September 2007

Is Your Personality Affecting Your Investments?

(from the September 2007 edition of *PMD*)

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Do certain people make more money in the market because they are better suited to trading stocks or bonds than others? Mark Fenton-O'Creevy, coauthor of *Traders: Risks, Decisions, and Management in Financial Markets* (Oxford University Press; 2005) and his colleagues from several institutions in England recently addressed this interesting question by examining professional traders. The research group studied five personality traits of professional traders and correlated their presence with trading success as measured by earning power. Three of the five personality traits were significantly associated with success: emotional stability, openness, and introversion. The two other personality traits studied, agreeableness and conscientiousness, showed no association with trading skill.

Coping with the Environment

Stock and bond trading is stressful. This pressure can be associated with mistakes. If someone has a natural insulation against stress, ie, emotional stability, this person trades better and makes more money. Likewise, the ability to adapt to a fast-changing market requires openness, a willingness to accept the new—also a trait found among successful traders. On the other hand, the introversion connection is probably not related to the stress of the market at all but the ability of the trader to consider possibilities and pick the best one. It is also probably a reflection of their tendency to dig into the task at hand rather than socialize with others at work.

The Effect on Investors

How does this apply to individual investors? There is likely little correlation, because most trade their own accounts infrequently. That is why they are called investors, not traders. The rare outlier who does trade their account frequently could be the exception.

For individual investors who manage their own money and trade infrequently, there is good news. Personality characteristics hardly matter at all. Asset allocation and diversification of investments are scientific methods that provide proven success in the stock and bond market, despite personality. This is because 92% of investment return is due to asset allocation, which is dependent on diversification. In other words, you don't have to possess any particular personality characteristics to invest wisely. You just have to know how to use asset allocation, which takes your personality out of the equation and puts science into it. As Benjamin Franklin said, "An investment in knowledge always pays the best interest."

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