for women

For Better Investing, Think Like a Woman

STUDIES HAVE FOUND THAT WOMEN'S RETURNS TEND TO OUTPACE MEN'S, BUT WOMEN OFTEN GET A BAD RAP WHEN IT COMES TO INVESTING. LEVERAGE THE NATURAL APPROACH THAT ALLOWS MANY WOMEN TO SUCCEED AT INVESTING.

Warren Buffett has said that an investor's temperament—the ability to remain calm and level-headed—is more important than intellect when it comes to long-term investing success. A number of studies over the years have consistently reported that women generally possess this temperament (and as the most successful investor of our time, Buffett does, too). This is good news for women who don't feel confident about investing or other financial concerns. These days, more women are taking the lead with investing—76 percent are now the main retirement planner for their households, according to a 2009 study by DailyWorth. Whether you're currently leading your household investing efforts or just looking to break in to the market, here's how to use your natural temperament to your advantage as you strive for long-term financial success.

Lack confidence

Only 47 percent of women are confident in their investing skills compared with 61 percent of men, according to a 2012 RBC Direct Investing study. A lack of confidence can actually be a good thing, as men tend to be overconfident, overestimating their abilities to the detriment of their portfolio. Just as men stereotypically refuse to stop and ask for directions when lost, they also tend to want to navigate the investing world relying on their own sense of direction. But asking for help, or at least admitting your shortcomings, is the best way to improve your abilities. Experts conjecture that male overconfidence may stem from their historically privileged status in society, whereas women are often socialized to believe that investing is not for them.

Do: Ask for help and be aware of your investing ability so you don't make mistakes.

Don't: Lack the confidence to invest in the first place or do other things to improve your financial status, such as asking for a raise.

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Low risk

One look at the 2008 financial crisis can tell you how many male investors feel about risk—they love it. Women, on the other hand, tend to be more cautious and favor lower-risk investments. This

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difference may also be born from women's historically lower position in society, because lower wages mean less room for risk-taking. Additionally, women are raised to favor child-rearing and elder care, putting their focus on protection. Men have been traditionally wired for quick thinking and risk-taking for immediate results, such as in hunting and fighting. Even outside of investing, women tend to take fewer risks—they're safer drivers, wear their seatbelts more often and floss their teeth more than men do.

Do: Be realistic about how risky many investment vehicles can be and avoid those outside your risk tolerance.

Don't: Be so risk averse that your investments can't even keep up with inflation.

Trade less

A lack of confidence may lead to risk aversion, which can lead to less frequent trading. This, according to several studies, may be the key to female success. Men trade 45 percent more than women, yet their annual returns are about 1.4 percent less than women's, according to a 2001 UC Davis study. Interestingly, the study found that neither gender excels at beating the market—it was merely the frequency of trades that differentiated returns between men and women.

Do: Take a long-haul investing approach.

Don't: Hold on to poor performers too long.

Goal-oriented

How often have you heard the stock market described as a battlefield or investing as a vicious sport? Playing the market, beating down the competition and winning are not motivators for the majority of female investors. Women tend to focus on specific goals—saving enough for a comfortable retirement, sending their kids to college, etc. Men report investing for high returns more often, focusing on maximizing returns and out-earning other investors. This attitude can be highly effective in good times, but it tends to promote unnecessary risk-taking. Working toward specific goals allows women to know when enough is enough.

Do: Make goals and a plan for how to reach them.

Don't: Abandon your plan when the market is in flux.

Calm and collected

Biologically, women may be the more emotional gender, but their history of analyzing, displaying and managing a range of emotions has actually made them more stoic in the face of economic uncertainty. Because men are taught to suppress their emotions, they may not be as aware of their emotional state when making rash decisions as women are. A man might make an ill-timed trade or attempt to overhaul his investments when the rest of his life seems out of control, which can backfire. A 2009 study found that men were 10 percent more likely to sell at the bottom of the market than women, due to panic.

Do: Keep emotions out of investment decisions.

Don't: Panic, let public opinion sway you or make trades in the wake of an emotional crisis.

Empathic

Just as women generally have a better handle on their own emotions, they also tend to be skilled at reading the emotions of others. If you look at the stock market as a reflection of public emotions, it can be easier to analyze what has traditionally been thought of as a numbers game. Women tend to be empathic and intuitive, traits that help them sort through extraneous information about the market.

Do: Be fearful when others are greedy and greedy when others are fearful (Warren Buffett said this).

Don't: Get caught up in the numbers and confusing business jargon.

Less impulsive

Perhaps because of the tendency to be less confident, women also tend to take their time and gather necessary information before making decisions. When asked whether having ambiguous information would reduce their confidence and raise their perception of risk, 92 percent of women and 69 percent of men said yes, according to the RBC Direct Investing study. Women tend to do their homework and push for more background information from their advisors, while men prefer to take action right away.

Do: Your own research. Ask for clarification if you don't understand something, and make informed decisions.

Don't: Wallow in information to avoid making decisions. Get the necessary information, and then pull the trigger.

Women tend to have the right personality to be good investors, but that doesn't mean all women are naturally inclined to investing. It also doesn't mean all men are impulsive risk takers. What we can learn from these studies is what personality traits the best investors have and how to embody those traits in our own investment approach. If you're a woman who doesn't currently participate in your household investing activities, these findings should bolster your confidence (but not too much!) so you can get involved, too. After all, you'll be directly affected by your household's financial successes or failures, so you might as well participate in the investment decisions.

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