

EXPLICATING THE ROLE OF PERSONALITY TRAITS, FINANCIAL KNOWLEDGE, AND LOSS AVERSION ON THE RATIONAL DECISION-MAKING STYLE IN STOCK INVESTMENTS

Mr. YUVARAJA N¹ and Dr. SWAMY PERUMANDLA^{2*}

¹VIT Business School, Vellore Institute of Technology, Vellore, Tamil Nadu, India.

Email: yuvarajaphd@gmail.com.

^{2*}Indian Institute of Management, Nagpur, Maharashtra, India. Email: swamy@iimnagpur.ac.in.

Abstract

Researchers recognize the presence of both rational and irrational decision-making in investments; most behavioral studies in finance focus on the irrational investment decision-making of investors, and studies focusing on rational decision-making in investments are limited. The purpose of this study is to explicate the role of personality traits, financial knowledge, and loss aversion rational decision-making style in stock investments. Data was collected from 451 stock investors. A structural equation model is constructed using SmartPLS to analyze relationships and test hypotheses. Path analysis, moderation analysis, and mediation analysis techniques are employed. The study results revealed that openness to experience, conscientiousness, extraversion, agreeableness, and financial knowledge positively influenced the rational decision-making style in stock investments. whereas neuroticism has a negative influence. Financial knowledge reduced the negative impact of neuroticism. Loss aversion does not mediate these relationships, indicating both personality traits and loss aversion have direct, independent impacts on investors' rational decision-making style in stock investments. This study provides a framework for understanding rational decision-making style in stock investments, which can be applied to diverse demographics in future research. The results underscore the significance of targeted financial education programs in enhancing the financial knowledge of stock investors.

Keywords: Personality traits; Big five personality traits; Financial knowledge; Loss aversion; Investment decision; Rational decision-making style; Stock investor.

1. INTRODUCTION

Investment plays a crucial role in ensuring the financial security of individuals; however, the investment avenues are filled with uncertainties, and investors have to make a decision on their investments. Earlier studies indicated that psychological factors were influencing the investment decision-making of investors (Bakar and Yi, 2016); personality traits (Rao and Lakkol, 2022), and behavioral biases (Badola et al., 2023; Mittal, 2022) in particular have proven instrumental in understanding the complex processes behind individuals' investment decision-making. Loss aversion bias has gained extensive attention among researchers in examining the investment decision-making of individuals (Yang, 2019; Lee and Veld-Merkoulova, 2016; Willman et al., 2002; Khan, 2017; Yan et al., 2020). Though personality traits were found to determine individuals's susceptibility to biases (Rzeszutek et al., 2015), limited studies have been conducted to establish a relationship between personality traits and loss aversion bias in the investment decision-making of stock investors. Despite the influence of these psychological factors on investment decisions, scholars in earlier literature showcased the role played by financial knowledge in improving financial decision-making (Cameron et al., 2014; Skagerlund et al., 2018).

The influence of an individual's behavior on financial decision making has led to the development of the field of "behavioral finance" (Raza, 2014). Researchers in finance

recognize the presence of both rational and irrational behavior in investments (Mittal, 2022; Rahman and Gan, 2020; Davis et al., 2015; Kimeu et al., 2016). But most behavioural studies in finance focus on the irrational investment decision-making of investors, and studies focusing on the rational decision-making in investments are limited (Kumar and Goyal, 2016; Siraji et al., 2021; Lee et al., 2004; Brahmana et al., 2012).

This study aims to fill these gaps by investigating the role played by personality traits, financial knowledge, and loss aversion in the rational decision-making style of stock investors in their investments.

2. REVIEW OF LITERATURE

2.1. Personality and Investment Decisions

According to Rao and Lakkol (2022), understanding the role of personality traits in investment choices has been crucial in behavioral finance research. Earlier research established links between personality and investment decisions (Edwards, 1961; Oehler et al. 2018; Baker et al., 2019; Rao and Lakkol, 2022). Individuals with certain personality types tend to make investments (Gambetti and Giusberti, 2019; Jiang et al., 2023).

