He Trades, She Trades:

How men and women invest differently, and what we can learn from each other

2024

Studies have shown that men and women have different approaches to investing money that can impact their long-term results. In this paper, we look at what those differences are, how they affect a portfolio, and what investors can do to gain balance in their investment style and strategy.

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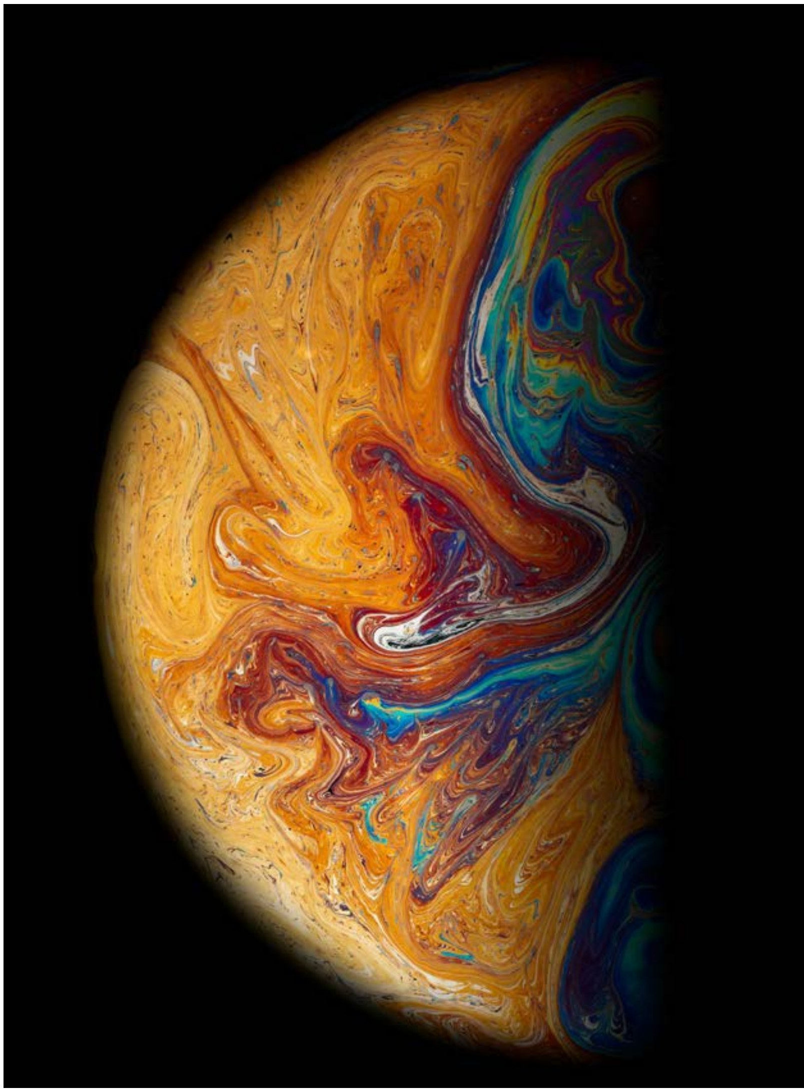
As individuals, we all have a unique perspective on the world and approach to making decisions and taking action. Our personalities, life experiences, and preferences all play into our financial behaviors and choices. Investing has both analytical and emotional aspects to it, and we each find a different balance as we make decisions. But studies show that there are definite trends in how we invest that show up more typically along gender lines. In this paper, we take a look at the influence of gender on investment behavior, and how we can apply that understanding to better balance everyone's long-term approach.

It's important to recognize that plenty of individuals are outliers along the bell curve of these trends, and these types of influences don't apply equally to everyone. In order to examine this topic, it requires some identification of stereotypes and gender commonalities, but we recognize that all humans are unique individuals.

