

**PERSONALITY TRAITS AND FINANCIAL RISK TOLERANCE: THE
MEDIATING ROLE OF INVESTMENT EXPERIENCE AMONG INDIAN
INVESTORS**

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Abstract

This study examines the relationship between personality traits and financial risk tolerance among Indian individual investors, with particular emphasis on the mediating role of investment experience. Grounded in behavioural finance theory and the Five-Factor Model of personality, the study seeks to understand how psychological characteristics shape investors' willingness to undertake financial risk in an emerging market context.

Primary data were collected through a cross-sectional survey of 380 Indian retail investors using a structured questionnaire. Personality traits were measured using the Big Five Personality Inventory, while financial risk tolerance was assessed using a standardized Financial Risk Tolerance Scale. Investment experience was incorporated as a mediating variable. The data were analyzed using correlation analysis and Structural Equation Modelling (SEM) to examine both direct and indirect relationships among the constructs.

The findings reveal that extraversion and openness to experience have a significant positive influence on financial risk tolerance, whereas neuroticism exhibits a significant negative relationship. Conscientiousness and agreeableness show weaker and statistically insignificant direct effects. Importantly, investment experience partially mediates the relationship between personality traits and financial risk tolerance, indicating that experiential learning enhances investors' ability to manage financial risk.

The study offers important implications for behavioural finance literature, investor profiling, and financial advisory practices. By providing empirical evidence from the Indian market, the findings contribute to a deeper understanding of how psychological traits and investment experience jointly influence financial risk-taking behaviour in emerging economies.

Keywords: Personality traits; Financial risk tolerance; Investment experience; Behavioural finance; Indian investors

1. Introduction

1.1 Background of the Study

This study examines the influence of individual personality traits on financial risk tolerance, with particular emphasis on the Big Five personality dimensions—openness to experience, conscientiousness, extraversion, agreeableness, and neuroticism—among Indian individual investors. Understanding how these personality traits relate to varying levels of financial risk-

taking is essential, given the increasing participation of retail investors in India's financial markets (Isidore & Arun, 2022; Manzoor et al., 2023; Rao & Lakkol, 2024).

The relevance of personality traits in shaping financial decision-making has been widely acknowledged within the behavioural finance literature. Prior studies suggest that psychological characteristics significantly influence investors' perceptions of risk and return, thereby affecting their willingness to engage in risky financial activities (Mukhtar & Jan, 2023; Rafay & Mustafa, 2023). By integrating established psychological constructs with financial risk-taking behaviour, the present study contributes to the expanding discourse in behavioural finance, particularly within the context of emerging markets (Kamath et al., 2023; Mendoza et al., 2023).

Behavioural finance provides valuable insights into investor decision-making under conditions of risk and uncertainty by incorporating psychological and behavioural factors that extend beyond traditional rational models. This perspective recognizes that personal preferences, emotional responses, and stable personality traits often exert a stronger influence on financial behaviour than purely economic considerations (Ferreira, 2019). Empirical evidence suggests that traits such as sensation-seeking, self-efficacy, and emotional stability are key determinants of financial risk tolerance and investment choices (Amponsah et al., 2025). Consequently, acknowledging behavioural dimensions such as overconfidence, regret aversion, and emotional bias allows for a more comprehensive understanding of investors' risk-taking behaviour (Avci et al., 2024).

Financial decision-making under uncertainty is inherently complex and is shaped by the interaction of personality traits and individual risk tolerance (Perveen et al., 2020). Existing research demonstrates that personality traits influence investment behaviour primarily through their impact on financial risk tolerance, which serves as a critical mechanism linking psychological characteristics to investment outcomes (Perveen et al., 2020). This relationship assumes greater importance in emerging economies such as India, where evolving market structures, economic volatility, and changing investor demographics create a distinctive investment environment (Singh et al., 2022). In this context, traits such as extraversion, openness to experience, and conscientiousness have been shown to influence risk perception and investment decisions (Manzoor et al., 2023).

Risk tolerance remains a central component of effective investment planning, as it determines the appropriateness of asset allocation and investment strategies for individual investors (Rafay & Mustafa, 2023). A nuanced understanding of investors' risk tolerance enables financial advisors to design personalized portfolios aligned with both psychological dispositions and financial objectives (Isidore & Arun, 2022). Given India's unique socio-economic and cultural diversity, further empirical investigation is warranted to understand how personality traits shape financial risk tolerance and investment behaviour within this context (Singh et al., 2022).

1.2 Behavioural Finance Perspective

Traditional finance theories, grounded in the Efficient Market Hypothesis, assume that investors are rational agents who process all available information efficiently and make optimal decisions (Kamath et al., 2023; Rafay & Mustafa, 2023). However, behavioural finance challenges this assumption by recognizing that investors frequently rely on heuristics and are influenced by psychological biases, leading to systematic deviations from rational decision-making (Harini & Subramanian, 2023).

