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WEALTH MANAGEMENT

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Monthly Insight

"Invest Like a Girl": Special Considerations for Women Investors

Not so long ago, it was the case that if someone was accused of doing something "like a girl," it wasn't intended as a compliment. But since the 2012 release of LouAnn Lofton's book, Warren Buffett Invests Like a Girl—And Why You Should, Too, if someone tells you that you invest like a girl, the best response might be, "Thanks!"

Why? As Lofton points out in her book—and as I have seen time and again in my work with women in transition—women, while investing differently than men (most of the time) often outperform their male counterparts because of some uniquely female characteristics. The other side of this, though, is that women investors face some challenges and special considerations that men, by and large, do not have to deal with. Let's take a look at some of the strengths of women investors and then consider how those strengths can be leveraged to yield the best results for the unique situations that many women investors face.

Women tend to take meaningful risks. For decades the conventional wisdom, backed by research, held that women were, across the board, less inclined toward risk in their portfolios than men. But more recently, evidence is mounting that the real situation is more nuanced. Women are more than willing to assume appropriate levels of risk in their portfolios, but only after they have done the research and determined that the risk is meaningful—that it matters for reasons that are important to them. A recent study published by the Harvard Business Review, for instance, looked at philanthropic venture capital firms with teams made up of men and women, in various percentages. The study found that the teams with larger percentages of women tended to accept more risk than the male-dominated teams. Follow-up interviews with study participants confirmed that women were more willing than men to assume risk when the outcome was meaningful.

Women are more likely than men to prioritize non-financial considerations in their careers. One challenge for women investors that arises from their heightened tendency to seek meaning in their investing is that they are also more likely to place higher importance on non-financial considerations such as family and relationships than on their careers. Consider the following decisions made by women who faced caretaking needs during their careers:

- 33% decreased working hours;
- 29% passed on promotions or assignments;
- 22% took time off work;
- 20% switched from full- to part-time work;

- 16% quit their jobs;
- 13% retired early.

The upshot of these relationship-based decisions, which fall disproportionately on women ages 45–54 (during peak earning years) is that on average, women spend twelve fewer years in the workforce than men of the same age. This, combined with the persistent wage gap (women earn about 85% of their male counterparts doing the same work) makes it more difficult for women to save for retirement. This also means that money saved early in a woman's career can be more critical for meeting her long-term saving and investing needs.

Women think long-term. Perhaps women's tendency to consider non-financial factors in their career and financial decisions plays a part in their noted tendency to take a longer-term approach to their investing strategies. One way of understanding this difference is by comparing men's tendency to approach an investing opportunity like a baseball slugger: to swing for the fences, even if that also carries a higher probability of striking out. Women, by contrast, tend to invest more like "contact hitters": they seek to "get on base" by achieving more frequent, if smaller gains in their portfolios. Studies have shown, for example, that men are more likely than women to hold 100 percent of their assets in equity investments, as compared to women, who are more likely to maintain diversification between stocks and bonds or other fixed-income holdings. Other data suggest that male investors' portfolios tend to be subject to wider swings in value than women's, largely due to concentrations of assets with greater inherent volatility. By building more diversified portfolios and avoiding the siren call of the "big score," women investors often exhibit a more disciplined, long-term-oriented strategy than their male counterparts.

Women live longer. Because of their statistically longer lifespans and historically lower lifetime earning potential, women would certainly benefit from taking the long-range view. According to the latest available figures from the World Health Organization (WHO), women in the United States have a life expectancy at birth of nearly 81 years, on average, compared with just under 77 years for men. This means that they are faced with the challenge of funding typically longer retirements—along with the associated increased health- and long-term care expenses that accompany advanced age—with less in lifetime earnings. This double-bind means that women are well-advised to make the most of their investments, with a view to managing the more difficult challenges they face.

Women trade less frequently. Another evidence of women investors' tendency toward a more measured, long-term approach to their portfolio decisions may be seen in their tendency toward the same type of "buy and hold" strategy famously embraced by Warren Buffett (accounting for the title and underlying metaphor of the LouAnn Lofton book mentioned earlier). A recent Vanguard study indicates that women retail investors trade up to 50 percent less frequently than men. This may indicate, as an earlier Vanguard study concluded, that even in soft markets, women's more patient and disciplined trading behavior helps their portfolios better weather market downturns, as compared with men, whose more-frequent trading often contributes to underperformance.

Women benefit from collaboration. Perhaps most significantly, studies show than women are more willing than men to seek out help and advice, including professional financial planning and wealth management services. Additionally, women are more likely than their male counterparts to rely on professional assistance for a broader range of financial advice than just with their investment portfolios. According to a February 2021 study from market research and consulting firm The Spectrem Group, 61 percent of women investors utilize the services of a professional financial or wealth advisor, as compared with 56 percent of men. This more collaborative approach may account for the more measured, disciplined strategies that typify many women's investment and financial planning behaviors.

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