Men invest like Saturn, women like Neptune

Male and female investment behavior has been compared in numerous studies, polls, and papers over the past few decades. While results vary, there are some consistent themes that appear and reappear. Examining these findings is meaningful, as it can help us better understand the factors that influence our own investment behavior and to become more aware of which behaviors and strategies are most successful over time.



Furthermore, it's expected that significant wealth is about to shift into the hands of women over the next few years. With 70 percent of household assets in the hands of Baby Boomers, female spouses are poised to inherit that wealth as they outlive their husbands (women have an average five years' longer life expectancy than men). The trend is not just Baby Boomers, though; younger women are also becoming more involved in making financial and investment decisions. Many of them are now breadwinners in their families, and plenty of women occupy companies' C-suites as executives.

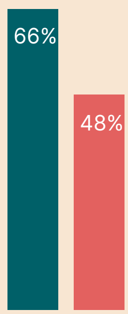
As women become primary financial decision-makers and investors, it will be important to understand their perspectives and approaches to be able to best meet their needs for long-term portfolio strategy solutions and financial advice.

"NEW ANALYSIS OF MORE THAN 5 MILLION FIDELITY CUSTOMERS OVER THE LAST TEN YEARS FINDS THAT, ON AVERAGE, women outperformed their male counterparts by 40 basis points or 0.40%."

"Fidelity Investments 2021 Women and Investing Study," *Fidelity Investments*

A 2021 POLL SHOWED THAT 48% OF WOMEN INVEST IN THE STOCK MARKET, COMPARED TO 66% OF MEN.

"5 Surprising Facts About Women and Investing," *Forbes*



"WHILE BOTH MEN AND WOMEN EXHIBIT OVERCONFIDENCE, men are generally more overconfident THAN WOMEN."

"Boys Will be Boys: Gender, Overconfidence, and Common Stock Investing," Barber & Odean

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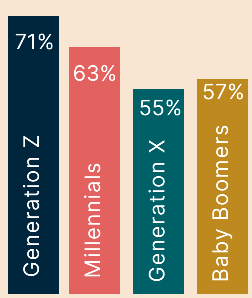
"INVESTING IS PARTICULARLY POPULAR WITH YOUNGER WOMEN. HERE'S THE PERCENTAGE FROM EACH GENERATION WHO INVEST."

"Investing for Women: What you should know," *The Motley Fool*



"MEN TRADE 45 PERCENT MORE THAN WOMEN DO, COSTING 2.65 PERCENTAGE POINTS PER YEAR OF RETURN, VERSUS A COMPARABLE 1.72 PERCENTAGE POINTS PER YEAR FOR WOMEN."

"Boys Will be Boys: Gender, Overconfidence, and Common Stock Investing," Barber & Odean

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ONLY 33% of women feel confident IN THEIR ABILITY TO MAKE INVESTMENT DECISIONS.

"Fidelity Investments 2021 Women and Investing Study," *Fidelity Investments*

"A STUDY FROM SPECTREM GROUP FOUND THAT 61% OF WOMEN USE A FINANCIAL ADVISER, COMPARED TO 56% OF MEN."

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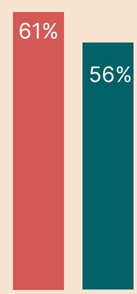

"WOMEN OFTEN INVEST MORE CONSERVATIVELY."

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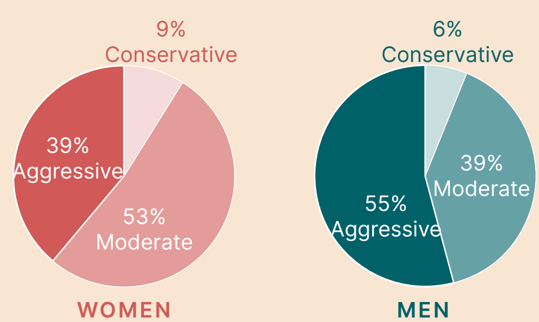

