Forbes

The Unique Ways Women Approach Finance

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By Brian Bloch

The standard cliché is that, relatively speaking, men are financial daredevils who like risk and that women are cautious and want security. Alternatively expressed, men are more risk friendly than women. Or to rephrase the title of a bestseller, “men buy shares from Mars and women have a savings account on Venus.” Articles published in the Swiss Neue Zürcher Zeitung (NZZ) and in various other sources, shed new light on the combination of myth and reality captured in the above paragraph.

There Are Differences

In an interview with the NZZ, Christine Schmid of Credit Suisse explains that the sub-discipline of gender finance deals with the social differences between men and women. Anja Peter, of Bank Coop in Switzerland concurs that “naturally, there are differences between men and women, biologically and socially, and this is reflected in investment behavior.” For instance, women are generally more interested in such issues as ecology, ethics and microcredits. However, when it comes to the crunch, this interest does not always impact on the actual investment decision.

A study conducted at the Centre for Financial Research at the University of Cologne found that female fund managers switch around their portfolios less than their male colleagues. Furthermore, women’s strategies and the subsequent performance tend to be more stable.

Historically, women have had less to do with financial decisions than men and their investment volume has also been lower. However, that is changing. Find out about one lady that bucked historical trends in Hetty Green: The Witch Of Wall Street.

Female Risk Aversion?

Recent studies shed new light on the typical investment behavior of women. The German Institute for Economic Research (DIW) recently evaluated data from more than 8,000 men and women.

At first glance, the study seems to confirm the standard view, but not all that strongly, as 38% of women have risky financial products such as stocks, whereas it is 45% for men.

However, the DIW does not believe this confirms an inherent risk aversion on the part of women. A regression analysis reveals that women would take more risk if they had more money. Women generally still have only have about half as much to invest as men, which inevitably compels them to be more cautious; that may be the real reason for the apparent risk aversion.

Career Barriers and the Glass Ceiling

In the same vein, there are still few women applying for jobs or working as financial researchers or brokers. Schmid believes that women continue to gravitate to where there are other women, but hopes that these barriers will break down over time. Clearly, there is a link between the career side of the gender equation and investment behavior.

Lower Self Confidence, but Higher Performance

Interestingly, studies by the German Comdirect Bank and the DAB reveal that, while women have less confidence in their financial knowledge than men, this is not matched by poorer investment choices and management. The study revealed that 58% of men rated their financial understanding as good or very good, but only 47% of women. Furthermore, a large sample of almost half a million private portfolios demonstrates that in 2007 and the crisis year of 2008, women did 4 to 6% better than men.

The Road Ahead

Over time, these differences are likely to decline, but not disappear altogether. After all, there are centuries of entrenched gender roles, and elements still remain and are likely do so to some extent for the foreseeable future. Furthermore, given that women are genetically the child bearers, some aspects of the male-female roles are intrinsically fixed by nature. Thus, more women than men will still find it harder to invest in the true sense of the word.

Nonetheless, we can certainly expect the behavioral trends to diminish. After all, never before have there been so many highly qualified women who earn well, have money to invest and want do so securely and appropriately. Furthermore, many observers (and studies) state that women often invest remarkably well.

This in turn will lead to more programs that focus on female investors. The Swiss Bank Coop, with its Project Eva, is a classic example, and is sure to be followed by many others over time. The presence of female investment clubs, on the Internet and beyond, constitutes another sign of the times.

Barbara Aigner, of Emotion Banking in Austria, believes in a specifically female customer segmentation, which looks like yet another way ahead. She divides the female customer segment into three groups of “self-conscious, pleasure oriented” younger women, an “interested and open-minded active group” of women who are more interested in what the bank offers and the “traditional conservatives” who are loyal and risk averse.

The Bottom Line

It is really only in the 20th century that women have managed to break down many of the barriers in a male-dominated world. The role to which women have been relegated has constrained both their financial knowledge and activities. This situation is changing constantly. Nonetheless, some of the clichés are entrenched in the mind and some elements of the old role inevitably remain intact in practice. In any event, understanding gender differences and how they are changing over time – and catering effectively for them – is fundamental to understanding and managing the world of investment.