From a behavioural finance perspective, personality traits play a pivotal role in shaping financial behaviour, as they influence how investors perceive risk, process information, and respond to market uncertainty. Psychological characteristics, emotional states, and cognitive biases collectively affect investment decisions and may result in suboptimal financial outcomes

(Almansour et al., 2023; Rafay & Mustafa, 2023). This perspective underscores the importance of incorporating personality traits into financial models to better understand and predict investor behaviour beyond traditional economic frameworks (Almansour et al., 2023).

1.3 Research Gap

Despite the growing body of behavioural finance research, empirical studies examining the relationship between personality traits and financial risk tolerance within the Indian context remain limited. While existing research has explored these relationships in developed markets, there is a paucity of studies focusing on the diverse and rapidly evolving Indian financial landscape (Rafay & Mustafa, 2023).

Moreover, current models often overlook individual psychological differences, resulting in generalized approaches that fail to account for variations in risk perception and decision-making styles among investors (Mehtab & Nagraj, 2019; Mendoza et al., 2023). This limitation is particularly evident in the absence of comprehensive frameworks that integrate personality traits with financial risk tolerance to enhance investor profiling in India (Mukhtar et al., 2023).

Furthermore, the development of robust, personality-informed investor profiling models tailored to the behavioural nuances of Indian investors remains at a nascent stage (Kubilay & Bayrakdaroglu, 2016). Addressing these gaps, the present study seeks to provide empirical evidence on the influence of personality traits on financial risk tolerance, with a specific focus on the mediating role of investment experience.

1.4 Objectives of the Study

The specific objectives of the study are as follows:

1. To identify the dominant personality traits among Indian individual investors.
2. To examine the level of financial risk tolerance among investors.
3. To analyse the influence of personality traits on financial risk tolerance.
4. To examine the mediating role of investment experience in the relationship between personality traits and financial risk tolerance.

1.5 Research Hypotheses

Based on the objectives of the study, the following hypotheses are proposed:

- **H1:** Extraversion has a significant positive impact on financial risk tolerance.
- **H2:** Neuroticism has a significant negative impact on financial risk tolerance.
- **H3:** Openness to experience positively influences financial risk tolerance.
- **H4:** Conscientiousness significantly affects financial risk tolerance.
- **H5:** Agreeableness significantly affects financial risk tolerance.

2. Review of Literature

2.1 Financial Risk Tolerance

Financial risk tolerance refers to an individual's psychological willingness to engage in financial activities that involve uncertainty and the potential for loss in anticipation of higher returns (Alwahaibi, 2019). It represents a central construct in investment decision-making and reflects the extent to which an individual is comfortable accepting variability in investment outcomes. Prior research indicates that financial risk tolerance is shaped by a combination of psychological characteristics, cognitive processes, and individual circumstances, which together determine an investor's overall risk appetite (Mendoza et al., 2023; Singh et al., 2022).

Given its multidimensional nature, the accurate assessment of financial risk tolerance requires robust measurement approaches that capture both emotional and financial capacities for risk-taking. These approaches commonly include psychometric scales, self-assessment instruments, and behavioural indicators to provide a comprehensive evaluation of an individual's risk disposition (Ferreira-Schenk et al., 2021; Bajo et al., 2023). Such

measurement is essential for understanding how investors respond to market volatility and uncertainty.

The determinants of financial risk tolerance are complex and encompass socioeconomic, demographic, and psychological factors. Empirical studies suggest that age, income, gender, and education significantly influence risk tolerance, with younger, higher-income individuals generally exhibiting greater risk-taking tendencies (Mendoza et al., 2023). Psychological attributes, such as locus of control and spending attitudes, also play a critical role in shaping individuals' risk perceptions and financial behaviours (Parra et al., 2021).

2.2 Personality Traits and Investment Behaviour

The Big Five personality framework, comprising openness to experience, conscientiousness, extraversion, agreeableness, and neuroticism, provides a well-established taxonomy for understanding individual differences in behaviour and decision-making (Jiang et al., 2023; Rahmah, 2023). Within the domain of behavioural finance, this framework has demonstrated substantial explanatory power in predicting financial behaviours, including investment preferences, trading frequency, and portfolio choices (Mukhtar & Jan, 2023; Özer & Mutlu, 2019).

Empirical evidence from both global and Indian contexts indicates that personality traits significantly influence investors' financial decisions through their impact on risk perception and tolerance. Traits such as extraversion and openness to experience are frequently associated with a higher willingness to undertake financial risks, whereas conscientiousness and agreeableness are often linked to more conservative investment behaviour (Mendoza et al., 2023; Prakash et al., 2023). These findings highlight the importance of incorporating psychological assessments into investment planning, as personality traits shape how investors evaluate uncertainty and respond to potential gains and losses (Chen & Hsiao, 2024; Manzoor et al., 2023).

2.3 Personality Traits and Financial Risk Tolerance

A growing body of literature has examined the relationship between individual personality traits and financial risk tolerance. Extraversion, characterized by sociability, assertiveness, and sensation-seeking behaviour, is consistently associated with higher risk tolerance and greater participation in risky financial assets (Mendoza et al., 2023). Extraverted individuals tend to exhibit confidence in decision-making and are more comfortable with uncertainty.

