Women and Investing: A Behavioral Finance Perspective

Gender stereotypes exist in the investing world, just like everywhere else. For example, women tend to be perceived as more risk averse than men when it comes to making investment decisions, or as basing these decisions on emotional, rather than rational factors. However, according to a recent study by Merrill Lynch, gender differences among investors tend to be overstated, and the ways in which men and women approach their financial lives are often similar. Where differences do occur, they appear to be shaped more by social and demographic factors (such as education, employment status and financial circumstances) than by innate characteristics.

The study surveyed 11,500 respondents (out of which 5,000 were women) using a questionnaire to reveal how they thought and felt about investing. The findings do support the idea that women don't make investment decisions exactly as men do, and that women tend to be more risk-averse than men. The research also shows, however, that both men and women are subject to strong emotional influences that can have both positive and negative implications for their investing habits. These emotional influences, in themselves, don't predict either success or failure as an investor. What matters is how each person puts his or her natural tendencies to work in the pursuit of personally meaningful financial goals.

The gender difference that seems to have the most significant impact on investor behavior is men and women's reported level of financial knowledge. More than half of women agreed with the statement, "I know less than the average investor about financial markets and investing in general," compared with only a quarter of men who said they felt that way.

Source: "Women and Investing: A Behavioral Finance Perspective," Merrill Lynch Wealth Management Institute, November 2013.

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