Wonder Woman: A fresh perspective on the investment performance

Introduction

What if one single fact could be an overnight game-changer when it comes to investing, if only more people knew it… women are excelling in finance, often outperforming their male counterparts. Numerous studies have confirmed that women consistently deliver superior investment returns than men.

To what can we attribute this outperformance? From prudent risk management to disciplined decision-making, this article delves into the factors driving women's success in finance.

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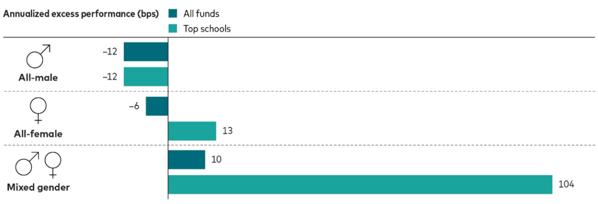
Women see better results in investing than men, empirical evidence

According to recent findings from Fidelity Investments, women deliver superior investment performance compared to men. After analysing over 8 million investment accounts, Fidelity discovered that women not only save more than men by an average of 0.4 % but also achieve higher annual investment returns by 40 bps. Although these differences may appear minor initially, when compounded over time, they become significantly impactful. For instance, for a 22-year-old starting with a $50,000 annual salary, a woman investor is projected to surpass her male counterpart by over $250,000 at retirement age.

However, Fidelity's research also unveiled that women tend to keep excessive cash reserves and often doubt their potential. Only 9 % of women expected to outperform men, a statistic that Alexandra Taussig, Fidelity's former senior vice president of women investors, finds "shocking", " Women need to lean in and own the fact that they're better investors and celebrate that. As we would say, ditch the doubt." Another study by the Warwick Business School in 2018 examined 2,800 male and female investors over three years, revealing that women's portfolios outpaced men's by 1.8%.

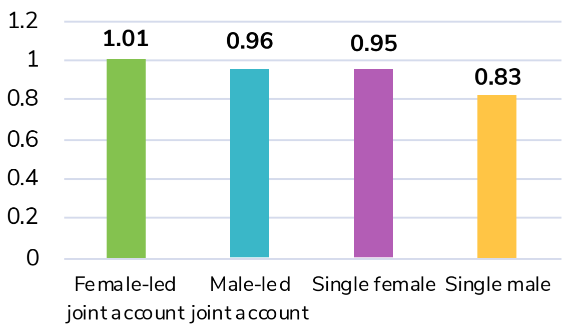
Beyond retail investors, numerous studies indicate that women demonstrate a notable edge in fund management and venture capital. Research from the University of California, Berkeley, revealed that startups with at least one female founder experienced faster growth and success compared to all-male teams. Further supporting this trend, a Vanguard study in 2022 analysed 2,669 U.S. active equity funds from 2008 to 2021 and found that funds with gender-diverse teams tended to outperform others.



Source: Vanguard

Additionally, a Wells Fargo study spanning from 2012 to revealed that women achieved higher returns while assuming less risk compared to men, as depicted in the risk-adjusted returns chart. Higher figures represent higher returns. These findings collectively highlight the significant impact of women in the investment landscape and challenge conventional gender stereotypes in finance.

Risk-adjusted returns for joint and single accounts by gender



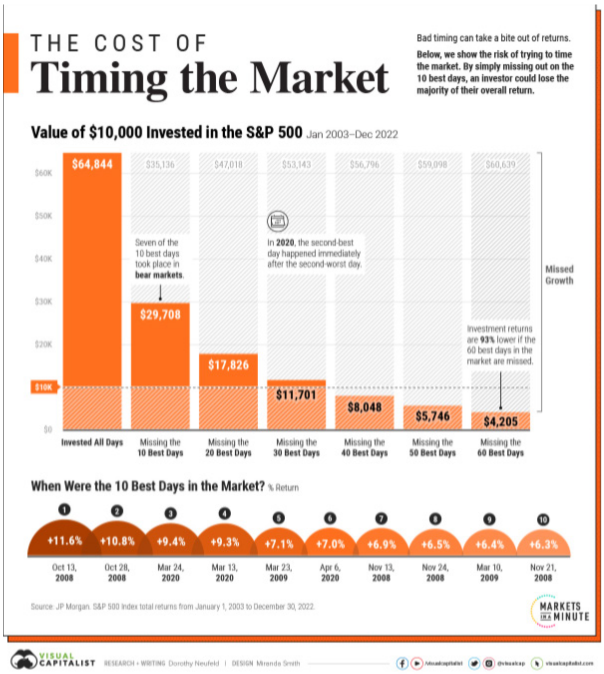
Source: The Motley Fool, data: Wells Fargo

Factors contributing to women's success

1. Overconfidence and overactivity by men

The factors contributing to women's investment success are multifaceted. Perhaps they stem from the very meaning of money for men and women. For Frank Lozzo from FMI Financial, for women, "money is security" and not just for themselves but also for their families and aging parents. It's about ensuring stability and safeguarding their future. This perspective influences their investment decisions, leading them to prioritise long-term financial goals over short-term gains. On the contrary, men tend to view money as a game, driven by competition, pride, and ego. This mindset often results in overconfidence and overactivity in their investment strategies.

