

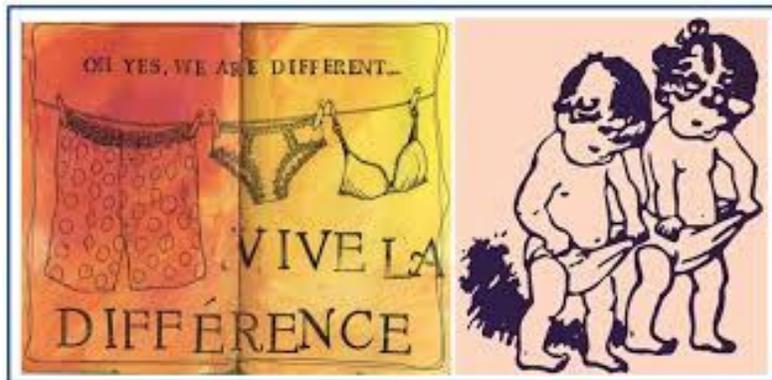


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Sex and Investing



By Daniel R Wessels

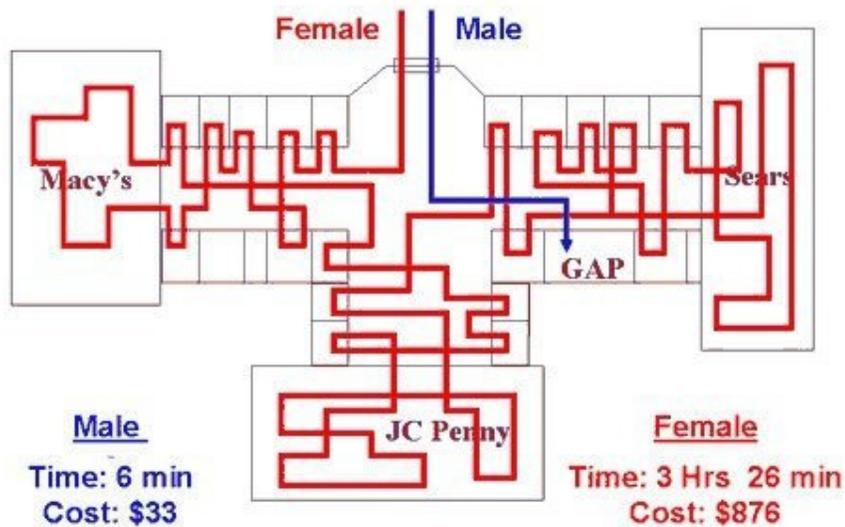
Well, there may be many instances where I do not possess prescient knowledge, but I am confident that this article heading will attract a lot more attention (or in internet parlance known as “hits”) than my usual boring or business-like topics. But no, I am not in search of some cheap sensation or instant “fame”. My intentions are innocent in so far I am referring to gender differences in investment behaviour among men and women. Thus, I regret to downsize any heightened expectations readers might have had, but I shall try my best to keep it an informing five to seven minutes, well depending on your speed reading abilities, of course...

I must confess, however, the heading sounded appealing, if not somewhat daring, because these two words are not often mixed together in one sentence. Yet, if you like to believe someone like Sigmund Freud the unconscious mind and basic human motives indeed play a major influence in our daily activities and decision-making. Not surprisingly, some of the gender differences in investment approaches can in all likelihood be attributed to the differences how men and women perceive their respective roles in relationships and society.

Investment perceptions about women are rife with stereotypes, but diligent research indicated that many of these stereotypes are unfounded. In fact, if everything, women’s approach to investment decisions generally are more likely to lead to successful investing in the long run.

All of us have some (dreadful) experience about the difference between how men and women shop, as illustrated by the sketch below showing how women generally take their time and vigorously compare and shop around before making a final purchase. Men, on the other hand, supposedly know what they want and where to buy it from, and while they minimized their opportunity cost (freeing up their time for other uses), there is actually no guarantee they have not missed out on much better alternatives or prices elsewhere.

