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The Big Five Personality Traits: Understanding Clients' Personalities to Support Successful Outcomes

By Herman Brodie

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UNDERSTANDING CLIENTS' PERSONALITIES TO SUPPORT SUCCESSFUL OUTCOMES

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A robust framework for categorizing personality has been around for at least half a century. Over that time, psychologists have used it to explain a variety of life outcomes, from health to educational achievement. Yet it has been in only the past decade or so that economists have taken a serious interest in the framework and recognized its usefulness in explaining personal finance outcomes such as wealth accumulation, retirement planning, spending, compulsive consumption, indebtedness, and risk-taking. This article summarizes these recent findings and explores earlier research into the links between personality and individuals' preferences for communication as well as their information-seeking and susceptibility to persuasion. This article makes the case that advisors, armed with the personality profiles of their clients, might be able to anticipate the behavioral headwinds (or tailwinds) their clients are likely to face and prepare to use the most appropriate tools to bring about behavioral change. Such customized service would be more effective and lead to greater client satisfaction.

FINANCIAL ADVISORS FACE A SERVICE PROBLEM

Financial advisors often need to encourage clients to adopt certain behaviors, such as long-term focus or self-restraint, that are consistent with achieving financial goals. If advisors cannot convince clients to adopt these behaviors, then they must guide them toward goals that are consistent with their existing behaviors (Kitces 2018).

In both cases, advisors must use all the tools in their communication toolboxes—presentation, education, explanation, comparison, etc.—in order to be effective. Yet, knowing which tools will work best for which clients is difficult. Each client is different, the advisor might not know the client particularly well, and clients might not even be aware of their own preferences.

Ideally, advisors need an early grasp of the behavioral challenges each client likely faces and the most effective communication methods for that client. This would allow a partial customization of the service offering from the outset. Any such client evaluation would have to be reliable, in that it must measure what it seeks to measure, and it would have to be stable over time.

THE BIG FIVE

Personality psychologists have long been interested in what differentiates one person from another and explaining (and predicting) why we behave the way we do. To create an overarching taxonomy of personality characteristics, scientists have analyzed the language that people use to describe themselves and others. This analysis required extracting all the personality-relevant terms from the dictionary, under the assumption that these terms describe the full range of attributes that people who speak a particular language have found to be useful, and grouping those that tend to be used together. This work began in the 1930s and, perhaps unsurprisingly, faced certain limitations concerning data-analytic capacity. However, by the 1960s, a list of some 18,000 terms had been reduced effectively to just five distinct and recurrent factors.

To test the generalizability of the five factors, in the late 1980s two independent research teams asked thousands of people to rate their own personalities against an inventory of trait adjectives and then statistically analyzed the responses to identify underlying factors. With no preconception of how many factors they might ultimately find, if any at all, both research teams reached the same conclusion: Most human traits can be distilled to the same five distinct dimensions of personality, irrespective of language or culture.[1]

These five dimensions of personality permit average predictions of individuals' behaviors in many situations. Known as the "Big Five," these traits are the following:

Agreeableness includes traits such as sympathy, compassion, altruism, affection, and a desire to avoid interpersonal conflict.

Neuroticism reflects emotional instability and maladaptive coping responses. It includes traits such as tenseness, moodiness, sensitivity, and anxiety.

Conscientiousness describes self-motivation in the direction of a goal. It includes traits such as organization, persistence, and control.

