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The Influence of Personality Traits and Psychological Biases on Financial Decision-Making: Evidence from Albanian Investors

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Abstract

This study examines the interplay between personality traits and psychological biases in influencing investors' decision-making, focusing on the behavioral patterns of Albanian investors. Applying the Big Five Personality Model alongside behavioral finance frameworks, the research explores how dimensions such as openness, conscientiousness, extraversion, agreeableness, and neuroticism correlate with common behavioral biases, including overconfidence, loss aversion, herding, and regret aversion. Using Pearson correlation analysis, the study reveals significant patterns: extraversion and openness are positively linked to overconfidence, while neuroticism exhibits dual behavior—positively associated with herding and loss aversion but negatively with overconfidence. Additionally, openness demonstrates a negative correlation with herding, suggesting its role in fostering autonomous decision-making. These findings underscore the importance of personality-informed strategies in addressing behavioral pitfalls. Based on structured interviews with a purposive sample of 180 Albanian investors, the study highlights how socio-economic and cultural legacies contribute to behavioral bias formation. The insights are valuable for financial advisors and policymakers aiming to implement personalized interventions that promote more rational investment choices.

Keywords: Behavioral Finance, Personality Traits, Big Five Model, Psychological Biases, Financial Decision-Making, Correlation Analysis

1. Introduction

1.1 Background and Motivation

Investor behavior is shaped by an intricate interaction of psychological characteristics and personality dimensions. Behavioral finance investigates how individual factors—such as risk tolerance, financial literacy, personality type, and cognitive biases—affect investment decisions beyond what traditional economic theory can explain.

1.2 Research Gap and Context

This study focuses on the connection between personality traits and psychological biases and how this interaction influences financial decision-making among Albanian investors. The Big Five Personality Model, which includes openness to experience, conscientiousness, extraversion, agreeableness, and neuroticism, serves as the foundation for analyzing predispositions to biases such as overconfidence, herding, and loss aversion.

In Albania, the socio-economic background—rooted in a collectivist past—may accentuate specific behavioral tendencies. This context makes it particularly valuable to examine how personal and cultural dimensions influence biased decision-making.

1.3 Research Objectives

The paper aims to contribute to behavioral finance by providing evidence from a transitional economy and offering insights that can guide personalized advisory services. It proceeds with a review of the relevant literature, methodological design, empirical analysis, and strategic implications.

The objective of this study is to examine how personality traits and psychological biases interact to shape financial decision-making among Albanian investors. Specifically, it aims to:
(1) identify correlations between Big Five personality dimensions and behavioral biases;
(2) analyze how these interactions manifest in a transitional economic context; and
(3) offer practical implications for personalized financial advisory services.

Literature Review

2.1 Behavioral Finance and Investor Psychology

Albania, situated in the Western Balkans, presents a unique context for behavioral finance due to its socio-economic transformation. The country's shift from a socialist system to a market-oriented economy has left persistent behavioral patterns in financial activity. Recent studies suggest that financial literacy remains limited and informal mechanisms are prevalent in investment decisions (Dushku, 2022; Molishti & Ndoka, 2023).

Although behavioral finance has gained traction globally, its development in Albania is still in a nascent stage. A growing body of domestic literature has begun to examine investor behavior, with a particular focus on financial literacy, risk aversion, and overconfidence. For instance, Molishti and Ndoka (2023) identified clear gender differences in financial behavior among Albanian investors, highlighting women's higher risk aversion and men's tendency toward overconfidence. In a related study, Zylfo and Pojani (2022) found that younger and

male participants tend to exhibit greater financial risk tolerance, reinforcing the influence of demographics in shaping financial attitudes.

More importantly, studies are beginning to address the role of personality traits in financial behavior. Dervishaj and Cakerri (2022) applied the Big Five Personality Model to Albanian investors and found that extraversion, conscientiousness, and neuroticism significantly influenced investment levels, while openness and neuroticism impacted perceived investment certainty. These findings underscore the potential of personality-based profiling in understanding investor behavior within transitional economies.