Mission: Go to Gap, Buy a Pair of Pants



Does this difference in approach also spill over to investment decisions? Yes, indeed, according to *BlackRock*¹ research studies found basically three tendencies how women typically differ from men when making important investment decisions.

¹ Nelli Oster, 2014. "Men vs Women: Investment Decisions", BlackRock, February 26.

Firstly, women tend to focus more on longer-term, non-monetary goals than men. Women generally associate money with security, independence and the quality of their and their families' lives. Men tend to be more competitive and thrill-seeking by nature, and often focus on short-term trends or track records of their investment portfolios. Not surprisingly, women tend to be more risk-averse or cautious than men which in certain circumstances can be to their own detriment, but likewise men may take on too much portfolio risk at times. Not only do men typically include more stocks in their portfolio than women would do, but also the type of stocks would be of a riskier nature.

Secondly, women tend to be thorough and take more time to make decisions than men. Women tend to research investments in depth and consult with advisors before making decisions. Also, women tend to be more patient while men are more prone to market timing impulses. The latter group tend to make changes to their portfolio more often when they perceive it as underperforming. Women generally exhibit more patience towards underperforming assets and are more likely to consult with their advisors before making portfolio changes. Whereas women prefer group discussions to gather information, men are more likely to follow an independent learning approach, i.e. collect their own information, but also are more likely to disregard conflicting information.

Thirdly, women tend to seek help and advice more than men. Women tend to be more receptive to financial advice and research, whereas men...well they

have those egos and they never want to look out of their depth in any situation! Men typically view themselves as being more knowledgeable about investments than women describe themselves. I guess most men would probably consider themselves as above-average investors, even though the benchmark of the “average investor” is not clearly defined. Thus, men tend to be more confident than women about making investment decisions. Unfortunately, in the investment game there is a fine line between confidence and overconfidence and the latter condition always lead to great sorrow or humbling experiences down the road.

But, of course, the above differences are tendencies and not absolutes. One cannot say all men will always take on more risky investments than women, or women will always shy away from any potential investment risk. In today's modern world women often are highly qualified, follow professional careers, earn salary packages matching those of men, and are the main or sole breadwinners of families. Thus, it will be fair to say that quite often such differences will be benign – context is important.

Nonetheless, given the differences, where does it originate from? Nature or nurture? It is not really clear, but the importance of the acute differences in the conventional upbringing of boys and girls in modern western societies cannot be underestimated. For example, boys are encouraged to participate in fiercely competitive sports where there are little sympathy shown towards them for not winning their matches (“your performance was simply pathetic today, you better man up or else...”). Even if girls were to participate in such

sports, typically much more sympathy is shown towards the losers (“bad luck, you’ll do better next time”). From an early age the competitive spirit among boys is nurtured and they learn confidence in one’s own abilities and to exert oneself are prerequisites for success in a competitive domain.

Merrill Lynch published recently a research report² that concluded that both sexes share a number of fundamental similarities as investors and are in fact much closer in their investment views than generally perceived. Research often overlook the fact that men and women are individuals, not types. Where differences do occur, it seems to be more shaped by social and demographic factors – education, employment status and financial circumstances - than by inherent characteristics. Their findings were based on investment personality assessments that consist of responses to 27 statements designed to reveal how respondents think and feel about investing. In total 11,500 responses were used in the study of which about 5,000 were completed by women.

