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UNDERSTANDING INDIAN INVESTORS' PERSONALITY WITH SPECIAL REFERENCE TO LUCKNOW CITY

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ABSTRACT

In the last 24 months, there has been an extraordinary increase in the total number of investors in the country, witnessing a nearly twofold rise in De-mat accounts from 4.3 crores to 9.65 crores. Additionally, the mutual fund industry has experienced significant growth, leading to a 50% surge in retail investors. This escalation in investor numbers is attributed to the abundance of information accessible on the internet and various social platforms, allowing investors to enhance their knowledge and discernment. The availability of a diverse range of financial products and the convenience of investing facilitated by fintech companies have also contributed to this trend. The principal aim of this research paper is to investigate investors' personalities and attitudes towards investments, exploring their preferences in allocating investments between traditional and modern options. Furthermore, the paper seeks to analyze various types of investors' personalities and behaviors in relation to investments. The outcomes of this study could be advantageous for individual investors looking to enhance their investment decisions and overall returns by gaining a clear understanding of their personality traits. Investors can also assess whether their decisions are influenced by loss aversion behavior, thereby learning to achieve better overall investment returns. Additionally, financial advisors can utilize the study's findings to understand the personality types and behavioral biases of their clients, enabling them to recommend the most suitable investment options available in the Indian financial market.

KEYWORDS: *MBTI Test, Explorers, SEBI, Assets Under Management (AUM), Asset Management Company (AMC), Strategizers.*

Introduction

According In the realm of traditional finance, investors were presented with a limited array of investment options, and it was presupposed that a rational investor aimed to maximize returns by adhering to conventional financial theories. The notion was that such an investor would consistently make rational decisions, apply unlimited cognitive processing power to available information, and possess preferences well-aligned with standard expected utility theory. However, in reality, it has become evident that this assumption is flawed. Behavioral finance proponents seek to replace this with a more realistic model. Financial decisions are made by individuals influenced by emotions, biases, and various psychological factors. Behavioral finance can be defined as the financial discipline that employs social and psychological theories to elucidate the actions of individuals in trading and other financial decision-making processes. This approach aids in comprehending why people's behavior deviates from the predictions of traditional financial theories.

Objectives

- Gain a comprehensive understanding of the concept of investments and their significance in contributing to the overall health of the economy.
- Conduct an examination into the distinctions between real and financial investments, and also between traditional as well as modern investment approaches.
- Explore various investor personalities and analyze how these individual traits influence their specific investment patterns and decisions.

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Research Methodology

This article relies on secondary data gathered from sources such as websites, research journals, and books. Additionally, interviews and surveys were conducted with select investors to gain insights into their attitudes and behaviors regarding investments. Behavioral finance studies typically involve experimental research, which can be conducted under controlled conditions in a laboratory or in the field. Unlike lab experiments, our research falls under the category of field experimental research, offering several advantages. This approach allows for observations in a natural setting rather than a highly controlled environment, contributing to increased validity compared to lab experiments.

Investment: Definition and Varieties

An investment involves acquiring an asset with the intention of generating income and achieving future appreciation. It signifies the allocation of funds in the present with the expectation of a positive return in the future. According to Keynes, investment is defined as the increase in the value of capital equipment resulting from productive activities within a specific period.

Economically, investment denotes the net additions to the capital stock of an economy, comprising goods and services used in the production of other goods and services. This process, termed Capital formation, involves the net addition to a nation's capital stock, encompassing buildings, equipment, or inventories used in the production of various goods and services. From a financial perspective, investment is the commitment of funds with the anticipation of a positive rate of return, provided it is undertaken prudently to match the associated risks (Donald E. Fischer and Ronald J. Jordan).

Real VS Financial Investments

Distinguishing between real and financial investments is crucial. Real investments involve tangible assets like land, machinery, and factories, while financial investments involve paper or electronic contracts such as stocks and bonds. Investment activity employs funds for acquiring and creating assets, aiming to earn income or achieve capital appreciation. The investment landscape is broad, encompassing various avenues like Bank Deposits/FD, Equity shares, Mutual funds, Preference Shares, Public Provident Fund, Real Estate, Gold/Silver, etc. These investments are categorized based on risk, return, liquidity, and other factors. In a traditional context, investment practices included buying precious metals, depositing in banks, saving in post offices, investing in real estate, and purchasing insurance policies. However, with industrial development as well as globalization, investment strategies have evolved to include debentures, shares, bonds, mutual funds, precious metals/gems and cryptocurrencies. The subsequent sections provide a detailed exploration of these modern investment options.

