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Women & Investing: A Stronger Grip on Their Financial Futures

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> "If you don't let not knowing how it's done intimidate you, it's amazing what you can do."
>
> Sara Blakely, Founder/Owner of Spanx, Part owner of the NBA Atlanta Hawks

The power of the purse is increasing at a rapid pace. A third of the world's financial assets is now under the control of women. From 2016 to 2019, they accumulated wealth at a compound annual growth rate of 6.1%. Over the next four years, that rate will accelerate to 7.2%—adding $5 trillion more annually to the global wealth pool, according to a comprehensive global study.[1]

These strides are equally apparent in the United States, with women no longer relegated to the passenger seat when it comes to investment decisions and in control of $10.9 trillion.[2] That amount is expected to reach $22 trillion within 10 years and then increase even more as Baby Boomers are expected to eventually pass down at least $30 trillion, and heterosexual women—who are 60% more likely to outlive their husbands—are due to inherit a disproportionate percentage of this wealth by 2030. This is a potential wealth transfer of such magnitude that it approaches the annual U.S. gross domestic product, which stands at over $24 trillion dollars (according to the St. Louis Fed, as of 6/29/22).

While they are increasingly becoming powerhouses in the financial arena and being more actively engaged in financial decisions than ever before, studies show women still face unique challenges that highlight the importance of making planning a priority.[3] In this paper, we explore how a growing number of women are taking ownership of their financial lives, the characteristics that make women adept investors, and where further opportunity exists for them to fulfill their potential as captains of their financial destinies.

Think pink: Overall, women enjoy innate investing advantages

When women choose to take charge of managing their money, the results can be quite good. A 2018 study performed by Warwick Business School found that women outperformed men at investing by an average 1.8 percentage points per year over a 36-month period.[4] Over time, this has the potential to amount to a big difference in total wealth. The study examined the trading habits of 2,800 investors over three years. It concluded that the reason for the outperformance by women was a result of men more frequently picking speculative stocks, holding onto losing positions longer, and taking profits sooner.

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However, the list of reasons women have tended to generate impressive investment returns runs quite a bit longer. While all investors face the challenge of being swayed by normal human biases and emotions, in particular fear and greed, which can be counterproductive to potential investment success, women overall tend toward certain behavioral traits that seem to provide innate investing advantages, i.e., in general, a behavioral personality that is typically more conducive to better investment judgment.

Underscoring this is a 2019 research study, which found that gender was a key determinant in a range of biases and emotions that undermine investment performance results.[5] For example, results indicated that women are generally more likely to exhibit these behaviors: anchoring (depending too much on initial information); disposition effect (the tendency to sell stocks that have gained in value and hold onto stocks that have declined in value); and herding (following the actions of a group). Conversely, male investors are traditionally overconfident and take greater risk in investment decision making than their female counterparts.

Because women may tend to perceive risk where men may not (attributable in part to the latter's overconfidence in their investing skill), women tend to have more diversified portfolios and avoid the "risk of ruin" stocks, i.e., those with the potential for significant, unrecoverable loss. In that same study, the research insights also postured women's behavioral personalities may lend themselves to practicing greater patience, staying away from timing the market, and favoring investing in professionally managed portfolios and funds rather than individual stocks.

In our experience, we have found that women are less afraid to ask questions, which is essential to becoming a more knowledgeable, confident, and successful investor. A recent analysis of female portfolio managers by investment bank Goldman Sachs is illustrative of the advantageous investment qualities of women overall. They examined all U.S. large-cap stock mutual funds and found that through the period of January 2020 to August 2020—a time marked by a steep, pandemic-induced bear market and a quick recovery—women fund managers outperformed male managers by a full percentage point, showing the power of the patient, long-term focus many women can bring to investing.[6]

Other research has traced the origins of women's natural inclination toward strategic investing to biological forces and has shown they exhibit less overtrading and testosterone-associated aggression than their brethren. The result? A greater tolerance for standing pat in the face of market noise and a more consistent application of investment strategy, according to Meredith Jones in her book, *Women of The Street: Why Female Money Managers Generate Higher Returns (and How You Can Too).*[7] "Women create both cognitive and behavioral 'alpha'* with their investment style which contributes over the long run to outsized investment returns," Jones explains.

* Alpha is the excess return of an investment relative to that of the benchmark index it tracks.

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Meanwhile, in the C-suites...

