CHAPTER -9 PERSONALITY AND INVESTOR MODELS

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Big Five Personality Trait Model

- **Extroversion**: Extroverts are those who are open, talkative, social and enthusiastic. Advantage of being extrovert is that they will make their investment decisions which will include more risk and more risk means more returns. Also, they will not stick to a single stock for a long duration therefore the possibility of emotional bias is minimum.
- **Agreeableness:** The individual having this trait are quite optimistic in their life and trust on the situations and people very easily. They do not like to go into many details and search for the facts on their own. Due to their strong belief in the investment and their fund manager, they hardly offend or argue with them and are hesitant to change their portfolio.
- **Conscientiousness:** Conscientious people are careful, thorough and do not like to take much risk with their money. They tend to take wise decisions through comprehensive study and research. They generally like to invest for a long period and, that is why, do not want to take any risk for the future.

- **Neuroticism:** Neurotics are the people who are emotionally unstable. They value their heart more than their mind and always go with what they feel and not by logic.
- **Openness to Experience:** People who are intellect and are curious to know everything are said to be open to experience. They are much like the extroverts in their actions and always go for gaining new knowledge and experience new things.

Myers-Briggs Type Indicator

ISTJ	ISFJ	INFJ	INTJ
ISTP	ISFP	INFP	INTP
ESTP	ESFP	ENFP	ENTP
ESTJ	ESFJ	ENFJ	ENTJ

INVESTOR MODELS EXPLAINED

Bailard, Biehl and Kaisar (BB&K MODEL) Five- Way Model

- The **Adventurer**-These people are ready to take risk, have own understanding and knowledge of investing and are confident. These people are difficult to advise because they have their own understanding of market and they may not listen to consultants much. They can take the risk and can put all their investment in one bet because of their confidence.
- The **Celebrity**-These people do not have their own ideas about investment. They try to be in action in the market. But they do not want to be left out. They can give maximum broker turnover and are easy for investment consultants to manage.

- The **Individualist**-These people are professionally qualified and are independent and have business also such as a lawyer, CPA, or engineer. They try to take their own decisions in life and are very active and careful, methodical and analytical. They have high degree of confidence about themselves. These are rational investors with whom consultants can talk about logic and market dynamics which investing.
- The **Guardian**-These are people near to retirement and getting old. They are careful and want safe investment. They want to preserve their assets and have limited earning span. They don’t want to take risk. They lack confidence in predicting future so look for consultants to guide them.
- The **Straight Arrow**-These people are well balanced and can be placed in the centre. They are ready to take medium risk, are fairly confident, take balanced opinion of things and also are ready to listen to the advice of portfolio managers.

BARNEWALL TWO WAY MODEL

- "**Passive investors**" are the ones who invest and earn returns passively. These investors are wealthy either due to inheritance or by risking the capital of others rather than risking their own capital. The smaller the economic resources an investor has, the more likely the person is to be a passive investor. The lack of resources gives individuals a higher security need and a lower tolerance for risk. Thus, a large percentage of the middle and lower socio economic classes are passive investors as well.
- "**Active investors**" are defined as those individuals who have earned their own wealth in their lifetimes. Active investors have a higher tolerance for risk than they have need for security. Their tolerance for risk is high because they believe in themselves. They get very involved in their own investments to the point that they gather tremendous amounts of information about the investments and tend to drive their investment managers crazy.

BEHAVIOURAL INVESTOR TYPES (BIT) BY POMPIAN

Name	Preserver	Follower	Independent	Accumulator
Basic Orientation	Loss averse	No interest in investing money so need advice for financial decisions.	Actively involved in investment and have own understanding of markets	Engaged in wealth accumulation and confident in investing ability
Dominant Bias Types	Emotional	Cognitive	Cognitive	Emotional
Impactful Biases	Loss aversion and status quo	Recency and framing	Confirmation and availability	Overconfidence and illusion of control
Investing Style	Wealth preservation first, growth second	Passive	Active	Actively engaged in decision making
Level of Risk Tolerance	Low	Low but assume that they have high risk tolerance	Above average	High to very high

CONTRARIAN INVESTING

- Contrarian is an investment style that goes against prevailing market trends by buying poorly performing assets and then selling when they perform
- **Warren Buffet**
- **Sam Zell**
- **Marc Faber**
- **Jim Rogers**
- **Sir John Templeton**
- **David Dreman**
- **George Soros**

FIVE RULES OF CONTRARIAN INVESTING

- **By the time news comes in the newspaper, the impact is already over**
- **Sell when others are buying and buy when others want to sell**
- **No one sees a bubble when their income depends on it**
- **Don’t believe on research tips of others**
- **Thought Process creates the difference**

STRATEGIES ADOPTED BY CONTRARIAN INVESTORS

Selective Contrarian Investment Model

- Selective contrarian investment style is followed by many popular investors in the world. It involves going against the general sentiments of the market and buying stocks which are fundamentally good but are performing badly in the market.
- Selective contrarian investing is an investment strategy that involves purchasing and selling in contrast to the market. For example, widespread pessimism about a stock can drive its price so low that it understates the company's future prospects and overstates its risk. Identifying and purchasing stocks suffering from some temporary and recoverable setbacks and selling them after their share prices have recovered, can lead to above-average returns.

THANK YOU

- CHAPTER 10

Heuristics and Biases

Continued....