There were several methods available to measure and study the personality of an individual. The Big Five personality trait model (Goldberg, 1990; Costa and McCrae, 1992) in particular is found to be stable, widely accepted, and currently one of the most popular models for studying personality (Cobb-Clark and Schurer, 2012; Soldz and Vaillant, 1999). Several studies used the Big Five personality traits to predict investment behavior, as follows: Rizvi and Fatima (2015) found the relationships of openness, conscientiousness, extraversion, agreeableness, and neuroticism with investor behavior. Oehler et al. (2018) found that extroverts decided to offer higher prices for assets. According to Lauter et al. (2023), conscientiousness is positively correlated with informed investment decisions. Jiang et al. (2023) indicated openness and neuroticism's explanatory power in stock market investments. Lai (2019) observed that people with higher levels of neuroticism frequently had unfavorable attitudes towards stock investments. These studies underscore personality's role in investor behavior.

2.2. Personality traits and rational decision-making style

According to Driver (1979) Decision making style can be defined as “a habitual pattern individuals use in decision making”. According to Harren (1979) it is a “characteristic mode of perceiving and responding to decision-making tasks”. Driver et. al (1990) defined it as “amount of information gathered and number of alternatives considered when making a decision”. Rational style in decision-making has been characterized by the process of collecting and analyzing information and choosing the right course of action after weighing the alternative choices available to make sound decisions (Scott and Bruce, 1995). Indina and Morosanova (2009) discovered that rational decision-makers possess distinct personality traits. There are limited studies conducted on influence of personality traits on rational decision-making style in investments but there are several studies conducted on non-investment decisions and it has yielded mixed results which are discussed as follows. Riaz et al. (2012) found conscientiousness trait's association with rational decision-making style. Hirsch et al. (2016) established that, conscientiousness and openness to experience as drivers of rational thinking, potentially extending to real-world rational decisions. El Othman (2020) found that conscientiousness, extraversion, agreeableness, and neuroticism (except openness to experience) influenced rational decision-making style. Bayram and Aydemir (2017) found openness,

conscientiousness, extraversion, and agreeableness significantly correlated with rational decisions; only neuroticism lacked a substantial correlation with rational decisions in their study. Based on the discussed literature, following hypotheses for the study were formulated:

H1: Openness to experience has an impact on rational decision-making style in stock investments.

H2: Conscientiousness has an effect on rational decision-making style in stock investments

H3: Extraversion has an influence on rational decision-making style in stock investments

H4: Agreeableness has an effect on rational decision-making style in stock investments

H5: Neuroticism has an impact on rational decision-making style in stock investments

2.3. Financial knowledge and investment decisions

Financial knowledge denotes a person's ability to understand financial concepts and apply them to sound prudent financial choices (Atkinson and Messy, 2012). Financial knowledge was essential for making rational and profitable financial decisions (Cameron et al., 2014; Skagerlund et al., 2018).

Earlier literature has demonstrated the significant impact of financial knowledge on individual financial decision-making (Cameron et al., 2014; Mouna and Anis, 2017; Skagerlund et al., 2018; Douissa, 2019; Amin et al., 2021). These findings, suggested that, apart from positive impact of financial knowledge in investment decisions financial knowledge could moderate the impact of personality on rational decision-making style in stock investments. Therefore, beyond its direct impact, the moderating role of financial knowledge in the relationship between personality traits and rational decision-making style in stock investment needed exploration. Based on this, the following hypotheses were:

H6: Financial knowledge has a positive impact on rational decision-making style in stock investments

H7: Financial knowledge moderates the association between openness to experience and rational decision-making style in stock investments

H8: Financial knowledge moderates the relationship between conscientiousness and rational decision-making style in stock investments

H9: Financial knowledge moderates the relationship between extraversion and rational decision-making style in stock investments

H10: Financial knowledge moderates the association between agreeableness and rational decision-making style in stock investments

H11: Financial knowledge moderates the relationship between neuroticism and rational decision-making style in stock investments

2.4. Loss aversion

Loss aversion was a psychological phenomenon where losses were felt more acutely than gains (Kahneman & Tversky, 1979; Tversky & Kahneman, 1991). According to Rzeszutek et al. (2015), personality traits could influence susceptibility to behavioral biases. So, understanding personality along with loss aversion bias was crucial for understanding rational decision-making style of retail stock investors (Durand et al. 2019). In prior research, researchers have attempted to understand the link between personality and loss aversion (Obschonka et al. 2018; Durand et al. 2019; Aren et al. 2021; Blake et al. 2021) and financial knowledge and loss

aversion (Blake et al. 2021) which are discussed as follows. Obschonka et al. (2018) found favourable relationship between neuroticism and loss aversion. Durand et al. (2019) found that extraversion decreases myopic loss aversion, while neuroticism was associated with it positively. Whreas, Aren et al. (2021) associated conscientiousness and agreeableness with loss aversion. Blake et al. (2021) found that financial knowledge lowered loss aversion.