Business instincts have also been noted outside the investment arena, where leadership roles have been accelerating in recent years. One study by S&P Global, a financial information and analytics company, found that firms with female chief executive officers and chief financial officers produced greater stock price performance compared to the market average. These results came quickly, too, with a 20% jump in stock price momentum in the 24 months post appointment of a female CEO.[8]

Similarly, more gender-diverse boards of directors have sometimes led to better corporate performance. For instance, in an analysis by the Massachusetts Institute of Technology Sloan School of Management, companies with gender diverse boards had a higher commitment to research and development, obtained more patents, and reported higher levels of innovation.[9]

Generational differences in empowerment and confidence

Despite the growing investing engagement of women, it appears investment acumen is greater in the hands of Millennial women overall, relative to their Baby Boomer mothers. For instance, about three in ten Millennial women (those born between 1980 and 1995) say they enjoy managing investments, compared to only 21% for Baby Boomer women.[10]

Greater financial literacy has generally translated to greater confidence and empowerment. A full 70% of Millennial women said that they take the lead in all financial decisions, compared with just 40% of female Baby Boomers.[11] Significantly, unlike past generations, 66% of married Millennial women *stay* involved in financial decisions, compared to 29% of female Baby Boomers.

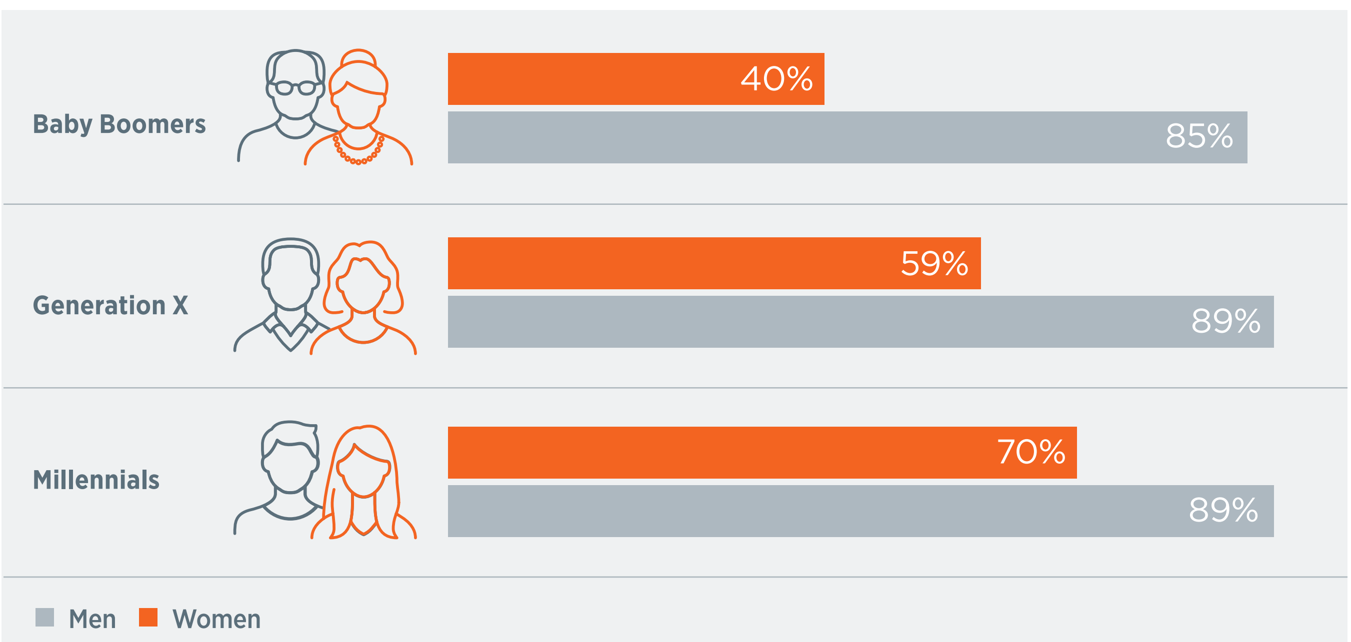
Mind—and narrow—the gap

Only by closing the gender gap in investment participation can you truly become the "master of your wealth universe." There are a number of ways to help narrow this divide and put yourself firmly on the path of financial independence.

First, work to break down mental barriers. In our experience, non-investor men and women alike typically erect mental barriers that keep them from investing. Beliefs like "investing is for the professionals," "it's too complicated," "I don't have enough money," or "I might lose all my money" may be real fears, but like many fears, they tend to be out of proportion to the reality, in our view. Also similar to many fears, knowledge can help assuage concerns through education and understanding of investing principles.

