The Behavioral Relationship Between Personality Type and Investor Risk Preferences

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Abstract

Financial risk tolerance plays a key role in financial decisions (Grable & Lytton, 1999) and involves "the maximum amount of uncertainty that someone is willing to accept when making a financial decision" (Grable, 2000, p. 625). It is subjective, revolving around "the level of financial risk that an individual prefers to accept, in other words a feeling toward financial risk" (Van de Venter, Michayluk, & Davey, 2012, p. 795.) Financial risk tolerance has been conceptualized as part of an individual's personality and, as such, remains relatively stable across time and situations (Nicholson, et al., 2005) but is still influenced by situational factors (Levav, & Argo, 2010) and major life events (Van de Venter et al.).

This study investigates the relationship of an individual investor's risk tolerance, measured by Grable and Lytton's (1999) Risk Tolerance Measure with an individual's personality type as measured by the Myers-Briggs Type Indicator (MBTI; Myers & McCaulley, 1985; 2009) and NEO-Personality Inventory (NEO-PI-R; McCrae & Costa, 1992; 2010).

In this study, a sample of 634 participants completed the MBTI and the Neo-PI-R an inventory that measures the Big Five personality traits of Neuroticism, Extroversion, Openness, Agreeableness and Conscientiousness (Costa, & McCrae, 1992). The results indicate a significant positive relationship of risk tolerance with MBTI factors of Extroversion, Intuitive, and Perceiving and a significant negative relationship risk tolerance with MBTI of Introversion, Sensing, and Judging. The following NEO factors are associated with a positive relationship (higher) with the risk tolerance measure: Extroversion, Agreeableness, and Openness. Only the Neuroticism NEO factor showed a higher (negative) relationship with the risk tolerance measure. These results provide important information that profoundly adds to the body of literature on risk tolerance and personality type. This study also provides practical knowledge that will allow financial planning professionals to customize their advice to their investing clients based on the client's level of risk tolerance and personality type.