Scholars in extant literature have established a relationship between loss aversion and investment decisions (Kahneman & Tversky, 1979; Tversky & Kahneman, 1991; Cherono et al., 2019; Aren et al., 2021; Hunguru et al., 2020). Cherono et al. (2019) found that loss aversion significantly affected the equity market reaction. Additionally, the Aren et al. (2021) study demonstrated that loss aversion was negatively correlated with risky investment intention. Furthermore, Hunguru et al. (2020) discovered loss aversion as one of the important factors influencing investment decisions. According to Kahneman & Tversky (1979) and Tversky & Kahneman (1991), loss aversion can hinder investors' ability to acknowledge and accept losses, leading to suboptimal or less rational investment decisions. This suggested the potential presence of a negative relationship between loss aversion and rational decision-making in stock investments. As both personality traits and loss aversion were influencing investment decisions and personality is associated with loss aversion, this study aim to explore whether both personality traits and loss aversion are affecting rational decision-making styles in stock investments independently or whether loss aversion mediates the association between personality and rational investment decision-making style in stock investments. Based on this, our study proposed the following hypotheses:

H12: Openness to experience has an impact on loss aversion.

H13: Conscientiousness has an effect on loss aversion.

H14: Extraversion has an influence on loss aversion.

H15: Agreeableness has an effect on loss aversion.

H16: Neuroticism has an impact on loss aversion.

H17: Financial knowledge has a negative impact on loss aversion.

H18: Loss aversion mediates the relationship between openness to experience and rational decision-making style in stock investments

H19: Loss aversion mediates the relationship between conscientiousness and rational decision-making style in stock investments

H20: Loss aversion mediates the relationship between extraversion and rational decision-making style in stock investments

H21: Loss aversion mediates the relationship between agreeableness and rational decision-making style in stock investments

H22: Loss aversion mediates the relationship between neuroticism and rational decision-making style in stock investments

H23: Loss aversion is having an impact on rational decision-making style in stock investments

The proposed conceptual model to test hypotheses of the study has been depicted in Figure 1.