THE PERFORMANCE GAP

There is no one right way to invest, as an individual's investment choices will take into account their objectives, time horizon, risk tolerance, and other factors. Simply comparing return outcomes over time doesn't reflect factors like the volatility experienced, opportunity costs missed, and liquidity costs. That said, most studies that compare long-term return outcomes of men versus women have found that women, on average, outperform male investors. It's a bit ironic, however, that when Fidelity asked in a survey which gender is better at investing, fewer than ten percent of people identified women as being better at investing. (*Reuters, 2017*)

A Fidelity Investments 2021 Women and Investing Study looked at five million Fidelity customers over ten years, and found that women outperformed their male counterparts by 40 basis points. Wells Fargo data from 2020 demonstrated female outperformance as well, and California researchers Barber and Odean found that women outperform men by about 1% per year.

What factors are contributing to that performance gap?

TRADING ACTIVITY

Men trade more than women; this has been established by numerous studies demonstrating that men tend to take a more active role in their portfolio. This can eat into mens' long-term returns through both trading costs and market timing failures.

Research by Fidelity shows that 51% of female investors say they usually stay the course when they experience volatility, versus only 43% of men who say the same thing. (*Fidelity, 2022*) A Vanguard study found that women log onto their accounts about half as often as men do. (*Vanguard, 2020*)

Whether due to trust in their long-term strategy or lower confidence in their ability to time the market, women tend to trade less frequently. There may be downsides to this, as women might be less likely to rebalance or adjust for changing needs over time. But the reduced trading costs and "stay the course" approach benefits them when it comes to overall long-term returns.

RISK TOLERANCE

Men have a higher tolerance for investment risk than women, who are generally fairly risk averse. Men are more likely to be aggressive investors, or at least comfortable with including aggressive investments as part of their portfolio.

In a 2006 experiment, participants were given "points" and offered the option over a series of days of investing their points in a risky option, or accumulating their points risk-free, or any combination thereof. The results showed that men were willing to risk between 28-68 percent more than women. (*Charness and Gneezy, 2007*)

OVERCONFIDENCE

Both men and women exhibit overconfidence when investing — the belief in their knowledge about particular securities or market movements — but men exhibit greater overconfidence than women. For some men, investing may take on a competitive aspect, like a sporting challenge.

Women feel less confident about their investing know-how, which can have both positive and negative effects on their outcomes. It may make them more hesitant to invest or take risks, eating into their long-term return potential. But it may also encourage them to seek professional help with their investments.

PROFESSIONAL ADVICE

Lastly, women are more likely to seek professional help with their investments than men, whereas men may feel more comfortable going it alone, having greater confidence in their own ability.

However, despite the fact that more women than men work with an advisor, women are less willing to *pay* for help; a Cerulli Associates study found that only 51% of female respondents were willing to pay for financial advice, compared to 58% of men. (*InvestmentNews, 2021*)

INVESTMENT PROFESSIONALS AND GENDER

Do the same gender differences in performance results apply to investment professionals as to investors? A recent study from Vanguard that looked at professional investment teams found that although all-women teams slightly outperformed all-men teams, mixed-gender teams significantly outperformed those teams consisting of all men *and* all women. The study resulted in an "average net increase of 23.5 bps in excess returns [of the mixed-gender teams] over all-male investment teams, after controlling for

"WHILE WE ALSO SEE PROFESSIONAL QUALIFICATIONS AND DIVERSITY OF EDUCATION AS STRONG INDICATORS OF FUND OUTPERFORMANCE, THEY ALONE CANNOT EXPLAIN THE UNIQUE BENEFIT THAT GENDER DIVERSITY BRINGS TO A TEAM."

Vanguard, 2022

fund and investment characteristics." (*Vanguard, 2022*) It's important to note that women remain underrepresented in investment management, making up only about 10% of portfolio managers. (*Vanguard, 2022*)

These findings are important for the future of the investment industry; we can use this information to build teams and infrastructure based on the most successful and balanced models.