In contrast, neuroticism, which reflects emotional instability and anxiety, is generally associated with lower financial risk tolerance. Individuals high in neuroticism tend to display heightened loss aversion and risk-avoidant behavior, leading to conservative investment choices (Linciano et al., 2017; Mukhtar & Jan, 2023).

The influence of agreeableness on risk tolerance appears to be context-dependent. While agreeable individuals may demonstrate trust and cooperation in financial decision-making, their preference for harmony and avoidance of conflict may result in moderate or lower risk-taking behavior (Ferreira, 2019; Manzoor et al., 2023).

Conscientiousness, characterized by discipline, organization, and goal orientation, has been linked to careful financial planning and controlled risk-taking. Conscientious investors often engage in systematic decision-making and effective money management, which can moderate their exposure to excessive financial risk (Singh et al., 2022; Mukhtar & Jan, 2023).

2.4 Research Gap Summary

Despite extensive research on behavioural finance, empirical studies integrating personality traits and financial risk tolerance within the Indian context remain limited. Most existing studies focus on developed markets, leaving a gap in understanding how psychological traits

influence investment behavior in emerging economies characterized by diverse cultural and socioeconomic conditions (Rafay & Mustafa, 2023).

Furthermore, many prior models inadequately account for individual psychological differences, resulting in generalized approaches that fail to capture variations in investors' risk perceptions and decision-making styles (Mehtab & Nagraj, 2019; Mendoza et al., 2023). There is a notable lack of comprehensive frameworks that integrate personality traits with financial risk tolerance to enhance investor profiling and decision-making models in India (Mukhtar et al., 2023).

Addressing these gaps, the present study seeks to empirically examine the influence of Big Five personality traits on financial risk tolerance, with a particular focus on the mediating role of investment experience among Indian individual investors.

2.5 The Big Five Personality Traits

The Big Five personality traits—extraversion, agreeableness, conscientiousness, neuroticism, and openness to experience—are widely recognized as core dimensions of human personality and have been extensively applied in financial behavior research (Rafay & Mustafa, 2023). These traits influence how investors perceive risk, process information, and make financial decisions.

Extraversion and openness to experience are generally associated with higher financial risk tolerance and a greater propensity to engage in risky investments. Conversely, conscientiousness and agreeableness are commonly linked to conservative investment behavior and lower tolerance for financial risk. Neuroticism exhibits a complex relationship with risk tolerance, as heightened anxiety may either increase risk aversion or, in certain situations, lead to impulsive decision-making (Brooks & Williams, 2021; Mendoza et al., 2023).

2.6 Risk and Its Types

Risk in finance refers to the possibility of deviation from expected returns due to market volatility, economic uncertainty, or firm-specific factors. Financial risks are broadly classified into systematic risk, which affects the entire market and cannot be diversified away, and unsystematic risk, which is specific to individual assets and can be mitigated through diversification (Rafay & Mustafa, 2023).

Systematic risks include market risk, interest rate risk, and purchasing power risk, whereas unsystematic risks encompass business risk, financial risk, and liquidity risk (Perveen et al., 2020). Investors' responses to these risks are significantly influenced by their psychological profiles, particularly their risk tolerance and emotional responses to uncertainty (Ferreira, 2019).

2.7 Financial Risk Tolerance

Financial risk tolerance represents an individual's capacity and willingness to withstand market fluctuations and potential financial losses in pursuit of long-term gains (Mankuroane et al., 2022). It plays a critical role in determining investment strategies, asset allocation, and portfolio diversification.

Prior research suggests that financial risk tolerance is not static but evolves over time, influenced by personality traits, life experiences, and environmental factors (Rafay & Mustafa, 2023). Understanding the psychological foundations of risk tolerance is therefore essential for developing personalized investment strategies that align with investors' behavioural characteristics and financial goals (Mukhtar & Jan, 2023).

3. Conceptual Framework and Hypothesis Development

This study proposes a mediated conceptual framework in which personality traits influence financial risk tolerance both directly and indirectly through investment experience. Drawing on behavioural finance theory, the framework suggests that stable psychological characteristics

shape investors' engagement with financial markets, which subsequently affects their accumulation of experience and tolerance for financial risk.

Investors exhibiting personality traits such as extraversion and openness to experience are more likely to actively participate in financial markets, seek new investment opportunities, and engage in exploratory financial behavior. Such active participation facilitates the accumulation of investment experience, which enhances investors' ability to interpret market information, regulate emotions during periods of volatility, and make informed risk-related decisions. As a result, increased investment experience is expected to improve financial risk tolerance.

Conversely, individuals characterized by high levels of neuroticism may display heightened anxiety, fear of losses, and emotional instability, which can limit their participation in financial markets. Reduced market exposure restricts the accumulation of investment experience, thereby leading to lower levels of financial risk tolerance. Traits such as conscientiousness and agreeableness are expected to exert more nuanced effects, as careful planning and trust-based decision-making may either constrain or moderately support risk-taking behavior depending on contextual factors.

