Mythbusting: Women investors

Stereotypes are a lazy way of thinking, but they are all too easy to fall into. Some common stereotypes about women as investors is that they have less investment knowledge than men do, that they lack confidence in their decisions, and that they are more risk averse than the men.

The impact of such traits on investment habits, even if true, are unknown. However, it has been possible to compare the relative investment performance of men and women. In general, women have been better investors. An early example of this observation was made in 2001 by two finance professors, Brad M. Barber and Terrance Odean, in their article, “Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investments.”

The professors were granted access to the trading records of a large discount brokerage firm. Over a six-year period, they discovered that:

- Men trade 45% more than women do.
- Excessive trading leads to excessive costs, which are not offset by higher returns.

Trading reduced net return for the men by 2.65 percentage points, and their lesser trading volume reduced women’s net returns by only 1.72 percentage points.

- Single men trade 67% more than single women do, reducing their returns by 1.44 percentage points more than the returns of the ladies.

What accounted for the relatively poorer showing of the men? Overconfidence is the most likely culprit, the professors theorized. Overconfidence leads to both excessive trading volume and poor stock selection. A second fact may be fear of regret, which causes investors to hold on to their losers longer than they should.

New study

Now a new study of the trading records of 2,800 investors over 36 months at Barclay’s in England has been done, and it has essentially similar conclusions, 17 years on. For example:

- Women traded an average of nine times per year, while the men traded 13 times—put another way, men’s traded 44% more than women did, on average.
- Men tended to choose speculative, lower-priced shares, which the researchers dubbed “lottery style” investing. Women avoided such stocks, focusing instead on companies with strong track records.
- Men were more likely to keep their losers and sell their winners—that old fear of regret that comes when a loss is finalized.
- Researchers concluded that men seem to invest for the thrill of investing, while women seem to invest for the long term to meet financial goals.

Bottom line, the women’s portfolios outperformed the men’s. The benchmark was the FTSE 100, the British equivalent of our S&P 500 stock index. The men beat the benchmark by a scant

0.14 percentage points, and the women beat it by 1.94 percentage points. Thus the women outperformed the men by 1.8 percentage points.

That may not sound like much, but over a period of years the compounding effect of an extra 1.8% return really adds up. Given that women live, on average, five years longer than do men, the additional return will be vital to financial security.

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