Building the best of both worlds

Of course men and women are different, and we can celebrate those differences while learning from one another. Understanding the gender influence on investment behavior allows all investors — of any gender — to adjust their strategy to a more balanced approach. Below are some ideas for adopting the best of both worlds.

MAINTAIN A LONG-TERM PERSPECTIVE.

Too much trading activity can have a detrimental effect on a portfolio, as men have illustrated. It is notoriously difficult to time the market; long-term success is more often based on crafting a thoughtful strategy that can weather market cycles and take advantage of time. That said, women may be missing out on some opportunities when they ignore their portfolio. Investors should periodically review their strategy in order to rebalance, adjust for any change in situation and objectives, and make tactical shifts where warranted.

UNDERSTAND YOUR RISK TOLERANCE.

Investment requires risk, and how much risk you are willing to take directly affects your return potential. Here, balance is key. Women who are highly risk-averse may not be investing aggressively enough to meet their long-term saving and retirement needs, particularly since women have lower lifetime earnings than men yet longer life expectancy. On the other side of the coin, overly aggressive investing can be costly as well; the risk profile of a portfolio should reflect a volatility level that is tolerable to the investor and their cash flow needs. For investors who are interested in high-risk, aggressive options, it is important to balance those with more conservative assets as part of an overall well-diversified portfolio.

CONFIDENCE IS EARNED.

Behavioral economists have found that it is human nature to be more confident in our abilities and decisions than is warranted. For example, AAA reports that 73% of Americans believe themselves to be better-than-average drivers (*Aguilar, 2021*), and 65% of Americans believe they are above average in intelligence. (*Heck, Simons, Chabris, 2018*) When it comes to investing, both men and women exhibit overconfidence, so both genders could benefit from an approach that incorporates humility. This means: being willing to listen to new information or conflicting opinions, reviewing past decisions with an objective lens, and seeking professional help when appropriate.

PROFESSIONAL HELP CAN HELP.

It may be difficult to quantify the effect financial advice has on long-term outcomes, but some studies have looked carefully at this question, and research suggests that professional advice can make a significant difference. A 2022 Vanguard study looked at the value added by advisors in several specific areas, such as asset allocation, spending strategy, cost-effective implementation, and behavioral coaching. The study found that advisors could potentially add — or exceed — 3% alpha in net returns, with the caveat that the improvement would be long-term rather than annually, likely applying irregularly.

A paper from Morningstar, "Alpha, Beta, and Now…Gamma," looked at the broader scope of services provided by advisors, in order to quantify not just alpha and beta, but also "gamma," the "additional expected retirement income achieved by an individual investor from making more intelligent financial planning decisions." They found that quantifying alpha is difficult since most investors focus on meeting goals rather than absolute return so it isn't a meaningful measure to look solely at return. But in examining financial planning factors, they conclude: "in the aggregate we estimate a retiree can be expected to generate 22.6% more certainty-equivalent income utilizing a Gamma-efficient retirement income strategy…this has the same impact on expected utility as an annual return increase of +1.59%, which represents a significant improvement in portfolio efficiency for a retiree." (*Blanchett & Kaplan, 2013*)

Lastly, a study of retirees from Financial Engines and Aon Hewitt found that defined contribution plan participants who received professional investment help had median annual returns that were 3.32% higher, net of fees, than participants managing their own portfolios. (*Financial Engines, Aon Hewitt, May 2014*)

Regardless of one's gender, professional assistance with an investment strategy, portfolio management, and financial planning can make a meaningful difference in one's long-term outcomes.

How investment advisors can serve both men and women

A disturbing New York Life survey found that almost half of female respondents said they were treated differently than their male cohorts by financial advisors, and that they feel patronized by their advisors. A staggering 40% said advisors are less likely to listen to ideas from a woman and that advisors push women out of financial conversations. (*New York Life, 2024*)

As we see more women making financial decisions and controlling ever greater shares of wealth, the investment advisory industry will need to adapt to ensure that services are tailored to and appropriate for both women and men. Advisors will need to understand the particular challenges facing women and craft strategies for addressing those challenges.