Accordingly, the study hypothesizes that investment experience acts as a mediating mechanism through which personality traits influence financial risk tolerance.

Hypotheses Linkage (For Model Justification)

Trait	Expected Relationship with Risk Tolerance	Rationale
Extraversion	Positive (+)	Confidence, sensation-seeking Behaviour
Neuroticism	Negative (-)	Anxiety, loss aversion
Openness	Positive (+)	Curiosity, innovation, adaptability
Conscientiousness	Mixed	Careful planning vs. risk avoidance
Agreeableness	Weak/Mixed	Trust-based decisions

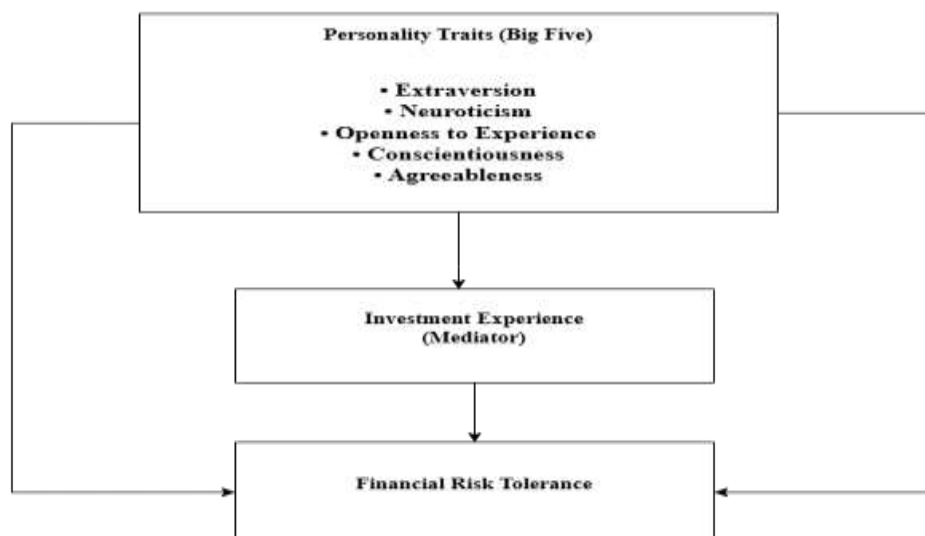


Figure 1. Conceptual Framework

Figure 1 illustrates the conceptual framework depicting the influence of personality traits on financial risk tolerance, with investment experience serving as a mediating variable.

Variables in the Model

Independent Variables (IVs):

- Extraversion
- Neuroticism
- Openness to Experience
- Conscientiousness
- Agreeableness

Mediating Variable (MV):

- Investment Experience

Dependent Variable (DV):

- Financial Risk Tolerance

3.1 Hypothesis Development

3.1.a Direct Effects of Personality Traits on Financial Risk Tolerance

Based on prior literature and theoretical reasoning, the following direct relationships are proposed:

- H1a: Extraversion has a significant positive effect on financial risk tolerance.
- H1b: Neuroticism has a significant negative effect on financial risk tolerance.
- H1c: Openness to experience has a significant positive effect on financial risk tolerance.
- H1d: Conscientiousness significantly affects financial risk tolerance.
- H1e: Agreeableness significantly affects financial risk tolerance.

3.1.b Effects of Personality Traits on Investment Experience

Personality traits are expected to influence the extent to which individuals engage with financial markets and accumulate experience. Accordingly, the following hypothesis is proposed:

- H2a–H2e: Personality traits significantly influence investment experience.

3.1.c Effect of Investment Experience on Financial Risk Tolerance

Investment experience is expected to enhance investors' understanding of market dynamics and emotional control, thereby increasing their willingness to undertake financial risk:

- H3: Investment experience has a significant positive effect on financial risk tolerance.

3.1.d Mediating Role of Investment Experience

Finally, the study proposes that investment experience serves as a mediating mechanism linking personality traits and financial risk tolerance:

- H4a–H4e: Investment experience mediates the relationship between personality traits and financial risk tolerance.

4. Research Methodology

4.1 Research Design

The present study adopts a descriptive and empirical research design to examine the relationship between personality traits and financial risk tolerance, with particular emphasis on the mediating role of investment experience. A quantitative approach was employed to systematically analyse the relationships among the study variables.

Specifically, a correlational research design was used to examine the strength and direction of associations between the Big Five personality traits, investment experience, and financial risk tolerance (Rajasekar et al., 2022). This approach is appropriate for identifying relationships among variables without attempting to establish causal inferences, thereby providing meaningful insights into investor behavior under real-world conditions (Singh et al., 2022).

The use of descriptive and empirical methods enables a comprehensive examination of how individual psychological characteristics, particularly personality traits, influence investment-related decision-making and financial risk tolerance (Jayawardena & Nanayakkara, 2024; Rafay & Mustafa, 2023).