Extraversion reflects a preference for the company of others. It encompasses

Table 1

THE BIG FIVE PERSONALITY TRAITS

Trait	Facet	Description
Agreeableness The kinds of interactions an individual prefers, from compassion to tough mindedness	Trust Straightforwardness Altruism Compliance Modesty Tender mindedness	• Belief in the sincerity and good intentions of others • Frankness in expression • Active concern for the welfare of others • Response to interpersonal conflict • Tendency to play down own achievements and be humble • Attitude of sympathy for others
Neuroticism Identifies individual tendency to experience psychological distress	Anxiety Angry hostility Depression Self-consciousness Impulsiveness Vulnerability	• Level of free-floating anxiety • Tendency to experience anger, frustration, bitterness, etc. • Tendency to experience guilt, sadness, despondency, and loneliness • Shyness or social anxiety • Tendency to act on cravings and urges rather than delaying gratification • General susceptibility to stress
Conscientiousness Degree of organization, persistence, control, and motivation in goal-directed behavior	Competence Order Dutifulness Achievement striving Self-discipline Deliberation	• Belief in own self-efficacy • Personal organization • Emphasis placed on importance of fulfilling moral obligations • Need for personal achievement and sense of direction • Capacity to begin and complete tasks despite boredom or distractions • Tendency to think things through before acting or speaking
Extraversion Quantity and intensity of energy directed outward into the social world	Warmth Gregariousness Assertiveness Activity Excitement seeking positive emotion	• Interest in and friendliness toward others • Preference for the company of others • Social ascendancy and forcefulness of expression • Pace of living • Need for environmental stimulation • Tendency to experience positive emotions
Openness to experience The active seeking and appreciation of experiences for their own sake	Fantasy Esthetics Feelings Actions Ideas Values	• Receptivity to the inner world of imagination • Openness to inner feelings and emotions • High appreciation of beauty in art and nature • Openness to new experiences on a practical level • Intellectual curiosity • Readiness to re-examine own values and those of authority figures

Source: Costa and McCrae (1992)

traits such as talkative, energetic, assertive, and excitement seeking.

Openness to experience includes traits such as tolerance for the unfamiliar, appetite for new experiences, creativity, imagination, and insightfulness.

Some scientists claim to have since identified a sixth "honesty-humility" trait; others have included traits such as optimism or self-control as determinants of individual behavior. However, these traits are to be seen as additional rather than alternative. The Big Five remain the most widely accepted and used taxonomy of personality, and they have been found to correlate well with a variety of life outcomes, e.g., job performance, school performance, juvenile delinquency, overall health, political affiliations, musical tastes, dress, etc. The traits also appear to be innate and stable over time. Table 1 provides a more detailed description of the five traits.

Figure 1

EXAMPLE PERSONALITY PROFILE

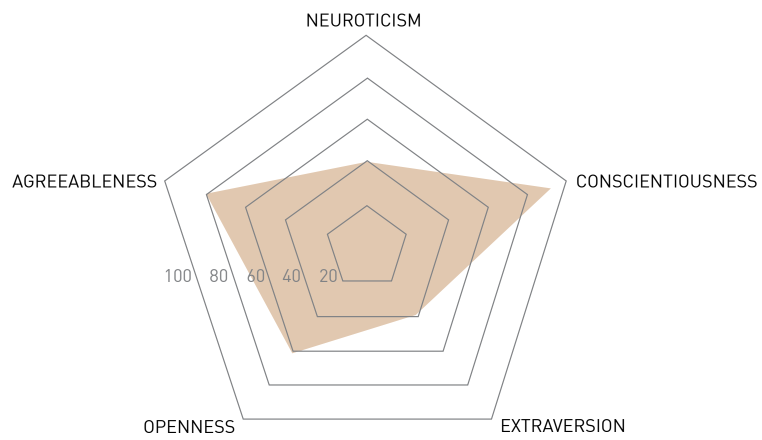


Figure 1 shows an example of a personality profile displayed as a spiderweb graphic. For each of the five dimensions, a point close to the exterior represents a high score, a point close to the center is a low score, and a point near the third band is an average score.

To make comparisons meaningful, the scores revealed through Big Five personality tests are expressed as percentiles. This means that the personality score of any given individual is compared to those of a wider group. This group can be that of a representative sample, e.g., the U.S. population, or that of a specific class of households, e.g., affluent established versus striving lower income. These scores also take into consideration normal differences in gender and age. In the example shown in figure 1, a neuroticism score of 20 means that about 20 percent of the people in the comparison sample are less neurotic. A conscientiousness score of 90 means that only 10 percent of the comparison sample scored as more conscientious. Clearly, the comparison sample used is critical to understanding the results.