BALANCED TEAMS

We've seen the importance of gender balance on portfolio management teams. It's equally —if not more — important on investment advisory teams. Two-thirds of respondents to New York Life's survey felt it is important that their financial advisor "knows what it means to be a woman in their specific situation." (*New York Life, 2024*)

Having both men and women on an investment advisory team gives greater depth and breadth when it comes to client service, portfolio construction, and client interaction. Furthermore, in a profession in which service and communication are paramount, being relatable to clients is of critical importance.

Yet, only about 15 - 20 percent of financial advisors and only about 25 percent of financial planners are women. (*Investopedia, 2022*) The industry has begun working to generate a stronger pipeline for diverse talent, and it's critical that those efforts continue.

INVESTMENT AND PLANNING STRATEGY

Given that men and women tend to have different investment styles and approaches, investment advisors need to be able to see both perspectives, and guide individual investors toward a place of balance.

Women continue to earn less than men over their lifetimes on average, and women have longer life expectancies. Healthcare costs for women are 84% higher up to age 44, 24% higher from age 44 to 64, and 8% higher after age 65 compared to men. (*Registered Nursing, 2023*) Advisors should also be aware of and able to integrate these challenges into their long-term investment and planning strategy for their female clients.

COMMUNICATION APPROACH

People all have individual communication styles and approaches, but just as with investing, men and women differ in significant ways. When working with clients who are both male and female, advisors will be more successful if they are able to adapt to different communication styles in order to build rapport and trust with their clients.

Men tend to be solution-oriented, focusing on skills, knowledge, and problem-solving. They are comfortable with challenges and conflicts as part of a conversation, and may communicate with the goal of influencing or "winning" the conversation. Women, conversely, tend to focus on connection and empathy, looking for ways to build consensus and encourage contribution. They may avoid conflict by phrasing ideas as suggestions and are more likely to ask questions. (*Psychology Today, 2016*)

Having both male and female advisors helps to make an advisory team relatable and better equipped to build communication bridges and relationships with all clients.

Conclusion

Arnerich Massena is proud of its history of having gender-balanced advisory and leadership teams since the firm's inception. We have intuitively believed that this has resulted in stronger relationships, better service, and improved long-term outcomes for our clients. More and more, research is providing supporting evidence of the truth of that belief.

Men and women both bring their strengths and unique qualities and perspectives to the investment process, and being able to draw from that broader pool of possibilities provides greater potential for success. Our hope is that by becoming informed about the factors that influence our i nvestment behavior, we become empowered to become better investors in the long run.

ABOUT ARNERICH MASSENA

Arnerich Massena builds lasting legacies in service of a greater good by investing with vision, passion, and purpose. Founded in 1991, Arnerich Massena is an independent, 100% employee-owned investment advisory firm servicing wealth management clients and endowments & foundations from across the United States, providing portfolio management, investment advisory services, and family office services. Arnerich Massena is a Certified B Corporation®.

Focused on client service and investing in change, Arnerich Massena creates portfolios that reflect top-tier research and collaborative expertise cultivated over nearly 30 years. The firm is different by design, bringing innovation and a forward-looking approach to investment research and portfolio construction. Known for successfully investing in high-impact areas like water resources, sustainable agriculture, fisheries, healthcare, and clean energy technology, Arnerich Massena has been a pioneer in the investment industry with alternative investment strategies, global portfolios, and private markets expertise.

Arnerich Massena is dedicated to constantly seeking new opportunities that resonate with clients' values, objectives, and the outcomes they are looking for. The firm strives to be a business that exemplifies both corporate citizenship and professional service, and has received awards for its innovations in corporate philanthropy.

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