Figure 1

Share of respondents who fully take the lead in financial decisions (%)



Source: Boston Consulting Group; April 9, 2020.

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Working without a written financial plan is like a traveler taking a journey without a map. A plan can help prioritize goals, calculate funding levels to reach those goals, and define the most effective investment strategy to attain those goals.

Rather than focus on fears, we suggest reframing investing in a way that inspires you to work toward achieving your highest aspirations. The world is on the cusp of a new era of technological possibilities that may well reward those who invest in that future, and there is no reason for women not to participate in the wealth generation that may follow.

Next, strive to build self-confidence. This quality can be nurtured in a number of ways—through education, experimentation, building a supportive network, and working with an experienced advisor. All can likely assist in developing the confidence you need to make the best investment decisions for your personal circumstances and objectives.

Easier said than done? Well, a proven way to boost confidence is by not going it alone. Investors who work with a financial advisor reported higher levels of investment knowledge and confidence. They also perceived themselves to have a higher risk tolerance and consequently held almost 15 percentage points less cash than self-directed investors who operate on their own.[11]

A financial advisor can be an invaluable resource in helping you make the critical financial and investment decisions you face. Many women agree, with 60% of wealthy women already using a financial advisor.[12] One of the most important advantages to partnering with advisors is their ability to guide in the creation and periodic updating of a financial plan. Working without a written financial plan is like a traveler taking a journey without a map. A plan can help prioritize goals, calculate funding levels to reach those goals, and define the most effective investment strategy to attain those goals.

Why financial planning matters

Many women do not prioritize financial and investment planning in their personal lives, and once again, a lack of confidence is often at the root of it. Whether it is a lack of familiarity with investing, an understandable measure of anxiety and fear about making investment decisions, or an uncertainty about how to get started and where to turn for help. Research shows women have significantly lower confidence in managing their investments than in other areas of their financial lives, such as budgeting, paying off debt, or buying life insurance.[13]

In looking for a professional with whom to partner, it's important to find an advisor who is willing to talk *to you* as an intelligent partner, not *down to you*, and one who is willing to take the time to listen to you and understand your needs and goals.

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Though the psychological benefits of financial security are great, many women may also be motivated by the unique economic realities they face.

Inaction and delay, however, are only likely to create more anxiety and not address the pressing imperative to create a financially secure future. Distant goals can be difficult to work toward, but we have found that women who are more engaged in managing their investments—and who reap the financial independence it can facilitate—may also experience greater life benefits, including:

- **Creating a higher sense of well-being:** Wealth doesn't necessarily make one happier, but financial security can translate into a greater sense of well-being and optimism about the future. In one survey by BlackRock, a large asset manager, people who plan are 43% more positive about their futures, regardless of age, wealth, gender, or life stage.[14] This finding was supported by a separate survey that found that individuals with retirement plans reported higher degrees of well-being (76%) than those without retirement plans (52%).[15]
- **Enjoying greater happiness through self-determination:** Women in charge of their futures enjoy higher levels of life satisfaction.[16] There is a deep body of research that supports the idea that active planning toward goals increases the odds of a successful outcome, generating a higher positive self-image. In other words, there are emotional benefits to being actively involved in meaningful accomplishments.
- **Converting aspirations into reality:** Financial goals are based on individual circumstances, needs, and desires. They can range from funding a child's education to retiring abroad or starting a foundation in an effort to catalyze important social change. Realizing big dreams can happen only through planning and smart, disciplined investment decision making.

Though the psychological benefits of financial security are great, many women may also be motivated by the unique economic realities they face. The fact is that the path to financial independence for women has historically been rockier than for men. Earning less, having a greater propensity to take career breaks to care for family, and living longer are just some of the life experiences that can create a higher hurdle for women to clear to secure their financial goals. This hurdle may appear daunting, but through careful planning and sound investing, we have seen that it can be overcome.

And with empowerment under way, the student can become the teacher and you can prepare to pass the torch to both your daughters and your sons. With younger children, talk to them about finances, investing, and wealth planning as soon as they're old enough to understand. When they're older, include them in meetings with advisors. You also may want to consider family giving and philanthropy as a way of reinforcing closely held values and involving your children in the causes that are important to you. In turn, they may well take their cues from your example, and be better positioned to preserve and enhance their legacy.

How may the insights expressed in this paper potentially impact your portfolio and wealth management goals? Consider reaching out to an advisor to discuss next steps.

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