- **Bank Fixed Deposit**

A bank fixed deposit remains a conventional and popular investment, allowing individuals to safeguard their funds for a specified period. It earns a higher interest rate than a savings account, requiring a lump-sum payment for a predetermined duration. Fixed deposits are not withdrawable before maturity, but early withdrawal, under specific circumstances, is permitted. Different banks offer varying terms for fixed deposits, ranging from 46 days to several years.

- **Public Provident Fund (PPF)**

Established in 1968, the Public Provident Fund (PPF) program by the Central Government provides retirement benefits. It serves as a long-term savings strategy and is an excellent tax-saving option. Individuals can open a PPF account at various banks and post office branches with a minimum initial deposit of Rs. 100. The minimum and maximum annual deposits are Rs. 500 and Rs. 1,50,000, respectively, with a minimum tenure of fifteen years.

- **Government Bonds**

Government bonds, issued by the Reserve Bank of India on behalf of the government, have a maturity period ranging from 91 days, which can be extended to 182 days, 365 days, or even longer. These bonds are distributed at a discount and redeemed at face value, often referred to as zero coupon bonds. They fall into the category of short-term government bonds, with Treasury bills and State Development Loans being examples. Long-term government bonds last over a year and include bonds from various sectors. Examples include savings bonds, oil bonds, National Saving Certificates, bonds from the Food Corporation of India, power bonds, fertilizer bonds, and similar instruments. Government bonds are favoured by investors seeking tax benefits and reliable returns due to their secure nature.

- **Corporate Bonds**

Corporate Bonds also referred to as debentures, are financial instruments issued by both private and public companies to secure capital through debt. The holder of these securities receives periodic interest payments and redeems the principal amount, along with the accrued interest, upon maturity. Both Indian incorporated companies and statutory corporations, such as LIC, possess the authority to issue corporate bonds. For investors seeking a stable income stream, corporate bonds are deemed an optimal investment, offering a higher interest rate compared to fixed deposits and other investment options, with lower risk than equity shares. Additionally, if corporate bonds are listed on stock exchanges, they can be easily traded before reaching maturity.

- **Shares**

Shares present a significant investment opportunity for individuals. Investors can acquire shares issued by companies aiming to augment their capital by dividing it into equal parts known as shares. Owning a share grants the shareholder rights to the company's capital, voting privileges, and a portion of the company's profits. Shareholders, or investors, assume all the rights and responsibilities of owners, including entitlement to residual profits and assets in the event of the company's liquidation after settling creditor claims. Different types of shares cater to diverse investor preferences based on return expectations and risk tolerance. Those seeking a steady income often choose preference shares, while those aiming for higher returns lean towards equity shares. Issuing both types of shares allows companies to diversify their funding sources. Equity shareholders are regarded as fractional owners, while preference shareholders lack voting rights but enjoy priority in receiving a fixed dividend rate before equity shareholders. However, in case of liquidation, the claims of preference shareholders are subordinate to those of the company's creditors and debenture holders. In essence, preference shareholders are compensated after settling the company's creditor claims during liquidation.

- **Mutual Funds**

Mutual Funds embody a collective investment approach where numerous individuals pool their funds to purchase shares and securities from various companies. In this approach, investors combine their resources in an investment house, where an asset manager utilizes the funds to invest in a diversified portfolio of company shares and debentures. Profits are subsequently distributed among investors based on their proportional investments. The fundamental concept of mutual funds is to mitigate the risk of significant losses by diversifying investments across multiple securities, as opposed to concentrating all funds in a single security. The pooled funds are denoted as Assets Under Management (AUM) and are overseen by the Asset Management Company (AMC). The underlying assets held by the funds constitute the portfolio, with each investor owning a share of it. Given that investors may lack the expertise to invest in various securities, gold, and real estate, AMC experts efficiently manage these tasks, ensuring economic and convenient management. In 1996, the Securities and Exchange Board (SEBI) regulated mutual funds in India, establishing a regulatory framework. Initially established as a government sector undertaking, mutual funds saw the participation of numerous private sectors after 1996. A mutual fund operates as a trust with a sponsor, trustees holding property for the benefit of unit holders, AMC managing funds, and a custodian securing the funds. Multiple categories of mutual funds exist, including equity mutual funds, mid-cap funds, small-cap funds, debt mutual funds, balanced funds, and tax savings funds.