Some of the findings include:

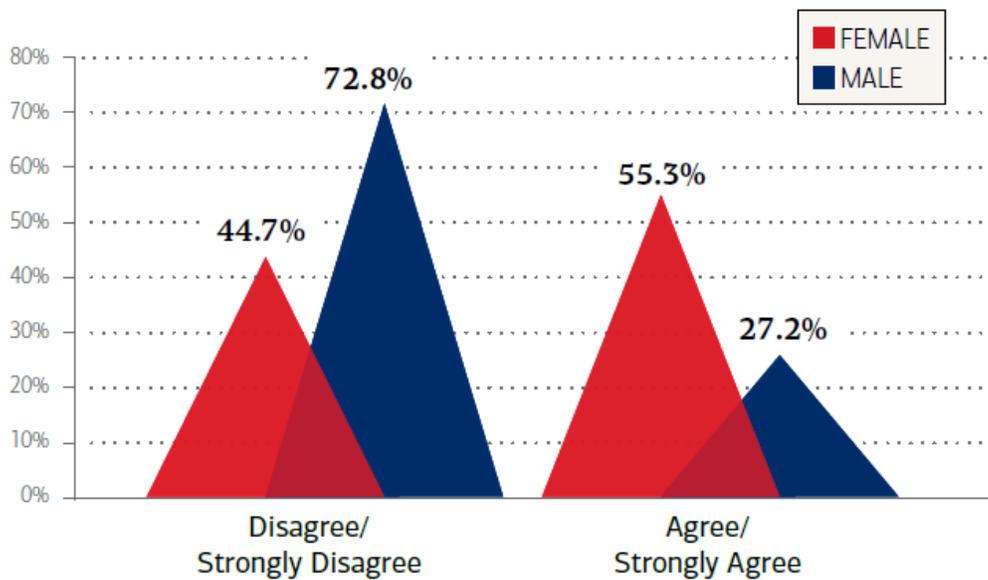
- 85% of women agree that risk-taking is beneficial or that they can adapt to changing market conditions;
- Men and women who have similar levels of financial knowledge exhibited similar risk behaviour (asset allocations, investment portfolios);

² Michael Liersch, 2013. “Women and Investing: A Behavioural Finance Perspective”, Wealth Management Institute Merrill Lynch, November edition.

- More than 50% of women and men respondents indicated that they want to be personally involved in making investment decisions.

But the gender difference that seems to have the most significant impact on investor behaviour is men and women’s reported level of financial knowledge. Women were far more likely than men to say they had lower levels of financial knowledge. More than half agreed with the statement, “I know less than the average investor about financial markets and investing in general,” compared with only a quarter of men who said they felt that way.

“I know less than the average investor about financial markets and investing in general.”



Men, who generally are more confident about investment matters, trade much more than women, and as mentioned earlier, confidence easily can spill over to overconfidence and unchecked risk taking. Overconfident investors tend to think they know more than they actually do. Often, novice or amateur investors that achieve initial success with a certain trading strategy develop a sense that they have worked it all out and enduring profits will be a logical result of their “market-beating insights”. Needless to say, these investors will find out it is not like hitting a tennis ball against a wall with a predictable return to hit back at, but rather real invisible opponents, often with much better skills (access to information) to expose the shortcomings in one’s strategy.

Interestingly, in one study³ that analysed 35,000 stock broking accounts over a number of years it was found that male investors not only preferred more risky stocks, but also traded nearly 50% more than women. The excessive trading, however, detracted from rather than added to overall investment returns and as a group men actually underperformed their female counterparts by about one percentage point per annum. This result does not prove that women *per se* are better investors, but rather that excessive trading hurt investors’ returns and because men generally traded more they underperformed female investors.

³ Brad Barber and Terrance Odean, 2001. “Boys Will Be Boys: Gender, Overconfidence and Common Stock Investment”, *The Quarterly Journal of Economics*, February.

Thus, what are the practical implications and considerations of highlighting gender differences in investment behaviour, even if it is relatively benign in a present day context?

Basically, one has to deal with lack of confidence on the one hand, and on the other with overconfidence issues. Women generally would probably need clear advice to build their knowledge and confidence about investment strategies, various asset classes and expected return scenarios. Likewise, men might need advice to cross-check their investment strategies and risk profiles, especially highlighting the dangers of over-investing in highly speculative bets. Either way, investment advice should play a central role in formulating sound investment strategies to meet individuals' goals and to prevent a severe mismatch of required versus expected returns.