In addition, Meka and Tosku (2023) explored behavioral biases in Albania's real estate market, revealing prevalent patterns of herd behavior, anchoring, and loss overestimation. This supports the broader notion that Albanian investors are often influenced by non-rational factors rooted in socio-cultural norms and collective behavior.

Despite these valuable contributions, there remains a lack of integrated models that simultaneously examine personality traits and psychological biases within the Albanian context. The socio-cultural environment—marked by collectivist legacies, institutional mistrust, and a cautious embrace of financial innovation—suggests the need for deeper behavioral insight. This study addresses that gap by examining the interaction of personality traits and behavioral biases among Albanian investors using an established personality framework.

2.2 The Big Five Personality Model

This section explores the links between personality traits and psychological biases, guided by the Big Five Personality Model. Recent contributions to the literature have broadened the understanding of how personality traits shape investor behavior across diverse economic and technological contexts.

Agarwal, Rao, and Nogueira (2025) found that behavioral biases such as overconfidence, anchoring, and herding significantly mediate the relationship between financial literacy and investment decisions, suggesting a need for more nuanced investor education programs.

Recent findings by Kusuma and Nurmasari (2024) reveal that personality traits and FOMO (Fear of Missing Out) significantly influence investment behavior in the cryptocurrency market, emphasizing the role of psychological factors in adoption decisions beyond traditional rational models.

Sayeed and Kapoor (2024) highlight that while Robo-advisors can significantly reduce behavioral biases such as the disposition effect and home bias through data-driven, automated guidance, they do not fully eliminate emotional influences on investor decisions.

Falsetti (2025) finds that AI-driven robo-advisors significantly enhance investment decision-making and personalization by using predictive analytics and adaptive algorithms, improving portfolio performance by up to 30%, mitigating behavioral biases, and fostering more rational investment behavior—despite raising ethical concerns related to data use and algorithmic bias.

Understanding personality traits is thus crucial not only for managing psychological biases but also for designing adaptive financial advisory platforms (Liu, 2024).

The Big Five Personality Model, widely recognized across cultures (McCrae & Costa, 1997), categorizes personality traits into five dimensions:

- **Openness to Experience**: Individuals high in openness are adaptable, curious, and original. They readily accept new ideas and beliefs, showing a preference for novelty and simplicity over uncertainty (Sadi et al., 2011, Good, 2024).
- **Conscientiousness**: Conscientious individuals are disciplined, responsible, and organized. They tend to believe their investment decisions outperform others and adhere to systematic approaches (Pan & Statman, 2013; Good, 2024).
- **Extraversion**: Extraverted people are sociable, enthusiastic, and easily influenced by external factors. They exhibit lower self-control and are more likely to engage in risky financial behaviors (Kamara & Dunbar, 2025).
- **Agreeableness**: Those high in agreeableness value honesty and interpersonal harmony. They are generous, empathetic, and more likely to trust advisors or follow collective behavior (Tam, 2024).
- **Neuroticism**: Neurotic individuals are emotionally unstable and prone to anxiety, impulsiveness, and irritability. This makes them susceptible to biases such as herding and loss aversion. Public procurement professionals with higher levels of neuroticism are significantly more prone to loss aversion, reinforcing the role of emotional instability in biased financial decision-making (Kamara & Dunbar, 2025).

2.3 Key Psychological Biases in Investment Decisions

Behavioral biases, inherent in human decision-making, can hinder investors' ability to achieve financial goals. The most common biases include:

- **Availability Bias**: Judging the likelihood of events based on how easily they come to mind, often influenced by recent or emotionally impactful experiences.
- **Overconfidence**: An overestimation of one’s abilities or the accuracy of predictions, often leading to excessive risk-taking.
- **Regret Aversion**: A tendency to avoid decisions that might lead to regret, often resulting in overly cautious behavior.
- **Loss Aversion**: A disproportionate fear of losses relative to potential gains, which can lead to suboptimal decision-making.
- **Herding Effect**: Following the majority, even against one’s own judgment, due to social pressures or assumptions that the group possesses superior information.
- **Disposition Effect**: Holding onto underperforming investments out of reluctance to acknowledge losses while prematurely selling winning assets.
- **Retrospective Bias**: Viewing past events as more predictable than they were, often misinterpreting the significance of previous financial signals.