So, how do the various personality traits manifest themselves in economic behavior? And how should advisors best seek to communicate with people who exhibit these traits and try to influence their behavior? Below I describe what research has uncovered. Although I treat each of the Big Five separately, one should bear in mind that none of them exist in isolation and that one or more of them can moderate the impact of the other.

AGREEABLENESS

Agreeableness has been found to be negatively associated with total household savings (Gerhard et al. 2018) and retirement saving (Schäfer 2016). Indeed, agreeableness has been linked to lower earnings (Judge et al. 2012) and lower credit scores (Bernerth et al. 2012). This observation has been attributed to the tendency of agreeable people to be less self-oriented and more pro-social. A tendency to put the interests of others ahead of their own might result in more altruistic behavior, such as charitable giving and inter-vivo wealth transfers (Nyhus and Webley 2001). Agreeable types are modest and tend to perceive their social status as being relatively low, so they are less likely to express overconfidence. Their concern for the welfare of others means that they prefer to avoid the kind of interpersonal conflicts that invariably come with getting one's own way.

In contrast, people with lower agreeableness, a personality trait that is characterized as more assertive, ambitious, and competitive, have been shown to be better negotiators. This might explain why they tend to be among the high earners (Gensowski 2014). Low agreeableness has also been linked to a higher share of risky investments in wealth holdings (Bucciol et al. 2015).

Several studies show that trusting people score highly on agreeableness. It is an especially strong predictor of trust among strangers, although not so among friends. The initial encounter with an agreeable person is likely to be, well, agreeable. Therefore, they tend to be better liked by their peers. Their tendency to defer to authority, or to higher-status figures, might leave the impression that they are easy to persuade. However, they are more prone to question their decisions and have second thoughts once they are away from a situation of potential conflict (Goldfayn-Frank and Vellekoop 2018).

When they are uncertain, they will actively seek advice, and will be influenced by the information received. They are easily influenced by the opinions of their peers and of authority figures (Alkış and Temizel 2015). They are also more amenable to arguments that highlight connections to family and to the community (Hirsh et al. 2012). This advice should best be face-to-face, though; individuals who score highly on agreeableness have been shown to be less enamoured of impersonal online interactions, although they are willing participants in social networks and are willing to present themselves online (Seidman 2013).

NEUROTICISM

Neuroticism has not been linked directly to any economic or investment outcomes. Yet, two facets of individuals who score highly on this trait present obvious hurdles to wealth accumulation. The first is that neurotics tend to be more loss-averse, and the second is that as investors they tend to overmonitor their investments, especially during a downswing (Gherzi et al. 2014). A frequently watched portfolio is just as likely to fall in value as to rise since the time it was last inspected. However, due to loss aversion, the downticks bring more pain than the upticks bring joy. Therefore, the combination of these two tendencies results in the inevitable accumulation of anxiety—even in a sideways market. This may prompt neurotics, known for their impulsiveness, to do the wrong thing at the wrong time (Manning et al. 2014). It also will heighten their overall dissatisfaction with the investing experience.

Those who score highly on neuroticism tend to have lower self-perceived social status and will more readily seek information under uncertainty (Fréchette et al. 2017). However, this search for information might represent a challenge of its own. Such individuals tend to feel insecure in searching for data; they fear that lack of time is a barrier to information retrieval; and they might have difficulties in judging the relevance of their findings. Research has revealed that the performance of people with high levels of neuroticism drops in stressful situations, and they might reduce their efforts in response to time pressure (Costa and McCrae 1992). Therefore, they prefer less-confusing information and data that confirms their previous ideas rather than data that requires they adopt new ones.

