growth in assets under management and record retail participation, the study underscores the industry's significance in the financial landscape. Despite India's lower mutual fund investment to GDP ratio compared to developed nations, there exists untapped potential, positioning the industry for further expansion.

The determinants of investment decisions, including rationality, socioeconomic factors, and notably, personality traits, emerge as crucial factors influencing investor behavior. Openness to experience surfaces as a key influencer, emphasizing the role of individual differences in shaping investment choices. The proposed behavior intention model, rooted in the TPB, sheds light on the cognitive processes driving investor decisions.
As investors increasingly turn to mutual funds, the research serves as a valuable resource for asset management companies, providing insights to tailor schemes effectively. The study contributes to a holistic comprehension of mutual fund investment behavior, acknowledging the interplay between psychological frameworks and traditional economic perspectives in this dynamic financial landscape.

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