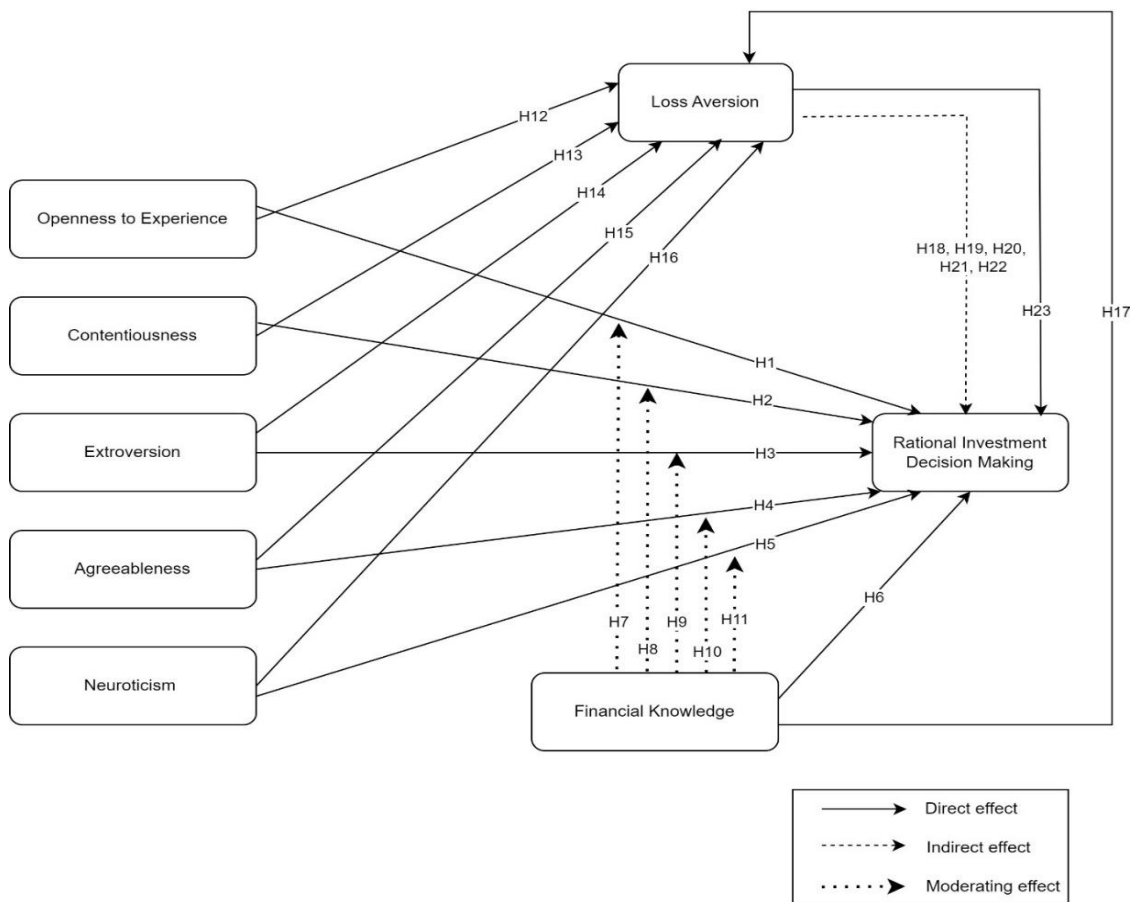


Figure 1: Conceptual model

Source: Authors’ own Conceptualization

3. METHODOLOGY

The primary objective of the study was to explore associations among variables such as personality traits, financial knowledge, loss aversion, and rational decision-making style in stock investments. Hence, to address this goal, this study employed a quantitative survey approach by utilizing a questionnaire technique (Saunders et al. 2009). Purposive sampling technique was employed, and the data for the study was collected from stock investors in India.

To collect data, a self-administered questionnaire was adapted from previous research (as shown in Table I) to measure the variables of the study. On September 20, 2023, a questionnaire covering demographic profiles and study variables was sent to 857 Indian stock investors. Questions used a 5-point Likert scale, ranging from strongly disagree (1) to strongly agree (5). The study received 467 responses, and after discarding 16 invalid responses, 451 responses were considered for analysis. The demographic profile of the respondents is presented in Table II.

Table I: Measurement scales

S.No	Constructs	Scale adapted
1.	Big personality traits	Mayfield et al. (2008).
2.	financial knowledge	Rai et al. (2019)
3.	loss aversion	Aren et al. (2021)
4.	Rational decision making behavior of retail stock investors	Katherine et al. (2016).

Table II: Demographic profile

Particulars	Frequency	Percent
Gender		
Male	233	51.7
Female	218	48.3
Total	451	100.0
Age		
< 20 Years	6	1.3
21-30 Years	124	27.5
31-40 Years	114	25.3
40-50 Years	121	26.8
51-60 Years	78	17.3
> 60 Years	8	1.8
Total	451	100
Marital Status		
Married	184	40.8
Unmarried	264	58.5
Others	3	0.7
Total	451	100.0
Annual Income		
less than 3,00,000	167	37.0
3,00,001 – 5,00,000	140	31.0
5,00,001 – 10,00,000	99	22.0
above 10,00,000	45	10.0
Total	451	100.0
Education		
Secondary education	19	4.2
Graduation	239	53.0
Post-Graduation and above	193	42.8
Total	451	100.0

Source: Primary data

3.1. Data analysis

Following data collection, the data was entered into a spreadsheet for further processing. Reverse-coded items were meticulously transformed for precision. The constructs used in the study and its abbreviations are presented in Table III.

Table III Abbreviations

Constructs	Abbreviations
Openness to experience	OPE
Conscientiousness	CON
Extraversion	EXT
Agreeableness	AGR
Neuroticism	NEU
Financial Knowledge	FK
Loss Aversion	LA
Rational decision making behavior of retail stock investors	RID

Source: Authors' own conceptualization

Data analysis was performed using SmartPLS 3. The scale's reliability and validity were established to ensure the quality of the data. Then the hypotheses of the study were tested using path, mediation, and moderation analyses.