Although neuroticism increases the likelihood of asking for information in situations of uncertainty, it is not significant in determining whether an individual will follow advice (Fréchette et al. 2017). Neurotics are more likely to regret past choices and be unwilling to commit (Goldfayn-Frank and Vellekoop 2018). To encourage beneficial behaviors, therefore, advisors might have to use positive reinforcement (such as praise or rewards), a support tool that has been shown to be effective among neurotics (Pickering and Gray 2001). Messages that focus on safety and security also resonate more strongly (Hirsh et al. 2012).

CONSCIENTIOUSNESS

High scores in conscientiousness are associated with greater patience, better impulse control, a future orientation, conservatism, and lower-risk choices. These tendencies alone are likely to predict wealth-accumulating behavior. Such people are less likely to take on unsecured debt, and they are much more likely to hold stocks or mutual funds and to invest a greater share of their wealth in these types of assets (Duckworth and Weir 2010). Evidence that conscientiousness is negatively associated with liquid household savings should not come as a surprise. The future orientation, and the ability to plan for long-term savings goals such as retirement, mean that household savings are more likely to be held in less liquid but higher yielding assets such as real estate (Gerhard et al. 2018). Conscientiousness is even related to higher marginal utility of income, i.e., people with higher conscientiousness are able to enjoy an additional unit of income more than people with lower conscientiousness (Boyce and Wood 2011).

Conscientious individuals tend to have a low propensity to trust others, be they strangers or friends (Freitag and Bauer 2016). This observation follows along with their higher self-perceived social status. They will dedicate a great deal of time and effort to consider the conditions of any financial proposal, which likely slows their trading frequency. For the conscientious, success is seen as due to skill rather than to luck, and they are much more likely to experience regret in case of loss or lost opportunity (Pan and Statman 2013).

The conscientious dedicate considerable resources—time, money, and effort—to seeking information under uncertainty, and they are good at it. However, they are less influenced by the advice they seek. Conscientiousness is related to preference for thought-provoking documents over more easily digested literature. They also prefer documents by respected authors and from acknowledged sources. Conscientious people are inclined to yield to authority but are less easily swayed by what others are doing or even by what people they like are doing (Alkış and Temizel 2015).

Messages that highlight the pursuit of goals are most effective.

EXTRAVERSION

Extraversion is related to greater spending, particularly for impulsive and conspicuous consumption (Landis and Gladstone 2017). There is also evidence for a positive association between extraversion and the amount of unsecured debt held, and a negative association to financial asset accumulation (Brown and Taylor 2014). A tendency toward overconfidence (Mayfield et al. 2008), sensation seeking, and a higher self-positioning on the social ladder combine to encourage short-term trading (Wang et al. 2014).

People with greater extraversion will seek information in conditions of uncertainty and, because they have a high propensity to trust others, are more likely to be influenced by the advice sought. This makes them rather easy to persuade in the first place, but they also are prone to having second thoughts. Extraversion is related to information retrieval via informal means, making full use of social abilities. For example, extraverts often consult social and professional circles as information sources. They also prefer thought-provoking literature. However, the information-seeking strategies of extraverts can be characterized as quick rather than systematic.

People with higher extraversion are more likely to use face-to-face contact or phone for negotiating with financial providers; people with lower extraversion prefer less personalized tools such as online banking. Messages that address extraverts' desires for excitement and social rewards have been shown to be most effective (Hirsh et al. 2012). Similarly, their motivation to achieve goals is related to social rather than monetary value (Hareli and Weiner 2002). Therefore, advisors might have to highlight the saliency of, say, a bigger house rather than its investment qualities. High extraversion predicts leadership rather than subordination, so extraverts are less impressed by what others are doing or by experts or other authority figures (Alkış and Temizel 2015).