4.2 Population and Sample

The target population of the study comprises individual retail equity investors from Jammu (India) who actively participate in secondary market investments (Isidore & Arun, 2022). This region was selected due to the growing participation of individual investors and the relative scarcity of empirical behavioural finance studies in this context.

Sample Size Determination Using Cochran's Formula

To determine an adequate sample size for the study, **Cochran's (1977) formula** was used. Cochran's formula is widely applied in social science and behavioural finance research when the population is large or unknown.

Cochran's Formula:

$$n_0 = \frac{Z^2 \times p \times q}{e^2}$$

Where:

n_0 = required sample size

Z = Z-value at 95% confidence level (1.96)

p = estimated population proportion (0.50)

$q = 1 - p$

e = margin of error (0.05)

Calculation

$$n_0 = \frac{Z^2 \times p \times q}{e^2} = \frac{(1.96)^2 \times 0.50 \times 0.50}{(0.05)^2} = \frac{3.8416 \times 0.25}{0.0025} = \frac{0.9604}{0.0025} = 384.16 \approx 384$$

Accordingly, the minimum required sample size was 384 respondents. The final sample consisted of 380 valid responses, which was considered statistically adequate for regression and Structural Equation Modelling analyses.

Sampling Technique

The study employed non-probability convenience sampling combined with judgmental sampling, which is commonly used in behavioural finance research involving retail investors due to accessibility and participation constraints (Mukhtar et al., 2023).

4.3 Data Collection

Primary data were collected using a structured questionnaire designed to measure personality traits, investment experience, and financial risk tolerance. The questionnaire was developed using standardized and validated measurement scales adapted from prior empirical studies to ensure reliability and content validity.

The instrument was divided into sections covering demographic characteristics, Big Five personality traits, investment experience, and financial risk tolerance. Responses were recorded using a five-point Likert scale ranging from *strongly disagree* to *strongly agree*. The structured format facilitated uniform data collection, minimized respondent bias, and ensured consistency across responses, making the data suitable for quantitative analysis (Manzoor et al., 2023).

4.4 Measurement of Variables

Personality Traits

Personality traits were measured using the Big Five Personality framework, comprising extraversion, neuroticism, openness to experience, conscientiousness, and agreeableness. A standardized and validated scale adapted from prior studies was used, with responses captured on a five-point Likert scale, ensuring construct reliability and validity.

Financial Risk Tolerance

Financial risk tolerance was measured using a standardized Financial Risk Tolerance Scale adapted from established empirical studies. The scale assesses individuals' willingness to accept uncertainty and variability in investment returns and was administered using a five-point Likert scale. The instrument demonstrated satisfactory psychometric properties, making it appropriate for empirical analysis (Rafay & Mustafa, 2023).

Investment Experience

Investment experience was measured using multiple items capturing respondents' level of market participation, exposure to financial instruments, and perceived investment knowledge, adapted from prior behavioural finance literature.

4.5 Reliability and Validity

The internal consistency of the measurement scales was assessed using Cronbach's alpha. All constructs recorded alpha values exceeding the recommended threshold of 0.70, indicating satisfactory internal consistency and reliability.

Construct validity was examined to ensure that measurement items adequately represented their underlying theoretical constructs. Convergent validity was established through acceptable factor loadings, while discriminant validity was confirmed by ensuring empirical distinctiveness among constructs. The results indicate that the measurement model demonstrates adequate reliability and validity, supporting its suitability for hypothesis testing.

4.6 Statistical Tools

The collected data were analyzed using appropriate statistical techniques. Descriptive statistics, including mean, standard deviation, frequency, and percentage, were used to summarize respondents' demographic characteristics and provide an overview of the data.

Correlation analysis was employed to examine the strength and direction of relationships among personality traits, investment experience, and financial risk tolerance. Multiple regression analysis was conducted to assess the predictive influence of personality traits and investment experience on financial risk tolerance and to test the proposed hypotheses.

Where applicable, Structural Equation Modelling (SEM) was utilized to simultaneously examine direct and indirect relationships among constructs and to test the mediating role of investment experience.

5. Data Analysis and Results

5.1 Demographic Profile of Respondents

The demographic profile of the respondents indicates that the sample comprised individual investors belonging to the Union Territory of Jammu and Kashmir, India. The respondents represented a diverse mix of age groups, educational qualifications, and income levels, reflecting heterogeneity in the investor population of the region. The sample included both male and female participants, with varying levels of investment experience and occupational backgrounds. Such diversity in demographic characteristics enhances the representativeness of the sample and provides a comprehensive basis for examining the influence of personality traits and investment experience on financial risk tolerance among investors in Jammu and Kashmir.