- **Post Office Deposit**

Post Office Deposit stands as a well-established investment choice, widely favored by both small and medium-income groups in rural and urban areas throughout India. Initiating an account in the post office requires a minimal amount of Rs. 20. Non-cheque facility accounts mandate maintaining a minimum balance of Rs. 50, while those with cheque facility necessitate Rs. 500. All post office schemes provide tax benefits and are eligible for deductions under section 80C. Additional investment products offered by the post office encompass Time Deposit, featuring interest calculated quarterly and paid annually. As of April 1, 2014, interest rates stand at 8.40% for 1, 2, and 3-year accounts and 8.50% for 5-year accounts. The Monthly Income Account Scheme, boasting an interest rate of 8.40% per annum, permits a maximum investment of Rs 4.5 lakhs in a single account and Rs 9 lakhs in a joint account. This account is transferrable between post offices upon the account holder's request. Senior Citizen Savings Scheme (SCSS) accounts are accessible to individuals aged 60 or older and those aged 55 to 60 who have retired on superannuation or under VRS. The maturity period spans 5 years, with the account required to be opened within one month of receiving retirement benefits, not exceeding the benefits received.

- **Precious Metals**

Precious Metals, particularly gold, remain a globally significant and enduring investment. India, ranking as the largest consumer of gold, perceives it as a prestigious asset and a dependable investment, even during economic uncertainties. Gold investments take various forms, including jewellery, gold bars, coins, and Gold Exchange Traded Funds (ETFs), which blend features of stock and gold investments. These ETFs are tradable at market prices and available on diverse stock exchanges.

- **Sovereign Gold Bond (SGB)**

Sovereign Gold Bond presents an alternative form of gold investment, denominated in grams and issued by the Reserve Bank of India through the government. Serving as a substitute for holding physical gold, SGB involves bonds held in demat form on the books of the RBI, mitigating the risk of loss. SGB ensures pricing transparency, with investors guaranteed the maturity price and bond interest. In contrast to physical gold, SGB is exempt from making and wastage charges.

- **Insurance**

Insurance functions as protection against financial losses or risks in individuals' lives. Life insurance extends financial support to the insured's family in the event of the insured's demise, while general insurance safeguards against financial losses arising from accidents, theft, or damages. The insurance agreement between the insurance company and the insured stipulates that the insurer commits to pay a predetermined amount to the insured upon maturity or the occurrence of a specified event. Premiums may be paid monthly, quarterly, or annually, with the insurance amount sourced from collected premiums. Insurance aids the insured and their family during the maturity period, the insured person's death, or other events like critical illness. Various types of insurance policies exist, such as term insurance, whole life insurance, endowment insurance, money-back insurance, annuities or pension plans, unit-linked insurance plans, and child life insurance.

- **Real Estate**

Real estate encompasses land and any structures, water, trees, and the air above and below it. Involving the purchase or sale of land for residential or non-residential purposes, real estate covers residential houses, business spaces, offices, hotels, restaurants, theatres, retail outlets, industries, factories, and government buildings. The Indian real estate market, largely dominated by numerous small players, is in its nascent stages and lacks organization. Due to limited land availability and escalating demand for residential houses, real estate prices continue to rise. Despite offering attractive returns, real estate investments exhibit lower liquidity.

Savings and investment play pivotal roles in a nation's development. Investors are encouraged to seek knowledge from experts, attend government campaigns, peruse stock exchange news and articles, and consult stockbrokers to make well-informed decisions. The government's role is crucial, organizing programs for small investors to impart wisdom on wise and secure investment options. Furthermore, investors should be motivated to explore new avenues for enhanced income and returns while being assured of safety measures and accessible redressal forums. As the Indian economy advances, investor behavior and investment patterns undergo evolution, necessitating a thorough understanding and adaptation to these changes.