OPENNESS TO EXPERIENCE

Openness is associated with higher risk tolerances. Over the long run, this ought to support wealth accumulation, and there is some evidence this is the case. However, individuals scoring highly on this trait tend to consume more, which reduces their ability to accumulate wealth (Mosca and McCrory 2016). Yet, although their desire for novelty tends to drain their liquid household savings and encourage them to take on unsecured debt (Brown and Taylor 2014), their creativity, innovativeness, and curiosity seem to nonetheless make them amenable to long-term investing proposals (Mayfield et al. 2008). They will take an interest in what advisors have to say because they are open-minded, and this might make them appear easier to persuade. But they are unconventional, place themselves high on the social ladder, and are prepared to challenge the status quo (Costa and McCrae 1992). They are also likely to correct their decisions afterward when presented with informative data (Caputo 2014).

Information seeking by open individuals will be broad, effortful, and critical. Therefore, openness mitigates the effect of new information on trading frequency (Tauni et al. 2015). They will absorb information incidentally while not actually looking for it, and they integrate it effectively into their thinking. These individuals prefer to retrieve a wide range of related documents rather than just a few precise ones. This raises the prospect of discovering many new and challenging ideas, which their openness to experience will perceive more readily. Messages that appeal to their creativity and desire for intellectual stimulation have been shown to be the most effective (Hirsh et al. 2012).

Openness is a predictor of trust in both strangers and friends. This might explain some emerging evidence that this trait is linked to customer loyalty, satisfaction, and empowerment (Castillo 2017).

PERSONALITY TYPES OR CLUSTERS

Because the five factors in the model have been identified so clearly, many studies have investigated each trait individually and looked at their relationship to a variety of life outcomes, principally, health, education, and work performance. Some researchers, though, have identified clusters or types—specific configurations of the individual traits—that also predict behaviors. For example, the combination of high neuroticism, low agreeableness, and low conscientiousness shown in figure 2 is known as the lack-of-self-control cluster (Malouff et al. 2005). In contrast, low neuroticism combined with higher values on the four remaining traits is related to resilience (Oshio et al. 2018).

Research into the link between personality and relationship satisfaction has found that individuals who score low on neuroticism but high on agreeableness, conscientiousness, and extraversion express a higher level of satisfaction in their intimate relationships (Malouff et al. 2010). Figure 3 illustrates that negative neuroticism is the most important predictor of relationship satisfaction, and some scholars have suggested that this might be because individuals high on neuroticism might negatively interpret ambiguous cues in their relationships (Finn et al. 2013). The research cannot confirm that the cluster is the cause of the reported satisfaction, yet it does suggest that the results are not due to the fact that people exhibiting the same cluster might be attracted to one another.

Figure 2 **LACK OF SELF-CONTROL**

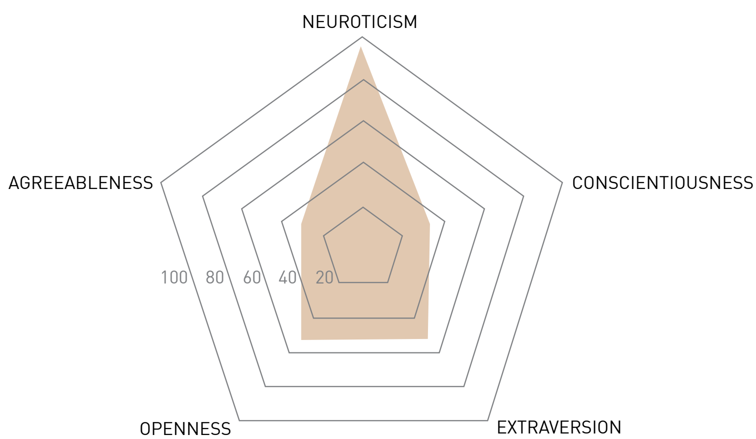
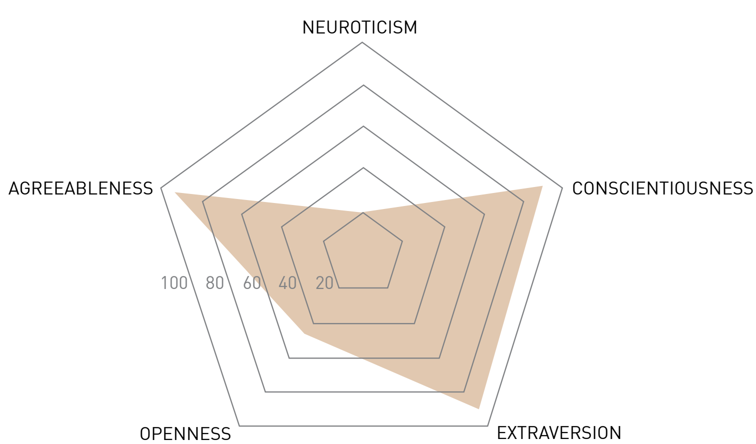


