Women May Be Better Investors Than Men - Let Me Explain Why

The Massachusetts Institute of Technology (MIT) recently published a research paper about 'panic selling', that is, when investors dump assets during stock market dips.

Panic selling is an understandable reaction during uncertain times, but being a successful investor doesn't only involve knowledge, it also requires an ability to control emotions.

The research suggests those most likely to panic-sell are married, self-employed, 45-year-old fathers who consider themselves to have "excellent investment knowledge".

On the other hand, the MIT paper, and various other empirical studies, confirm that women tend to be more level-headed, holding investments for longer than men, and less prone to knee-jerk reactions.

This is also highlighted in Fidelity's 2021 'Women and Investing' study, showing that a record number of women are now investing in assets other than retirement plans, and they doing it more successfully than men!

Of course, traditionally, men are seen as the investing experts. Merrill was male, and so was Lynch. Goldman? Another guy, and Sachs as well. Charles Schwab is a man. Gordon Gekko? Definitely an alpha male. Jordan Belfort, the Wolf of Wall Street? He made Gordon Gekko look like a shy retiring introvert.

Heroes or villains, winners or losers, real or imagined, our iconic investors are very, very male.

Hopefully, both the MIT research and Fidelity's findings, mean that gender stereotypes about "what investors look like" will begin to abate, because it's not only rich, white men who are experts at investing.

Indeed, conversations about investing have sometimes been a distinctly patronising towards women, with the assumption that women are either too risk-averse, or lack the necessary knowledge to succeed at it.

Perhaps we could all achieve better investment outcomes by paying more attention and learning from how women invest.

Focus On the Long Term

According to boringmoney.com, a woman holds a fund for 10.7 years on average, compared to 8.3 years for a man.

Women are less likely to panic in turbulent markets, more likely to prioritise long-term financial goals, and are less likely to act on a whim.

But why do men behave as they do?

In a now classic paper that appeared in The Journal of Finance in 2000, entitled "Trading Is Hazardous to Your Wealth," two professors, Brad M. Barber and Terrance Odean chalked it up to overconfidence.

You might ask 'where does overconfidence come from?' William J. Bernstein, a neurologist who turned his attention to investing years ago, points to testosterone.

The hormone causes three problems for investors: It decreases fear, increases greed and very much contributes to overconfidence. “It does wonderful things for muscle mass and reflex time but doesn’t do much for judgment,” he said.

So Be Confident, But Not Excessively So

A healthy level of confidence is needed for financial success. However, overconfidence and a reluctance to admit your mistakes can be detrimental.

The Financial Industry Regulatory Authority of the USA found only 54 per cent of women assess themselves as having a high level of investment knowledge, compared to 71 per cent of men. Yet women investors tend to outperform men by 0.4% per year according to Fidelity, and by 1.8 per cent according to Warwick Business School and Barclays. This could be down to a humbler, more disciplined approach to investing, suggests the Wells Fargo Investment Institute.

Consistency Is Key

Many panic sellers never reinvest the money in the stock market. However, the golden rule of investing is to stay invested, even when the market fluctuates.

Women are clearly better at this, as they are not prone to knee-jerk reactions.

If you ride out a big dip, you can sometimes see even better returns.

And with dollar-cost averaging, (essentially investing a fixed amount on a monthly basis over a sustained period, regardless of what might be going on with markets), returns are smoothed out.

Remember Your Values

Whether your aim is to make more ethical, sustainable investments, or to lock away your money to save for a house purchase, it is vital to know why you are investing.

Women will own more than 60% of the UK’s wealth by 2025, says the Centre for Economics and Business Research, and they like to invest in line with what’s best for their families, communities and the planet.

90% of millennial women say social and environmental causes and issues drive much of what they do.

Aligning investments with goals and values not only helps determine how long you want to stay invested for, it keeps you motivated.

Understand Your Risk Tolerance

Women are risk-aware, not risk-averse.

Risk awareness helps women make more intentional and calculated decisions, and while there is often perfectionism at play, (It is often thought that many women postpone investing until they know absolutely everything), when they do get started they are fully aware of how much risk they want to take on.

Being aware of your risk tolerance - determined by everything from how long you want to stay invested, to your age, portfolio size and goals - creates a game plan that drives how you invest.

To Conclude

All evidence points to women making great investors despite numerous financial industry opinions and shortcomings. Maybe it's time to celebrate women as the financial powerhouses they are, and change the investment industry's assumptions about women and money.

And if you happen to be one of those married, self-employed, 45-year-old fathers who consider themselves to have "excellent investment knowledge", perhaps now is a good moment to initiate a little chat with your better half to get her opinion.

Clearly, not every husband is out there buying GameStop and the like, but if you are, perhaps your time might be better spent sitting down at least once a year with your partner to discuss your investing strategy. After all, maybe you can bring out the best in each other?