Table 1. Demographic Profile of Respondents (N = 380)

Demographic Category	Category	Frequency (n)	Percentage (%)
Gender	Male	236	62.1
	Female	144	37.9
Age	Below 30 years	97	25.5
	31-40 years	131	34.5
	41-50 years	88	23.2
	Above 50 years	64	16.8
Education	Graduate	130	34.2
	Postgraduate	172	45.3
	Professional	78	20.5
Monthly income	Below 30,000	127	33.4
	30,001-60,000	155	40.8
	Above 60,000	98	25.8
Investment experience	Less than 5 years	130	34.2
	5 to 10 years	159	41.8
	more than 10 years	91	23.9

5.2 Descriptive Statistics

Table 2. Descriptive Statistics of Study Variables (N = 380)

Variable	Mean	Standard Deviation
Extraversion	3.84	0.69
Neuroticism	2.76	0.71
Openness to Experience	3.91	0.67
Conscientiousness	3.58	0.72
Agreeableness	3.46	0.70

Investment Experience	3.52	0.64
Financial Risk Tolerance	3.68	0.66

Table 2 presents the descriptive statistics of the study variables, including personality traits, investment experience, and financial risk tolerance. The mean values indicate moderate to high levels of extraversion, openness to experience, conscientiousness, and agreeableness among respondents, while neuroticism exhibits a comparatively lower mean score. The mean score of investment experience reflects a moderate level of exposure to financial markets. Financial risk tolerance also shows a moderate to high level, indicating respondents' reasonable willingness to accept financial risk. The standard deviation values suggest acceptable variability across all constructs.

5.3 Correlation Analysis

Table 3. Correlation Matrix

Variable	EXT	NEU	OPN	CON	AGR	IE	FRT
Extraversion (EXT)	1						
Neuroticism (NEU)	0.31**	1					
Openness (OPN)	0.42**	0.26**	1				
Conscientiousness (CON)	0.21**	0.19**	0.28**	1			
Agreeableness (AGR)	0.18*	0.14*	0.22**	0.31**	1		
Investment Experience (IE)	0.39**	0.27**	0.41**	0.24**	0.19*	1	
Financial Risk Tolerance (FRT)	0.46**	0.34**	0.48**	0.26**	0.21*	0.52**	1

***Note: *p < 0.05, **p < 0.01**

Table 3 reports the Pearson correlation coefficients among personality traits, investment experience, and financial risk tolerance. The results show that extraversion, openness to experience, conscientiousness, agreeableness, and investment experience are positively correlated with financial risk tolerance, whereas neuroticism exhibits a significant negative correlation. Investment experience demonstrates the strongest positive association with financial risk tolerance. All correlation coefficients are below the threshold value of 0.80, indicating the absence of multicollinearity concerns and confirming the suitability of the data for regression analysis.

5.4 Multiple Regression Analysis

Table 4. Multiple Regression Results

Predictor	β (Standardized)	Std. Error	t-value	p-value
Extraversion	0.21	0.05	4.32	0.000**
Neuroticism	-0.18	0.04	-3.91	0.000**

Openness	0.24	0.05	4.87	0.000**
Conscientiousness	0.09	0.04	2.06	0.040*
Agreeableness	0.07	0.03	1.98	0.048*
Investment Experience	0.29	0.05	6.12	0.000**

***Note: *p < 0.05, *p < 0.01**

Table 4 presents the results of multiple regression analysis examining the influence of personality traits and investment experience on financial risk tolerance. The findings indicate that extraversion, openness to experience, conscientiousness, agreeableness, and investment experience exert significant positive effects on financial risk tolerance, while neuroticism has a significant negative effect. The results suggest that investment experience is the strongest predictor of financial risk tolerance among the variables considered.

Table 5. Hypothesis Testing Summary

Table 5. Hypothesis Testing Results

Hypothesis	Path	Result
H1a	Extraversion → Financial Risk Tolerance	Supported
H1b	Neuroticism → Financial Risk Tolerance	Supported
H1c	Openness → Financial Risk Tolerance	Supported
H1d	Conscientiousness → Financial Risk Tolerance	Supported
H1e	Agreeableness → Financial Risk Tolerance	Supported
H2	Investment Experience → Financial Risk Tolerance	Supported
H3	Personality Traits → Investment Experience	Supported
	Investment Experience mediates Personality Traits	
H4	→ Financial Risk Tolerance	Supported (Partial Mediation)

Table 5 summarizes the hypothesis testing results based on regression and mediation analyses. The findings indicate that all proposed hypotheses are supported. Personality traits significantly influence financial risk tolerance, and investment experience plays a significant mediating role in explaining variations in investors' risk tolerance.

6. Discussion

The present study examined the influence of personality traits on financial risk tolerance, with particular emphasis on the mediating role of investment experience, among individual investors in the Union Territory of Jammu and Kashmir. The findings provide strong empirical support for behavioural finance theory, which posits that investors' financial decisions are shaped not only by rational considerations but also by stable psychological traits and experiential factors.

The results indicate that extraversion has a significant positive effect on financial risk tolerance. Extroverted investors, characterized by confidence, sociability, and sensation-seeking tendencies, are more inclined to engage in risky investment activities. Their active participation in financial markets and comfort with uncertainty contribute to higher levels of financial risk tolerance. This finding is consistent with prior behavioural finance studies that associate extraversion with proactive investment behavior and greater risk acceptance.