- **Optimism Bias**: Overestimating positive outcomes while underestimating risks, potentially leading to imprudent financial behaviors.

2.4 Interplay Between Big Five Traits and Behavioral Biases

Recent research continues to support the association between specific personality traits and susceptibility to behavioral biases in financial decision-making. For instance, neurotic individuals consistently demonstrate higher herding tendencies and disposition effects due to their sensitivity to social cues and heightened fear of loss (Al-Omiri & Ozdemir, 2022). Extraversion remains positively associated with overconfidence and retrospective bias, as extraverts are more socially active and prone to rely on collective sentiment and external recommendations (Liao & Zhang, 2022).

Conscientious investors, typically rational and disciplined, may still experience regret aversion and disposition bias as a result of their desire to avoid failure or criticism for deviating from structured decision-making paths (Bashir et al., 2013; Nicholson et al., 2005). Moreover, openness to experience correlates positively with overconfidence but negatively with availability and herding biases, as individuals high in openness often seek diverse sources of information and rely on personal judgment rather than common narratives (Pan & Statman, 2013; Liao & Zhang, 2022).

In summary, the relationship between personality traits and psychological biases provides valuable insights for behavioral finance. Profiling investors based on these dimensions can inform tailored interventions, reducing biases and fostering more rational financial behavior.

3. Methodology

3.1 Research Design and Sampling

This study adopts a cross-sectional design to capture behavioral tendencies of Albanian investors over the period 2021–2024. Data were collected using structured interviews with a purposive sample of 180 experienced investors.

The purposive sampling strategy was guided by predefined inclusion criteria: participants had to (1) be over the age of 25, (2) have at least three years of active investment experience, and (3) possess medium to high-income levels as defined by national economic standards. These criteria were intended to ensure that respondents had both the financial literacy and practical exposure needed to reflect meaningfully on their investment behavior. Participants were proportionally selected from urban centers and mid-size towns to reflect the diversity of investment behaviors across Albania.

3.2 Data Source and Collection Justification for Interview-Based Surveys

Participants were selected based on their investment exposure through Raiffeisen Bank Albania. Raiffeisen Invest sh.a., a leading fund manager in the country, served as the data source. As of December 31, 2023, its Prestige Fund held 32.3 billion ALL (€275 million) in assets, representing a significant portion of the market. Across all funds, Raiffeisen managed a total of 44.8 billion ALL (€380 million). By collaborating with this institution, the study accessed a targeted pool of retail investors, enhancing the relevance of the sample within the desired profile.

To mitigate bias from the non-random sampling approach, efforts were made to ensure diversity across age groups, gender, income brackets, and geographic distribution within Albania. Additionally, by working with professional intermediaries from Raiffeisen, interviewers could verify investor qualifications and improve the accuracy and completeness of survey responses.

3.3 Analytical Approach and Limitations

The empirical analysis employs **Pearson correlation coefficients** to explore associations between the Big Five personality traits and key psychological biases. Pearson correlation is effective for identifying the direction and strength of linear relationships between continuous variables. However, the method carries certain limitations:

- It does **not establish causality**, meaning that observed associations cannot be interpreted as proof of a cause-effect relationship.
- It is also **sensitive to outliers**, which can disproportionately influence correlation values and affect interpretation.
- Moreover, Pearson correlation assumes **linearity** and may fail to detect nonlinear associations, which are possible when analyzing psychological behavior.

To address these limitations, extreme values were screened during data preprocessing, and robustness checks were conducted to ensure the validity of the findings. Future research may incorporate regression models or structural equation modeling (SEM) to capture more complex causal relationships and interactions among variables.

4. Empirical Analysis

4.1 Analytical Method: Pearson Correlation

The empirical analysis assesses the relationship between personality traits and psychological biases using Pearson correlation coefficients. Each of the Big Five traits—openness, conscientiousness, extraversion, agreeableness, and neuroticism—is evaluated against key biases such as overconfidence, herding, and loss aversion. The aim is to identify statistically significant correlations and understand how different traits influence susceptibility to behavioral distortions in financial contexts.