4. RESULTS

4.1. Reliability and validity

To ensure measurement scale reliability, Cronbach's alpha and composite reliability scores were estimated. For Cronbach's alpha, a value of 0.7 or higher was deemed reliable (Peterson, 1994). The study data exhibits Cronbach's alpha values ranging from 0.707 to 0.876 for all constructs (Table IV). Additionally, composite reliability values ranged between 0.819 and 0.911 (Table IV), which exceeded the minimum required value of 0.7 advised by Hair et al. (2017), affirming scale reliability and internal consistency.

Convergent validity was estimated using factor loadings and Average Variance Extracted (AVE) values. Factor loadings above 0.5 were considered acceptable for demonstrating convergent validity (Hulland, 1999; Truong and McColl, 2011). The results indicated that all factor loadings exceed this threshold, consistently measuring above 0.7. The AVE values of all constructs (Table IV) exceeded the minimum required value of 0.5 (Fornell and Larcker, 1981; Hu and Bentler, 2009). Both factor loadings and AVE values signify the robust convergent validity of study constructs.

Discriminant validity was confirmed when square roots of AVEs exceeded corresponding correlation coefficients among inter-constructs (Fornell and Larcker, 1981; Hu and Bentler, 2009). Table IV depicts that the lowest square root of AVE is 0.755, surpassing the highest correlation coefficient of 0.652. validating discriminant validity.

Table IV Reliability and Validity measures

	CA	CR	AVE	AGR	CON	EXT	FK	LA	NEU	OPE	RID
AGR	0.809	0.875	0.636	0.797							
CON	0.881	0.914	0.682	0.652	0.826						
EXT	0.852	0.900	0.693	0.475	0.530	0.833					
FK	0.838	0.886	0.609	0.382	0.517	0.388	0.781				
LA	0.756	0.845	0.577	-0.398	-0.381	-0.367	-0.440	0.760			
NEU	0.750	0.841	0.570	-0.164	-0.260	-0.239	-0.329	0.304	0.755		
OPE	0.854	0.895	0.631	0.458	0.559	0.511	0.523	-0.446	-0.251	0.794	
RID	0.855	0.896	0.635	0.526	0.638	0.514	0.664	-0.492	-0.393	0.575	0.797

Abbreviations: CA: Cronbach's Alpha; CR: Composite Reliability; AVE: Average Variance Extracted.

Square root values of AVEs are shown in bold faces in the diagonal

Source: Author's calculation

4.2. Hypotheses testing

A structural equation model was constructed using SmartPLS 3 (Figure 2), and hypotheses of the study was tested using path analysis, moderation analysis, and mediation analysis.