What does the MBTI Personality Test Entail?

The Myers-Briggs theory is an adaptation of Carl Gustav Jung's psychological types theory, providing valuable insights into understanding individual personalities (Jung 1957, p. 304). Central to the Myers-Briggs theory are four preferences, with the assumption that one preference from each pair always dominates, determining the primary preference and specific personality traits. Let's explore the four dichotomies used in MBTI personality types:

- **Extroversion and Introversion:** This pertains to an individual's disposition. Extroverts derive energy from the external world and prefer verbal communication. They express ideas through conversation, possess broad interests, and take initiative in both work and relationships. In contrast, Introverts find energy in the inner realm of thoughts, feelings, and ideas. They are more inclined towards their inner world, prefer written communication, reflect on ideas, and take initiative when something holds significance to them.
- **Sensing and Intuition**: This dichotomy relates to information processing, addressing how individuals mentally process information. In sensing, individuals gather information through their

five senses, focusing on facts and present realities. They draw careful conclusions, comprehend ideas, observe and recall specifics, and prefer applying theories through practical applications. On the other hand, intuitive individuals exhibit a rich imagination and verbal creativity. They quickly reach conclusions based on hunches, trust inspirations, and recall only a few specifics.

- **Thinking and Feeling**: This pertains to an individual's approach to decision-making. Decisions are rooted in logic and an objective analysis of cause and effect. Thinkers are analytical, rational, and adept at solving problems using logic. At times, they may be perceived as relentless. On the other hand, Feelers are empathetic and evaluate decisions based on how people respond to them. They strive for harmony and positive interactions, giving them a mild-mannered appearance.
- **Judging and Perceiving**: This dichotomy defines an individual's lifestyle. Those who prefer judging appreciate a planned and organized approach to life, working systematically, resolving matters, and seeking to avoid last-minute stress. Perceptive individuals, in contrast, adopt a flexible and spontaneous approach to life. They prefer to keep their options open, embrace change, and thrive on the energy derived from last-minute stress.

Report on the Investor Personality in India for 2022: Understanding Investor Behavior

The nation has experienced an unprecedented surge in the total number of investors over the past two years, with the quantity of De-mat accounts nearly doubling from 4.3 crores to 9.65 crores in the last 24 months. The mutual fund industry has also witnessed substantial growth, leading to a 50% increase in retail investors. This surge in investor numbers can be attributed to the wealth of information available on the internet and various social platforms, enabling investors to become more informed and discerning. The accessibility of a diverse range of financial products and the facilitation of investing by fintech companies have further contributed to this trend. ET Money, had conducted extensive research into investor psychology to understand the emotions shaping their actions, given the significant shifts in the global investing community.

1st Insight: A Nation of "Strategizers"

ET Money's assessment of "Investor Personality" on its website, validated by science and drawing on over 30 years of research in psychology, behavioral science, and finance, categorizes investors into eight personality types.

These types include:

- **Strategizer:** someone responding prudently to measured risks.
- **Explorer:** a quick-witted and often overconfident risk-taker.
- **Seeker:** a curious and cautious risk-taker.
- **Adventurer:** seeking investment thrill through bold risks.
- **Analyzer:** a meticulous risk-taker who analyses data.
- **Researcher:** a risk-taker with caution and security in mind.
- **Protector:** characterized by modesty, vigilance, and a desire for safety
- **Observer:** preferring to delay actions for an extended period.

Our findings reveal that over 35% of Indian investors fall into the "Strategizer" category, demonstrating a propensity to invest in excess wealth and take calculated risks. Following closely are 'Explorers' (31%), characterized by quick and decisive actions. Together, these personality types constitute two-thirds of the country's investor base.

2nd Insight: Indian Investors Possess Excellent Financial Acumen

Analysing mean scores of diverse investor personas, we observed that Indians have a financial competence score of 70 out of 100. This suggests a strong understanding of financial principles among most investors. However, even with greater financial knowledge, some investors may act recklessly, and a certain level of overconfidence is noted, particularly among investors around the age of thirty.