Figure 3 **RELATIONSHIP SATISFACTION**



RISK PROFILING

A cluster that is of obvious interest to financial advisors is the one that concerns risk-taking. Indeed, some form of risk evaluation—whether it is called risk tolerance, risk appetite, or risk attitude—is a standard starting point of an advisory relationship. However, the measures commonly used are fraught with difficulties and have been subject to criticism. This is likely because risky choices are not the outcome of a single characteristic but the combination of (at least) two: risk perception and risk propensity (Sitkin and Pablo 1992).

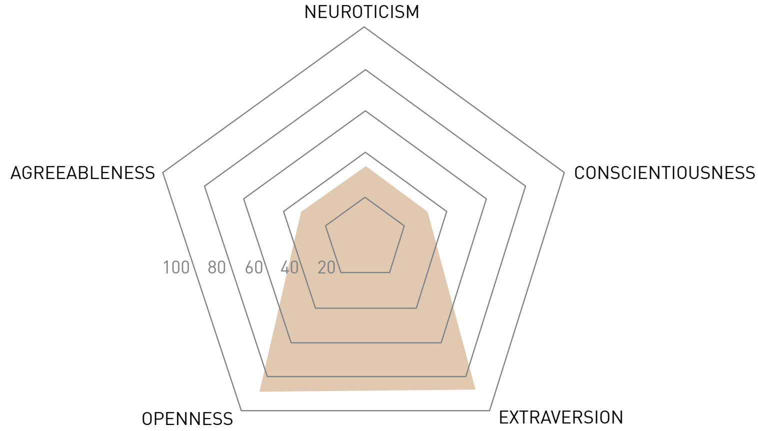
Risk perception is the risk we associate with a specific situation. It therefore depends on the characteristics of that situation. For instance, a bitcoin investor might perceive the risk of living within a mile of a nuclear power plant to be exceptionally high, but the designer of the nuclear reactor may perceive the risk as low. At the same time, the reactor designer might perceive dabbling in cryptocurrencies as reckless. Both individuals would be exposed to exactly the same risks, but their perceptions of the risks are different. Those perceptions also are subject to change. New information, for example, a radiation leak or a price change, shifting attention, or greater experience, could change those perceptions. Risk perception is, therefore, transient and context-dependent.

Risk propensity is the tendency of decision-makers either to take or to avoid the risks they perceive. This reflects the degree to which people find those risks attractive, i.e., sensation-seeking. Risk propensity is general, i.e., not associated with a specific domain, so it seeps into any kind of risk we perceive. For example, the bitcoin investor with a high risk propensity, having decided that a nuclear plant in the neighborhood is risky, might live there anyway. For such individuals, bearing risk is psychologically gratifying. In contrast, the reactor designer with a low risk propensity might eschew risky cryptocurrencies unless motivated to do so by some other psychological imperative, e.g., popularity, celebrity, success, etc.

The shortcoming of a risk-tolerance questionnaire that looks solely at risky choices is that it might inadvertently capture both key inputs simultaneously—one that is highly variable according to the specific situation and another that is largely stable according to the individual. With regard to investment suitability, however, the latter input is the one that advisors wish to target over the long term. Data has shown that risk propensity is significantly correlated with a Big Five cluster that combines lower agreeableness, neuroticism, and conscientiousness, with higher openness and extraversion (see figure 4).[2] So, personality testing might be a better way of isolating this part of risk attitudes.