4.2 Results and Interpretations Key Trait–Bias Relationships

The analysis reveals several noteworthy patterns. Extraverted investors show a significant inclination toward overconfidence, likely due to their assertiveness and sociability. Openness to experience also correlates positively with overconfidence, reflecting creativity and belief in one's adaptive capacity. Neuroticism is strongly linked to herding and loss aversion, consistent with its emotional reactivity and anxiety-related tendencies.

Interestingly, neuroticism exhibits a negative correlation with overconfidence, suggesting emotional caution dampens overestimation of personal skill. Openness appears to mitigate herding behavior, likely because individuals high in this trait are confident in forming independent judgments.

4.3 Table Presentation and Findings Discussion

Trait–Bias Pair	Correlation (r)	p-value	Interpretation
Extraversion–Overconfidence	0.318	< 0.01	Significant positive
Openness–Overconfidence	0.226	0.002	Significant positive
Neuroticism–Herding	0.129	0.085	Moderate positive
Neuroticism–Loss Aversion	0.257	0.0005	Strong positive
Neuroticism–Overconfidence	-0.173	0.02	Significant negative
Openness–Herding	-0.125	0.094	Moderate negative

5. Discussion and Implications

5.1 Practical Implications for Advisors

In Albania, where financial advisory services are evolving and digital adoption is expanding, integrating personality profiling into advisory practices can significantly improve client outcomes. Policymakers could consider incorporating psychological profiling tools in national investor protection strategies to better safeguard against emotionally-driven investment pitfalls. National financial education programs—such as those supported by the Bank of Albania and the Albanian Financial Supervisory Authority—can incorporate brief psychological tools like the **Ten-Item Personality Inventory (TIPI)** or **Big Five** assessments within their digital literacy platforms. This would allow financial institutions and fintech platforms to tailor educational content and advisory outputs based on investors' personality profiles (Gosling, Rentfrow, & Swann, 2003).

Moreover, as Albania's recent **Education and Financial Inclusion Strategy 2024–2026** outlines, the Bank of Albania is committed to equipping individuals with financial knowledge, attitudes, and behaviors to make informed financial decisions. This provides a timely opportunity for collaboration: financial advisors and fintech companies can partner with the central bank to embed personality-driven profiling and behavioral nudges—such as diversified portfolio reminders or emotional risk alerts—within national financial literacy campaigns and digital tools.

Studies by Sayeed and Kapoor (2024) and Falsetti (2025) support the effectiveness of AI-powered robo-advisors in reducing behavioral biases like the disposition effect, herding, and emotional overreaction. Albanian banks and advisors could pilot **behavior-aware**

investment dashboards featuring adaptive messaging, real-time sentiment monitoring, and scenario simulation—especially relevant during market volatility, aligning with national goals on financial empowerment.

6. Contextual Novelty

6.1 Albania's Post-Socialist Legacy

What distinguishes this study is its focus on Albania—a post-socialist economy where financial behavior is influenced by a history of central planning, low institutional trust, and collectivist cultural residues. These factors shape investor psychology in subtle but powerful ways. This context is underrepresented in behavioral finance literature.

6.2 Relevance to Emerging Market Behavior

Additionally, this study introduces a profiling framework linking investor personality traits to specific biases, providing a foundation for diagnostic tools. Such tools can guide the design of advisory services, especially in emerging markets, where psychological drivers may differ from developed economies.

7. Summary and Conclusion

7.1 Main Findings

This study explored the relationship between personality traits and psychological biases in financial decision-making using a purposive sample of Albanian investors. Guided by the Big Five Personality Model and behavioral finance theory, the analysis revealed strong associations between personality dimensions and susceptibility to common biases.

Key correlations were identified: extraversion and openness to experience are linked with overconfidence, neuroticism correlates with herding and loss aversion, and openness inversely relates to herding. These patterns illustrate how individual psychology influences financial behavior.

7.2 Contribution to Behavioral Finance

By offering empirical evidence from a culturally unique setting, the study adds a new perspective to behavioral finance. The findings support the development of personalized financial guidance strategies and underscore the value of integrating personality assessment into investor profiling.

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