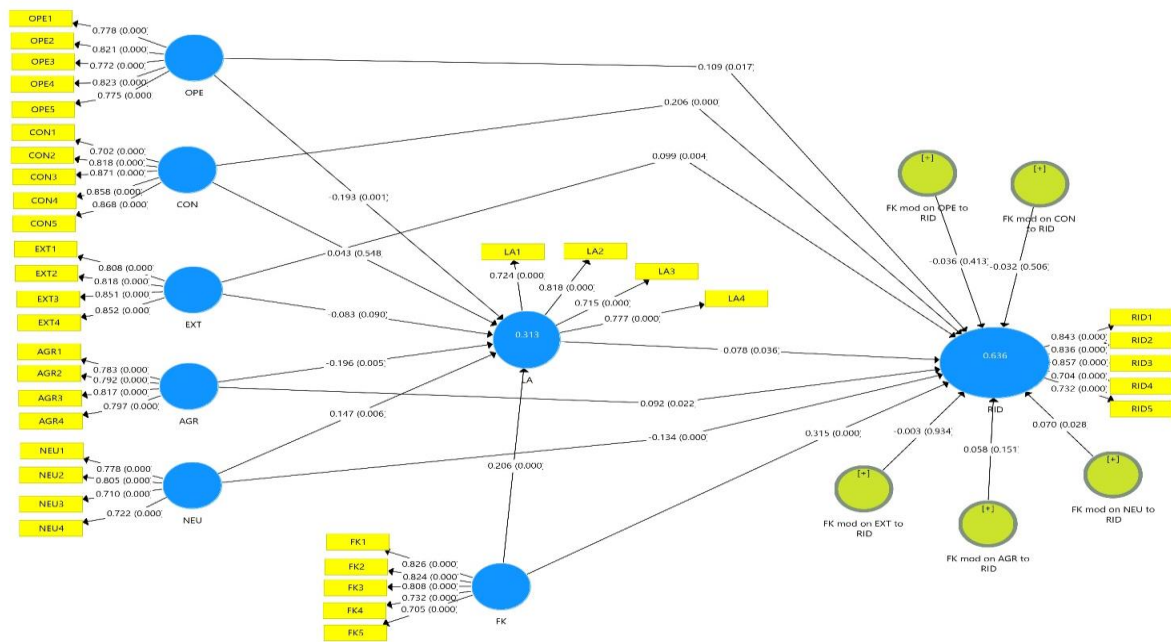


Figure 2: Structural equation model with path coefficients and p values

Source: authors calculation

4.2.1. Direct effects

The direct effects results have been presented in Table V, which depicts direct relationships between the variables. The analysis of the results reveals that OPE, CON, EXT, and AGR have a significant and positive impact on RID. However, NEU have a significant and negative impact on RID. On the other hand, demonstrated a significant and strong positive impact on RID. Thus, hypotheses H1, H2, H3, H4, H5, and H6 were accepted.

OPE and AGR have a significant negative impact on LA. Whereas NEU has a significant positive impact on LA. However, CON and EXT does not have a significant impact on RID, Moreover, FK had a significant and strong negative impact on LA. Furthermore, LA did not significantly influence RID. Thus, H12, H15, H16, H17, and H23 were accepted, while H13 and H14 were rejected.

Table V: Direct effects

Hypothesis	Path	Coefficient	T Statistics	P values	Conclusion
H1	OPE -> RID	0.109	2.395	0.017	Accepted
H2	CON -> RID	0.206	4.018	0.000	Accepted
H3	EXT -> RID	0.099	2.899	0.004	Accepted
H4	AGR -> RID	0.092	2.288	0.022	Accepted
H5	NEU -> RID	-0.134	3.995	0.000	Accepted
H6	FK -> RID	0.315	8.269	0.000	Accepted
H12	OPE -> LA	-0.193	3.237	0.001	Accepted
H13	CON -> LA	0.043	0.601	0.548	Rejected
H14	EXT -> LA	-0.083	1.699	0.090	Rejected
H15	AGR -> LA	-0.196	2.800	0.005	Accepted
H16	NEU -> LA	0.147	2.761	0.006	Accepted
H17	FK -> LA	-0.206	4.026	0.000	Accepted
H23	LA -> RID	-0.078	2.098	0.036	Accepted

Source: Author's calculation

4.2.2. Moderation analysis

The moderation analysis (Table VI) results indicated that the moderation effect of FK on the relationship between OPE and RID, CON and RID, EXT and RID, and AGR and RID, were not significant, which led to the rejection of hypotheses H7, H8, H9, and H10. However, the moderation effect of FK on the relationship between NEU and RID was significant, leading to the acceptance of hypothesis H11. It should be noted that the negative path coefficient (-0.134) of NEU becomes positive (0.070) when it is moderated by FK.

Table VI Moderation effects

Hypothesis	Path	Coefficient	T Statistics	P values	Conclusion
H7	FK Mod on OPE to RID	-0.036	0.819	0.413	Rejected
H8	FK Mod on CON to RID	-0.032	0.665	0.506	Rejected
H9	FK Mod on EXT to RID	-0.003	0.082	0.934	Rejected
H10	FK Mod on AGR to RID	0.058	1.436	0.151	Rejected
H11	FK Mod on NEU to RID	0.070	2.195	0.028	Accepted

Mod = Moderation

Source: Author's calculation

4.2.3. Mediation effects

The mediation analysis results (Table VII) indicated that none of the personality traits (that OPE, CON, EXT, AGR, and NEU) exerted an impact on RID and LA. In other words, there is no significant mediation effect of loss aversion in the relationship between personality traits and rational decision-making style in stock investments, as the p values of all indirect effects are greater than 0.05. Thus, hypotheses H18, H19, H20, H21, and H22 were rejected.