Obviously, a financial advisor cannot change a client's risk propensity. Yet, the advisor can influence the risk the client perceives and therefore impact the overall risk attitude around the innate starting point. For instance, clients with a moderate risk propensity might nonetheless behave more risk averse when their perception of risk is high but more risk prone when their perception is low. The advisor is key in helping clients to maintain a consistent risk attitude. For instance, clients who believe their financial advisors have benevolent intentions perceive the risk of their investments to be lower (Brodie and Harnack 2018). Similarly, greater experience of financial markets, even computer-simulated experience, tends to reduce the perception of investment risk.

Figure 4 RISK PROPENSITY



ARE PERSONALITY TRAITS STABLE?

The Big Five are appealing to use to explain and predict behavior because these traits have stability over a lifetime. Longitudinal studies, which have used large representative samples in countries as varied as Germany and Australia, have shown that the membership of broad personality types hardly changes over time. Recall that types or clusters are commonly occurring configurations of several personality dimensions. Among the three most commonly found personality types in such studies are known as resilients, overcontrollers, and undercontrollers (Robins et al. 1996).

Resilients tend to have high scores on conscientiousness, agreeableness, and extraversion but low scores on neuroticism. They can be characterized as emotionally stable and self-confident. This type also overlaps with the cluster for high relationship satisfaction. Undercontrollers score lower on conscientiousness and agreeableness. They tend to be more impulsive, stubborn, and disobedient. This type, as we saw earlier, might also lack self-control. Finally, overcontrollers are characterized as emotionally fragile and tense. At least in one Australian sample, they scored high on neuroticism and openness but low on extraversion.

Personality traits that emerge during childhood and adolescence become more stable in adulthood. By some estimates, as many as 90 percent of individuals remain in the same broad personality type over their lifetimes. The systematic exceptions that have been reported mostly concern the undercontrollers. Especially among young men, there was a tendency for a certain proportion of them to morph into resilients. In old age, too, personality can undergo some substantial changes. However, researchers note that personality is highly consistent during middle adulthood, essentially between the ages of 30 and 65 (Specht et al. 2014).

CONCLUSION

The Big Five personality traits have been linked to some very important personal-finance outcomes. For example, a higher score on conscientiousness is one of the most significant predictors of wealth-accumulation behavior—saving, stock or mutual fund ownership, large share of wealth invested in stocks, retirement preparedness, etc. In contrast, subjects who score highly on extraversion are likely to be more short-term oriented, and those who score highly on neuroticism tend to overmonitor their investments. Therefore, knowledge of just one or two personality traits can provide useful insights for financial advisors trying to anticipate their clients' behavioral headwinds and tailwinds. The links between personality traits and individuals' information- and advice-seeking behaviors, as well as their susceptibility to persuasion methods, can similarly help to shape a service offering that is effective and appreciated. Furthermore, as these traits appear to be innate and stable over an entire adult life, a customized service plan can genuinely match a client's time horizon.

Herman Brodie is founding director of Prospecta Limited. He is a specialist in behavioral economics, an accomplished speaker, a trainer of decision-makers, and a co-author of The Trust Mandate (2018). *He is an international faculty member of the Portfolio Construction Forum, an education and CIMA certification body in Australia and New Zealand. Brodie also sits on the advisory boards of Ceannas, a leadership consultancy based in the United Kingdom, and Blue Square Wealth, an asset management firm based in the United States. Contact him at herman@prospecta.limited.*

ENDNOTES

1. For an overview of the Big Five model, see McCrae and John (1992).
2. Low neuroticism is associated with high risk propensity in all domains (social, financial, recreational, career, safety, etc.) with the sole exception of health, where risk propensity is associated with high neuroticism (Nicholson et al. 2005).

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