In contrast, neuroticism exhibits a significant negative relationship with financial risk tolerance. Investors high in neuroticism tend to experience anxiety, emotional instability, and fear of losses, which discourages them from undertaking risky financial decisions. This result reinforces earlier evidence suggesting that emotionally vulnerable individuals prefer conservative investment strategies and exhibit heightened loss aversion.

The study further reveals that openness to experience significantly and positively influences financial risk tolerance. Investors with high openness are generally curious, innovative, and receptive to unfamiliar financial instruments. Their willingness to explore new opportunities enhances their acceptance of uncertainty and contributes to higher risk tolerance. This finding aligns with existing literature linking openness to adaptability and exploratory financial behavior, particularly in dynamic market environments.

With respect to conscientiousness and agreeableness, the results indicate positive but comparatively weaker effects on financial risk tolerance. Conscientious investors, while disciplined and goal-oriented, may exhibit cautious planning and risk avoidance that moderate their willingness to engage in high-risk investments. Similarly, agreeable investors may rely on trust, cooperation, and social influence, leading to moderate rather than aggressive risk-taking behavior. These findings are consistent with earlier studies suggesting that these traits influence financial behavior in a more restrained manner.

A key contribution of this study lies in establishing investment experience as a partial mediator in the relationship between personality traits and financial risk tolerance. The findings demonstrate that investment experience has a strong positive effect on financial risk tolerance and partially explains how personality traits translate into observable risk-taking behavior. Investors with favourable personality traits are more likely to accumulate market experience, which enhances their ability to interpret risk, manage emotions, and tolerate financial uncertainty. However, the persistence of significant direct effects indicates that personality traits continue to exert an independent influence on risk tolerance, underscoring the stability of psychological characteristics in financial decision-making.

Overall, the findings challenge the assumption of fully rational investors underlying traditional finance theories and reinforce the behavioural finance perspective. Financial risk tolerance emerges as the outcome of a complex interaction between psychological predispositions and accumulated investment experience. The regional context of Jammu and Kashmir further underscores the relevance of these findings, as varying levels of market exposure and economic uncertainty may shape the expression of personality-driven investment behavior in emerging and geographically distinct markets.

Behavioural Finance Implications

The findings of this study offer important implications for behavioural finance theory by reinforcing the view that investor behavior is significantly influenced by psychological traits and experiential learning. The demonstrated role of personality traits in shaping financial risk tolerance supports the argument that individual differences must be incorporated into financial decision-making models.

The partial mediating role of investment experience highlights the dynamic interaction between inherent personality traits and acquired market exposure. While personality traits predispose investors toward certain risk preferences, experiential learning can refine and strengthen their tolerance for risk over time. These insights advocate for behaviourally informed investor profiling, wherein personality assessments complement traditional financial indicators in evaluating risk tolerance, particularly in emerging market contexts such as India.

Explanation of Unexpected Findings

Although most findings align with prior literature, the relatively weaker effects of conscientiousness and agreeableness warrant further explanation. Conscientious individuals may prioritize careful planning and risk control, which can limit their engagement in high-risk investments despite adequate financial knowledge. Similarly, agreeable individuals may depend more on social norms and external advice, resulting in moderate rather than pronounced risk-taking behavior.

Additionally, the observation of partial rather than full mediation suggests that investment experience enhances risk tolerance but does not completely override stable personality traits. This indicates that experiential learning may not fully compensate for deeply rooted psychological characteristics, especially in uncertain or volatile market environments.

Contextual factors specific to Jammu and Kashmir—such as regional economic conditions, limited exposure to diversified financial instruments, and heightened sensitivity to uncertainty—may further moderate the influence of certain personality traits on investment behavior. These contextual influences emphasize the importance of regional considerations when interpreting behavioral finance outcomes in emerging markets.

7. Conclusion

This study examined the relationship between Big Five personality traits and financial risk tolerance, with particular emphasis on the mediating role of investment experience, among individual investors in the Union Territory of Jammu and Kashmir. Drawing on behavioural finance theory, the study sought to understand how stable psychological characteristics and accumulated market experience jointly shape investors' willingness to undertake financial risk.

The findings reveal that extraversion and openness to experience are significantly and positively associated with financial risk tolerance, indicating that confident, curious, and exploratory investors are more inclined to engage in risk-taking investment behavior. In contrast, neuroticism exhibits a significant negative relationship with financial risk tolerance, suggesting that emotionally unstable investors tend to avoid risky financial decisions due to heightened anxiety and loss aversion. Conscientiousness and agreeableness show positive but comparatively weaker effects, reflecting cautious planning and trust-based decision-making that moderate excessive risk-taking.