Table VII: Mediation effects

Direct effects					Indirect effects				
Hypothesis	Path	Coefficient	T Statistics	P values	Path	Coefficient	T Statistics	P values	Conclusion
H18	OPE -> RID	0.109	2.395	0.017	OPE -> LA -> RID	0.015	1.634	0.102	Rejected
H19	CON -> RID	0.206	4.018	0.000	CON -> LA -> RID	-0.003	0.530	0.596	Rejected
H20	EXT -> RID	0.099	2.899	0.004	EXT -> LA -> RID	0.006	1.176	0.240	Rejected
H21	AGR -> RID	0.092	2.288	0.022	AGR -> LA -> RID	0.015	1.670	0.095	Rejected
H22	NEU -> RID	-0.134	3.995	0.000	NEU -> LA -> RID	-0.011	1.526	0.127	Rejected

Source: Author's calculation

5. DISCUSSION

The findings of the study suggested that all five Big Five traits significantly influenced rational decision-making style in stock investments. These results aligned with the findings of earlier research by Rizvi and Fatima (2015), reinforcing the link between personality traits and investor decision-making. Individuals high in openness to experience trait were more curious and open-minded. They were likely to actively seek out and explore new information and ideas, like market information, and market trends (Tauni et al., 2015). This increased information-seeking behavior might lead to a better understanding of investment opportunities and risks, making them to follow rational decision-making style in stock investments. Conscientious individuals are known for their self-discipline, organization, and goal-setting abilities. (Demulier et al., 2013). So, investors with this trait were likely to approach investment decisions with careful planning and attention to detail. This disciplined approach could help

investors stick to a well-thought-out investment strategy and avoid impulsive decisions driven by short-term market fluctuations or emotional reactions. This finding was aligned with the findings of Lauter et al. (2023). Extraverted individuals were often outgoing, sociable, and seek interactions with others. In the context of investing, this trait might lead them to actively seek information from various sources, such as financial news, experts, and peers (Pompian and Longo, 2004). Their nature to engage in social interactions could provide them with a broader range of perspectives and insights, which might contribute to showcasing a more informed, rational decision-making style in stock investments. Agreeableness individuals tend to value cooperation and harmony in their interactions with others. In the context of investing, this trait may lead investors to seek advice and collaborate with financial advisors or other market experts (Tauni et al., 2020). Engaging in collaborative decision-making could help them gain valuable insights and consider various perspectives before making investment choices. And also, agreeable individuals were often receptive to feedback and suggestions (Hunter and Cushenbery, 2015). When it comes to investments, they might be open to constructive criticism and learn from others' experiences. This willingness to listen and learn could lead to a more informed and rational approach to decision-making in stock investments. The neurotic trait has a strong negative impact on rational decision-making style in stock investments. Neurotic individuals tend to experience higher levels of emotional distress, anxiety, and worry. When faced with limited information or uncertain market conditions, they may be more prone to overreacting to market news or events. This could negatively affect their rational decision-making in stock investments, like buying into market hype without proper analysis. This finding was also consistent with research by Lai (2019), which found that people with higher levels of neuroticism frequently have unfavorable attitudes towards stock investments.

The study results indicated that financial knowledge has a significant positive impact on rational decision-making style in stock investments. Investors with higher financial knowledge possessed a deeper understanding of financial concepts, investment instruments, and market dynamics. This knowledge empowered them to undertake well-informed and rational decision-making in their stock investments, reducing the likelihood of impulsive or emotional choices. This finding was supported by previous research, such as the studies conducted by Amin et al. (2021), Cameron et al. (2014), and Skagerlund et al. (2018), which all established a positive relationship between financial knowledge and the financial decisions of individuals. However, an interesting finding from the current study was that the negative impact of neuroticism on rational decision-making style in stock investments could be moderated by financial knowledge. In other words, investors who were in neuroticism trait but possessed a good level of financial knowledge were still capable of undertaking a rational approach in investment decisions, despite their tendency towards negative emotions. According to a study conducted by Amin et al. (2021), training and educational programs enhanced individuals' financial knowledge. This improved financial knowledge, in turn, could have a positive influence on rational decision-making in stock investments.

