

# The differences between men and women when it comes to investing

Men and women are different, right? This seems so obvious in so many ways, but until recently there was an assumption that from an investment viewpoint they were essentially the same.



If it were thought about at all, men were probably considered to be more aggressive and favour shares, and women more conservative and favour fixed interest, property and cash. But these were mainly guesses.

Now there is some real information. A recent survey undertaken by Merrill Lynch Investment Managers\* in the United States has discovered some interesting and pertinent observations, especially for women. Canvassing one thousand investors (half male, half female) for their attitudes, beliefs and knowledge levels concerning investment this groundbreaking research found that not only do women invest, but they also make fewer mistakes than their male counterparts.

## The survey findings

It turns out women are likely to be more disciplined and less likely to make the same mistake twice. They are also more likely to admit to a lack of knowledge and more willing to enlist the support of a financial adviser. Men on the other hand, are more likely to buy a 'hot' investment without doing any research, more likely to hold onto a losing investment and more likely to ignore the tax consequences of their investment decisions.

Interestingly, the results also indicated that investors could also be divided into four distinctive investor profiles; the competitive investor, the measured investor, the reluctant investor and the unprepared investor.

\* The survey was conducted between 19 July and 9 August 2004 by the research firm of Mathew Greenwald & Associates Inc.

### **Competitive investors**

Competitive investors enjoy investing. They try to beat the market, chase that 'hot' investment tip and usually start investing early. However, they are also more likely to hold onto losing positions for too long, and in general to allocate too great a proportion of their portfolio to one investment.

### **Measured investors**

Measured investors make up the majority of investors studied. They tend to accept market related returns, allocate their resources across all asset classes and of all investors are the mostly likely to begin investing early. Not surprisingly therefore, this group of investors usually indicates they are secure financially and expect to have a comfortable retirement.

### **Reluctant investors**

Reluctant investors are those who want to spend as little time as possible managing their money. These investors are more likely to use financial advisers. And while they are less likely to hold losing positions, they often admit they waited far too long before investing.

### **Unprepared investors**

Unprepared investors are those who are the least happy with their current financial situation and the least confident their retirement income will meet their needs. Their principal regret is that they did not start investing sooner.

### **These differences as measured according to gender and investor profile**

Men tend to dominate in the competitive and the measured categories, while women tend to dominate in the reluctant and unprepared class.

These results clearly suggest that both men and women need to work at correcting their own biases and weaknesses. Men, although they tend to start investing earlier and to be more knowledgeable, need to correct their tendency to be over-confident, to hold onto a losing strategy for too long and to repeat the same mistake. Women, although they tend to make fewer mistakes, need to begin investing earlier and to address their lack of investment knowledge.

The first step towards correcting these tendencies, would seem (for both men and women) to remember the principles of successful investment.

### **The advantages of time and compounding**

The most important investment principle both men and women need to understand is the remarkable power of time and compounding.



When you invest money it begins earning a return. And when these returns are reinvested the original investment begins to compound – to earn a return on its return. In its early stages, because the amounts are often small, this simple routine can appear of little significance. Over the long-term however, because the returns are earning returns year after year your investment grows exponentially. For example, an investment that returns 12% compound per annum will roughly double in value every 6 years.

### **The importance of a savings plan**

The simplest way for most investors to achieve a compounding rate of return is to set up a savings plan. Using a savings plan you can put aside a regular sum of your earned income each month and invest it where it can earn returns that can be re-invested. Over time, the magic of time and compounding results in a wealth nest egg that is far greater than could be achieved by savings alone.

### **The benefits of diversification**

Another important investment principle that all investors should consider carefully is diversification. Most investments follow a cyclical pattern, with returns fluctuating over the course of these cycles. For example, there may be times when shares are performing well, but the property market may be flat.

An investment strategy that relies only on property may, in these circumstances, result in inadequate returns. However, the addition of shares results in an overall portfolio that captures both positive sharemarket performance as well as profiting from those times when it is the property market that is performing strongly and not the sharemarket.

In other words diversification acts to increase the reliability and consistency of investment returns by the steady accumulation of investments in different investment classes.

### **The benefits of a managed fund**

For most investors the best way to achieve their investment goals and to take advantage of compounding returns and diversification is to have a savings plan via a managed fund. Each dollar saved can be spread across a wide range of investments reducing the risk of relying on any one asset. In addition, most managed funds are structured so that investment returns can be compounded.

### **The benefits of a financial adviser**

For both men and women alike there are benefits of employing a financial planner. The right planner can assist you in the process of becoming financially literate as well as helping you to correct your own biases and weaknesses.

### **In summary**

The earlier you start saving and the more you understand your individual strengths and weaknesses as an investor, the more likely it is you will be able to meet the financial requirements of any life stage.