

# Women Investors

Perhaps one of the most common of stereotypes is that women tend to leave family finances to men, while they manage the serious tasks of raising children and keeping the household functioning.

If this were true, should we then expect that men would be better investors—in other words, is there a greater chance that they will achieve success with their investments than women? Or, for some reason, might the opposite be true?

## Confidence and gender

One often-cited study about gender differences and investing comes from research conducted in 2001 by two professors from the University of California at Davis, Terrance Odean and Brad M. Barber. The study examined the trading habits of male and female investors, and the effects that those habits had on investment performance.

Odean, speaking at a Morningstar Research, Inc., conference in June, reiterated his findings that men tend to be sure of their ability to make good investment decisions, while women are far more cautious. A tendency toward overconfidence can lead to excessive trading, borne out by the Odean-Barber research: Their data indicated that men traded 45% more actively than women, and single men traded 67% more actively than single women.

The investment performance favored the women. “Overactive” trading reduced the men’s net returns by 2.65 percentage points a year, compared with 1.72 percentage points for women. The reduced return came from the increased expense of extra trades, plus the fact that newly purchased securities did not outperform those that were sold.

Some of Odean and Barber’s findings are supported by a 2007 study of U.S. equity fund managers from 1994 to 2003. It found gender-correlated behavioral differences among fund managers who had a comparable educational background and experience. Women fund managers were more risk averse than men fund managers, and, as Odean and Barber found, they traded less. However, the study did not find any significant difference in the risk-adjusted investment performance of female- and male-managed funds.

## An explanation

There is some evidence that younger women are more comfortable managing their own finances today, according to Tahira K. Hira, author of *The Handbook of Consumer Finance Research*, published in 2007. In the past the division of labor really did follow what, today, we consider stereotypical.

Hira’s research found that women chose to focus on day-to-day tasks. Whether they had the skills or not,

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the demanding and time-consuming assignment of planning for their family's financial future was an aspect of their lives that they left in the hands of their spouses.

The result, says Hira, is a catch-22: "Many women have low confidence because they haven't done a lot of planning or investing. And because they find it difficult and stressful—or they aren't expected to deal with it — they don't get the experience that would boost their confidence."

## Unique challenges for women

There are some indisputable facts about the role gender plays in a woman's financial life. For one, they live longer than men. Figures recently released from the National Center for Health Statistics put the average life expectancy of a woman at 80.7 years; a man, 75.4.

Women who have chosen to be out of the work force for several years, or who work part-time in order to raise a family, might earn less, and they might be less likely to be covered by a company retirement plan or, if they are covered, might receive a smaller pension or payout. Some women may find that they lack funds sufficient to provide income that will see them through what may be a long life, including, perhaps, some years living on their own.

## What we can do

The major studies on gender differences examine behavior and investment results from people who make their investment decisions based upon their own knowledge and experience.

What's missing from the equation is what a professional might accomplish for investors of both genders. The challenges that women face call for an investment strategy that will provide long-term security. Even men who feel confident about their investing abilities can learn about new opportunities and alternatives to their current strategies.

That's why we believe that we can provide valuable services for both men and women . . . and why we recommend that you make an appointment now to discuss how we can assist you with your investment management needs.

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