The significant negative association between openness to experience and loss aversion might be due to the investors willingness to seek new experiences; this could lead to investors in this trait less focussed on potential losses and more focusses on making possibilities and new experiences. The impact of conscientiousness and extraversion on loss aversion in investment decisions is insignificant because conscientious individuals were known for their disciplined, organised, and properly plan their investments to make rational choices so conscientiousness trait predicted rational decision-making style in stock investments and does not predict loss aversion. Extraverted individuals were generally outgoing, adventurous, and had ability to take risks (Vestewig, 1977). Their risk-taking tendencies might imply a higher tolerance for losses.

This could be the reason that extraversion trait did not predict loss aversion. Investors with agreeableness trait, value cooperation and harmony (Tauni et al., 2020). So, they might often seek advice and collaborate with financial advisors or other market experts. This may enable them to understand that potential losses were a natural part of investment and something they must be prepared for. This could be the reason for negative association between agreeableness trait and loss aversion. Neurotic investors tended to exhibit high degree of loss aversion likely due to their trait characteristics of emotional distress, anxiety, and worry. This finding aligns with the studies of Obschonka et al. (2018) and Durand et al. (2019). Financial knowledge has an inverse relationship with loss aversion and supported the findings of Blake et al. (2021). Financial knowledge could help individuals understand the inherent risks and potential losses associated with any investment. This awareness could lead them to be more realistic about expectations and less susceptible to overestimating potential gains, potentially reducing their overall aversion to losses. The study results indicate that loss aversion have a significant negative impact on rational decision making style in stock investments which indicated that loss averse investors tended to demonstrate less rational decision-making style in stock investments Loss averse investors prioritize avoiding losses even when the potential gain outweighs the potential loss, leading to missed opportunities and showing less rational decision-making style in stock investments Moreover, loss aversion does not mediate the relationship between any of the personality traits and the rational decision-making style in stock investments, nor does it mediate the relationship between financial knowledge and the rational decision-making style in stock investments. This indicates that personality traits and financial knowledge have independent significant impacts on the rational decision-making style in stock investments. The reasons behind these results could be that each personality trait and financial knowledge directly shape investment decisions, irrespective of an individual's aversion to loss. As there are a limited number of studies conducted on these relationships, future studies can be conducted to confirm these findings.

6. IMPLICATIONS OF THE STUDY

Many behavioral finance studies focus primarily on examining investor behavioral biases. This study highlighted the need to explore additional behavioral factors, such as personality traits, that influence investors' behavior.

According to Peterson and Murtha (2010), identifying influential traits would aid in making informed investment choices. Investment advisors and wealth managers could utilize this study's insights to tailor investment strategies according to their clients' personality traits, leading to increased engagement and satisfaction. Recognizing the link between neuroticism and loss aversion could guide advisors towards recommending lower-risk investments. Neurotic individual investors could significantly benefit from improving their financial knowledge through financial education, which could enhance neurotic investors' ability to improve rational decision-making style in their investments.

7. CONCLUSION

This study highlights the significant influence of all five Big Five personality traits on the rational decision-making style in stock investments, aligning with prior research. Except neuroticism all other traits had a favorable impact on the rational decision-making style in stock investments. Financial knowledge emerged as a crucial determinant of rational decision-making style in stock investments, and it mitigated the negative impact of neuroticism. While openness to experience and agreeableness displayed a negative correlation with loss aversion,



neuroticism has a positive impact. Conscientiousness and extraversion did not exhibit significant associations positive with loss aversion. Furthermore, loss aversion has a negative impact on rational decision-making style in stock investments. Loss aversion did not mediate the relationship between any of the personality traits and rational decision-making style in stock investments, indicating both personality traits and loss aversion had direct, independent impacts on investors' rational decision-making style in stock investments.

8. LIMITATIONS & FUTURE DIRECTIONS

This study acknowledges limitations that warrant consideration. This study focussed on India, might limit the generalizability of the findings. Diversifying samples by age, culture, location, and other demographic factors would enhance the generalizability of findings. Integrating neuroscientific techniques to assess neural mechanisms, underlying traits, and decisions could yield valuable insights. Exploring the impact of external factors like macroeconomics on investor decision making can offer a holistic perspective. This study provides a comprehensive understanding of the rational decision-making style in stock investments, which can serve as a foundation for future studies to explore its applicability across diverse demographic groups and locations.

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