A key contribution of the study lies in establishing investment experience as a partial mediator in the relationship between personality traits and financial risk tolerance. The results demonstrate that investors with favourable personality traits are more likely to accumulate investment experience, which enhances their ability to interpret market signals, manage emotional responses, and tolerate financial uncertainty. However, the persistence of direct effects indicates that personality traits continue to exert an independent influence on financial risk tolerance, underscoring the enduring role of psychological characteristics in financial decision-making.

Overall, the study successfully achieves its research objectives by empirically validating the role of personality traits and investment experience in shaping financial risk tolerance. The findings reinforce the core assumptions of behavioural finance, challenging the notion of fully rational investors and highlighting the importance of psychological and experiential factors in investment behavior.

By providing empirical evidence from an emerging market context, this research contributes to the existing behavioural finance literature and enhances understanding of investor behavior in geographically and economically distinct regions such as Jammu and Kashmir. The study underscores the relevance of incorporating psychological traits and investment experience into investor profiling frameworks, thereby offering valuable insights for financial advisors, policymakers, and researchers seeking to better understand and manage individual financial risk-taking behavior.

8. Implications of the Study

8.1 Theoretical Implications

The findings of this study make several important contributions to the behavioural finance literature. First, by providing empirical evidence from an understudied emerging market region, the study extends existing theories on personality traits and financial risk tolerance beyond predominantly Western contexts. This enhances the external validity and contextual applicability of behavioural finance frameworks across diverse socio-economic environments.

Second, the study advances theoretical understanding by demonstrating that personality traits influence financial risk tolerance both directly and indirectly through investment experience. The identification of investment experience as a partial mediator contributes to behavioural finance theory by highlighting the interaction between stable psychological traits and experiential learning in shaping financial decision-making. This finding refines existing models that primarily focus on direct personality–behavior relationships, by incorporating experience as a dynamic explanatory mechanism.

Third, the results reinforce the central premise of behavioural finance that investors are not uniformly rational, but instead exhibit heterogeneous risk preferences shaped by psychological predispositions. The differential effects of extraversion, openness to experience, and neuroticism on financial risk tolerance provide further empirical support for integrating personality-based explanations into theories of investment behavior.

8.2 Practical Implications

Implications for Financial Advisors

The findings of this study offer valuable insights for financial advisors by emphasizing the importance of incorporating personality assessment and investment experience into investor profiling practices. Understanding clients' psychological characteristics can enable advisors to better align investment recommendations with individual risk tolerance, thereby improving decision quality and long-term client satisfaction. Advisors may also use insights related to investment experience to guide investors gradually toward appropriate levels of risk exposure.

Implications for Portfolio Management

From a portfolio management perspective, the study highlights the relevance of tailoring portfolio strategies to investors' psychological profiles and experiential backgrounds. Portfolio managers can design asset allocation strategies that account for investors' inherent risk

preferences while considering their level of market experience, thereby reducing emotionally driven reactions during periods of market volatility.

Implications for Investor Development and Market Participation

The results also underscore the importance of fostering investment experience as a mechanism for enhancing financial risk tolerance. Encouraging gradual market participation and exposure to diversified financial instruments may help investors develop greater confidence and emotional resilience, leading to more stable investment behavior over time. Such insights are particularly relevant in emerging markets, where investors' experience levels vary widely and market participation is still evolving.

9. Limitations and Future Research Directions

Despite its contributions, the present study is subject to certain limitations that should be acknowledged. First, the sample size and geographic concentration of the study limit the generalizability of the findings. The data were collected from individual investors within a single emerging market region, which may not fully capture variations in investor behaviour across different economic and institutional settings. Future research could extend the scope of this study by employing larger and more geographically diverse samples, including investors from multiple regions or countries, to enhance external validity. Additionally, incorporating institutional investors or utilizing secondary market data may provide broader insights into financial risk-taking behavior (Saleem et al., 2023).

Second, the study relies on self-reported questionnaire data, which may be subject to response bias and social desirability effects. Although standardized and validated measurement scales were used to ensure reliability and consistency, future studies could strengthen empirical rigor by incorporating objective indicators of financial behavior, such as actual trading data or portfolio performance metrics. The use of experimental or quasi-experimental research designs may also help establish stronger causal inferences between personality traits, investment experience, and financial risk tolerance (Mendoza et al., 2023).

Third, the cross-sectional design of the study restricts the ability to capture changes in investor behavior over time. Financial risk tolerance and investment experience may evolve due to market dynamics, economic cycles, or life events. Future research could employ longitudinal research designs to examine how personality traits interact with accumulated experience and changing market conditions to influence risk tolerance over time (Jayawardena & Nanayakkara, 2024).

Finally, future studies may explore cross-country comparative analyses to investigate cultural and institutional influences on the relationship between personality traits and financial risk tolerance. Such comparisons could offer valuable insights into how socio-cultural contexts shape investor psychology and decision-making processes (Bortoli et al., 2019). Additionally, examining the role of financial intermediaries, such as advisors and brokers, through whom many investors participate in financial markets, may further enrich understanding of investor behaviour and market outcomes (Mukhtar & Jan, 2023).

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