3rd Insight: Investors Are Choosing Smarter Tactical Courses of Action

Investors with high financial expertise intentionally make significant financial investments during market downturns, complementing their ongoing SIPs. This strategic approach aids investors in reaching their goals more expeditiously. Conversely, investors with lower financial mastery scores adhere to their SIPs, demonstrating discipline and consistent investment behavior.

4th Insight: As Investors Age, Their Personalities Change Permanently

Investors' investing practices evolve as they gain expertise. The proportion of "Seekers" (perceptive and willing to learn) decreases among those over 45, while "Adventurers" (risk-takers) become more prominent. However, the share of "Strategizers" (calculated risk-takers) and "Researchers" (cautious risk-takers) increases in the older age group, reflecting positive signs of growth in the Indian investment base.

5th Insight: Women Make Better Investment Decisions

An analysis reveals that women, known for their organizational skills, exhibit better investment decision-making. Approximately 70% of female investors opt for cautious risks ("Researcher") or measured risks ("Strategizer"). This insight suggests that consulting with women in financial decisions may be beneficial for men.

6th Insight: A Greater Than Average Tolerance for Risk

Examining the mean score for risk tolerance, we found that Indian investors have a risk tolerance score ranging from 52 to 81, with a mean value of 63. This indicates that most investors are comfortable taking measured risks, potentially advantageous for long-term investments.

7th Insight: Many Investors Ignore Their Risk Profile

While the study indicates that Indian investors are willing to accept risks, a significant number fail to consider their risk tolerance before making investments. Investors with risk tolerance scores between 20 and 40, suggesting lower risk tolerance, maintain an equity allocation of about 63%. This discrepancy may lead to costly mistakes during market declines, highlighting the need for investors to align their investments with their risk profiles.

8th Insight: The Allure of Returns Takes Centre Stage

One of the gravest financial mistakes individuals can make is diving into stock investments without adequately considering the associated risks. Driven by the allure of substantial profits, some may undertake more risk than they can effectively manage. The recent economic landscape, marked by a 15-year low in fixed deposit rates over the past two years and a thriving stock market—Nifty 50 TRI yielding 16% and 25% in 2020 and 2021, respectively—may have further fuelled such behavior. Prolonged bullish trends can tempt investors to prioritize profit maximization over risk management.

Risk Management is Imperative

Opting for stock investments is a prudent decision for those seeking long-term gains, as it yields profits that outpace inflation and facilitates capital growth. It is crucial to align stock allocation with one's risk tolerance. Leveraging ET Money Genius, investors can optimize their portfolio returns by determining an appropriate level of risk. The Genius tool recommends portfolios based on an individual's risk tolerance and other criteria, employing proven asset allocation and rebalancing strategies to maximize returns in tandem with risk tolerance.

Findings of the Study

The key discoveries from the current research are as follows:

Through an examination of respondents' personality traits, it was observed that a greater percentage of investors leaned towards introversion. Additionally, the scores for sensing personalities surpassed those for intuition, feelers outnumbered thinkers, and perceivers scored higher than judgers. The study identified correlations between all eight personality traits (Introversion, Sensing, Intuition, Thinking, Feeling, Judging, and Perceiving) and investors' loss aversion bias. Notably, significant correlations were found in Extroversion, Feeling, and Judging personalities (positively), while Intuition, Thinking, and Perceiving showed negative correlations.

Conclusion

The primary aim of this study was to investigate the connection between investors' personality traits and their loss aversion bias. The results of the data analysis revealed a noteworthy relationship between six out of the eight personality traits and the presence of a loss aversion bias. After analyzing the data and rejecting all three hypotheses, it is concluded that a significant distinction exists among personality types, including overconfidence bias. This study serves as a valuable resource for individual investors, enabling them to comprehend their distinct personality traits. By evaluating these traits, investors can introspect on how their decisions may be influenced positively or negatively in the realm of investments. Furthermore, the study offers insights for investors to assess loss aversion and behavioral biases and their impact on investment decisions. Financial advisors can play a crucial role in assisting their clients by evaluating their personalities and behavioral biases, ultimately aiding them in making more informed and improved investment decisions.

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