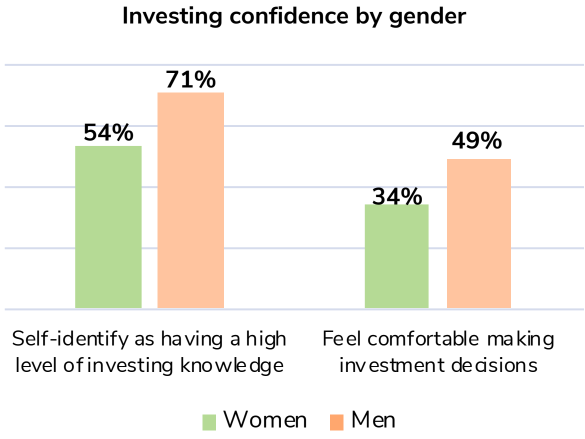
Studies showed that men trade stocks significantly more frequently than women. For instance, a University of California, Berkeley study examining over 37,000 investor households revealed that men traded stocks 45% more frequently than women. Additionally, single men engaged in trading a staggering 67% more than their female counterparts. This excessive trading approach, while seemingly proactive, often lead to reduced net returns, as it not only incurs higher transaction costs but also increases the likelihood of missing out on significant market gains in the long run. Instead, women show greater patience and discipline in investing. They typically opt for a long-term investment strategy, recognising the value of "time in the market" over attempts to "time the market." According to JP Morgan, missing the 10 best days of the year in the market could shrink your year-end portfolio by 50 %.



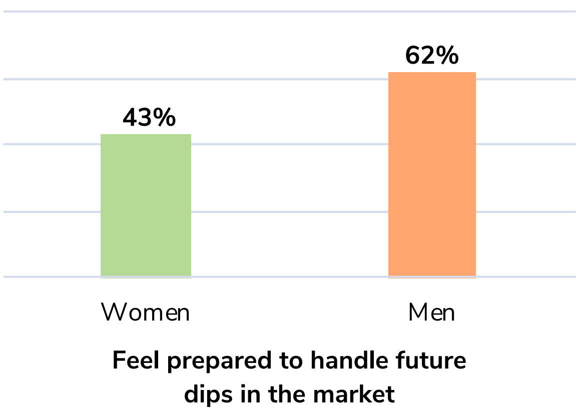
Source: Visual Capitalist

The high volume of trading among men is partly attributed to overconfidence. Studies by the Spectrem Group reveal that men were twice as likely to rate themselves "very knowledgeable" about investing and ironically women were twice as likely to admit feeling less knowledgeable. Additionally, men are twice as likely to describe themselves as "aggressive" or "most aggressive" investors.

Other studies confirm that women exhibit lower levels of confidence in their investment abilities. For instance, according to the Financial Industry Regulatory Authority (FINRA), only 34 % of women feel comfortable investing money compared to 49% of men, and according to Fidelity only 43 % of women feel prepared to face future dips in the market when 62% of men do.



Source: FINRA



Source: Fidelity

The "Boys Will Be Boys" study by Barber and Odean found that trading reduces men's net returns by 2.65 percentage points annually, compared to 1.72 percentage points for women. This phenomenon, termed the "behaviour gap," underscores how excessive trading diminishes all investors' returns, regardless to gender, compared to simply holding onto investments.

2. Women do the reading

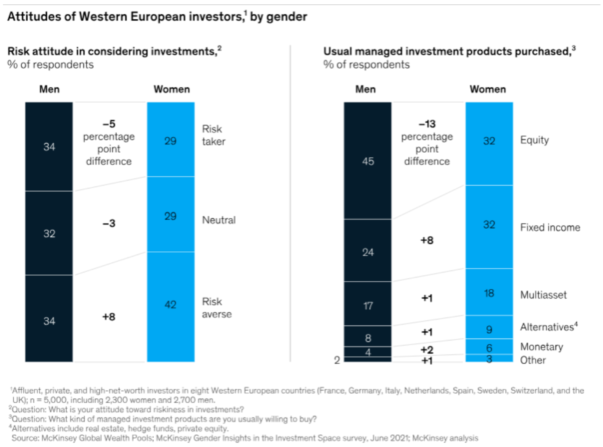
Perhaps due to their comparatively lower confidence levels, women exhibit a greater willingness to engage in extensive research before making investment decisions. As emphasised in "Warren Buffett Invests Like a Girl: And Why You Should Too," female investors are renown for dedicating more time to thorough research than their male counterparts. This inclination towards due diligence can be explained by the fact that women recognise their lack of confidence in investing, and their desire to mitigate risks through knowledge and understanding. While men may be inclined to take speculative risks, women prioritise gaining a profound understanding of the instrument and the market dynamics before investing. Additionally, as indicated by a 2021 study by Wells Fargo, women are more likely to seek assistance from financial advisors, 50 % of the women surveyed admitted working with a financial advisor compared to a little under 37 % of the men.

3. Risk management

Women's approach to risk management in investing is characterised by a preference for less risky strategies and a focus on diversification. Unlike men who may heavily invest in equities, women tend to adopt a more balanced approach, avoiding overexposure to volatile assets. For instance, they are more likely to invest in vehicles like target-date funds, which offer automatic allocations and promote smarter diversification.

This risk-averse approach to investing is underscored by a survey from McKinsey. Interviewed about their investment risk appetite, a higher proportion of women than men (42% vs. 34%) reported a risk-averse asset allocation approach. The fixed-income share of investments reported by women is eight percentage points greater than that of men, while their equity share is 13 percentage points lower.

Moreover, research from Capital.com reveals that female investors are more proactive in managing risks, with a greater tendency to utilise stop-loss orders to mitigate potential losses. This strategy, employed by 43% of female traders compared to 35% of men, reflect women's proactive attitude towards risk management and their commitment to safeguarding their investment portfolios.



Source: McKinsey

Conclusion

In conclusion, the evidence overwhelmingly supports the notion that women excel in the realm of investing, often outperforming men due to their prudent decision-making, disciplined approach, and commitment to long-term strategies. However, despite these achievements, these findings underscore the need for targeted education and empowerment initiatives to boost women's confidence in investing and capitalise on their demonstrated success in the investment landscape. Together, by empowering women with the tools and support they need, we can work towards a future where financial equality is a reality for all.

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