# Understanding the Differences between Male and Female Investors

by Dr. Vicki Bogan

We all know that men and women are different. It is no surprise, then, that differences show up in their financial behaviors. Although the success of their investments largely depends on the performance of the choices they make, their approach to investing often partly depends on gender. Overall, women invest less money, and do so in less risky investments than men do (Hira & Loibl, 2008). Research has shown that gender influences investment decision-making in three ways: risk, confidence and preferences. Let’s take a look at each:

## Risk

Women are generally more risk averse than single men when it comes to financial decision-making (Jianakoplos & Bernasek, 1998; Croson & Gneezy, 2009). Research suggests that this is because women are more likely than men to underestimate potential gains, particularly when the decisions are framed in investment terms (Fehr-Duda, DeGennaro, and Schubert, 2006). Moreover, women are less risk seeking than men regardless of their familiarity with an investment, investment framing effects[1], investment costs, or ambiguity with regard to returns (Powell and Ansic, 1997).

As an advisor, it is important to recognize these gender-related risk tendencies and help clients take the appropriate amount of risk for their particular situation. The fact that women are generally more risk averse is critical for a number of reasons, the biggest being that women tend to live longer than men. This means that their retirement portfolios have to earn an adequate return to sustain their household over a longer time period. Taking on some financial risk is the only way to be able to do that.

## Confidence

There are two sides to consider with regard to investor confidence and gender.  Women generally feel less competent in financial matters than men (Beyer and Bowden, 1997), and so they may not be as financially active as necessary. For men, however,

[1] A framing effect is a behavioral bias, in which a person responds to a specific choice in different ways depending on whether the choice is presented in terms of a gain (positive frame) or in terms of a loss (negative frame).  People tend to avoid risks when a positive frame is used but seek risks when a negative frame is used.

***over***confidence is the concern. From a behavioral economics perspective, overconfidence means believing your skill, ability or knowledge is better than it actually is—and research has shown that overconfidence affects male trading and investment behavior (Barber and Odean, 2001). Men tend to be more financially active than is necessary or warranted; they trade more than women, and as a result, their average net returns are lower than women's (once transaction costs and fees are considered).

As an advisor, recognize that women tend to be less financially active than they should, while men may want to trade and turn over their portfolios more than is ideal. Encourage women to be actively engaged with their portfolios. For men, help them manage their overconfidence by helping them avoid rash decisions and overreactions to market whims; this may mean adopting a systematic financial investment strategy, and a periodic rather than continuous review and rebalancing of their portfolios.

**Preferences**

In general, men are more focused on wealth accumulation, while women are more focused on wealth preservation. Women often have a "safety first" mentality, and are more likely than men to say they have lower levels of financial knowledge (more than half of women agree they know less than the average investor about financial markets and investing, compared to only 27 percent of men[2]). As a result, women prefer to seek financial help more often than men do, and they are more receptive to financial research and advice.

Keep in mind that the financial services industry is still male-dominated; conversations can frequently include a lot of jargon that is outside of everyday vernacular. Because women are more likely to say they have less financial knowledge, advisors should talk to women investors in straightforward, jargon-less language.

It is clear that men and women investors differ in their risk aversion, confidence, and preferences. This suggests they will want different portfolio strategies. Women investors are a growing market—in 2015, women controlled $14 trillion, or 51 percent, of all personal wealth.[3] This means advisors need to make sure they understand gender-related tendencies in financial decision-making and tailor advice and products to address the unique differences.

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[2] "Women and Investing: A Behavioral Finance Perspective." Merrill Lynch report. December 2013.
[3] "Financial Concerns of Women." BMO Wealth Institute report. March 2015.

**Key Takeaways**

- For women, taking too little risk, due to lack of confidence, can hurt investments goals. Encouraging them to take on an “appropriate” level of risk is important.
- For men, avoiding rash decisions and overreacting to market whims is essential. Overconfident men can benefit from executing a systematic financial investment strategy and a periodic rather than continuous review and rebalancing of their portfolios.
- While men and women may have different approaches to financial decision making, it is important to engage both men and women in a thoughtful discourse about investing. Identifying the right level and manner of engagement can be invaluable in managing their investments toward identified goals.

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