



# THE LITERATE INVESTOR

## *SHE'S RIGHT BESIDE YOU*

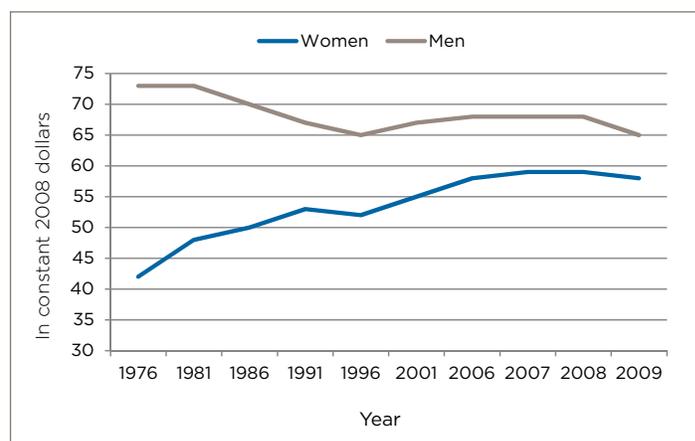
**Something is changing in the world of investing. For generations, men have been the primary breadwinners in families and, often, have taken responsibility for managing the household finances.**

However, the domain of investing, once dominated by men, is in flux. A societal shift inside and outside of the home is resulting in women taking a more active role in making investment decisions for themselves and their families.

### **Changing roles and changing incomes**

When we look at the traditional role that women played within the family and work settings, we can see that their primary role was focused on activities close to home. Employment rates tell us that this traditional focus on managing a home and raising children has changed dramatically over the past four decades. According to 2009 data from Statistics Canada, 58.3% of women over the age of 15 were in the paid labour workforce, up from 41.9% in 1976.<sup>1</sup>

**Chart 1: Employment rates of women and men, 1976-2009**



Not only are more women working, they are earning more. Women's total income from 1976 to 2008 grew by over 50%, while men's income remained almost constant (Chart 2).<sup>2</sup> As of 2010, the number of Canadian families within which women were the higher earning spouse stood at 31%. This is almost four times more than in 1976.<sup>3</sup>

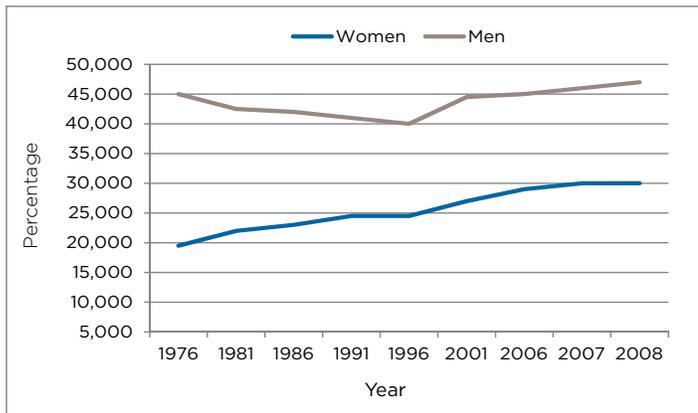
<sup>1</sup> Statistics Canada Labour Force Survey. <http://www.statcan.gc.ca/pub/89-503-x/2010001/article/11387/c-g/c-g001-eng.htm>.

<sup>2</sup> Statistics Canada, CANSIM table, 202-0407. <http://www.statcan.gc.ca/pub/89-503-x/2010001/article/11388/c-g/c-g001-eng.htm>.

<sup>3</sup> [http://www.bmo.com/pdf/ewp/womeninwealth/15-375-BWI\\_Q1\\_2015-women-in-wealth-CDN-E05web.pdf](http://www.bmo.com/pdf/ewp/womeninwealth/15-375-BWI_Q1_2015-women-in-wealth-CDN-E05web.pdf).

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**Chart 2: Average total income of women and men, 1976–2008**



Given lower employment rates and earning power of women in the past, men tended to hold the decision-making power regarding investments. In this context, it seems logical that men took a more active interest in matters connected to capital markets and financial planning. While we cannot say that this was the case of every household, we can look for evidence within the surveys of the Texas Tech Financial Literacy Assessment Project, which gauges financial literacy by age and gender. According to this survey, women in the Baby Boomer generation and younger had a financial literacy gap of about 10% versus men of the same cohort. When Texas Tech measured older generations, the gap grew up to a 25% variance between men and women aged 75–79.<sup>4</sup>

Therefore earning power could be the reason for the historical difference in financial decision-making engagement between the genders. According to a 2014 survey by *Money* magazine, women who are the primary breadwinners reported being “very or extremely knowledgeable about financial matters” approximately 80% of the time, versus only about half of lower-earning women. Perhaps more telling, women who earn more were also more likely to spearhead the family’s investment and retirement planning.<sup>5</sup>

As we dig into the details behind this data, a more nuanced profile emerges of the “new female investor”. For example, the 2014 *Blackrock Global Investor Pulse Survey*, which interviewed 27,500 respondents from around the world, developed a number of interesting findings about female investors. The primary reason cited by women for feeling “not confident” about their portfolios was not income, net worth or ability, but rather that they feel “uninformed about portfolio construction”.<sup>6</sup> This appears to indicate that financial literacy and engagement may play as much of a role as income in improving the experience of investing for female investors.

### Education

In addition to the dramatic increase in wages that women have experienced, higher education has provided a significant increase in the status and literacy of young women. Since 1971, the growth of female university graduates has skyrocketed. Women have moved from just 32% up to 60% of university graduates between the ages of 25 to 29 (Table 1).<sup>7</sup>

**Table 1: Canadian University Graduates in the 25 to 29-Year-Old Cohort (%)**

	1971	1981	1991	2001	2006
Male	68%	54%	49%	42%	40%
Female	32%	46%	51%	58%	60%

Increases in relative financial strength and education likely have changed the financial dynamic in many households such that women take a greater role and interest in financial affairs. A key question is what this greater female involvement in financial decision-making means for how families invest.

<sup>4</sup> [http://www.thinkadvisor.com/2013/02/22/busting-the-risk-myth-of-women-and-investing?page\\_all=1](http://www.thinkadvisor.com/2013/02/22/busting-the-risk-myth-of-women-and-investing?page_all=1).

<sup>5</sup> <http://time.com/money/2791658/couples-marriage-money-survey-female-breadwinners/>.

<sup>6</sup> <http://www.blackrock.com/ca/individual/en/literature/press-release/pr-2015-03-05-en-ca.pdf>.

<sup>7</sup> <http://www.statcan.gc.ca/pub/81-004-x/2008001/article/10561-eng.htm>.



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### The “new” female investor

A long held belief within the investment world has been that women are more conservative and risk-averse than men. In a well-known 2001 study titled *Boys Will Be Boys*, authors Brad Barber and Terrance Odean revealed that women who owned common stocks within discount brokerage accounts preferred less aggressive portfolios than men. In addition, Barber and Odean discovered that women were much less active in their trading activities within their accounts. This study has often been referenced in support of the belief that women are inherently less tolerant of risk.<sup>8</sup> More recent studies appear to support this idea. Within the *2014 Blackrock Global Investor Pulse Survey* less than a quarter of women said they would be willing to take on higher risk to achieve higher returns (22% versus 37% of men).<sup>9</sup>

What can we learn from these studies? Are women inherently more conservative? Just as women have adapted and changed their roles over the past few decades, the research in this area has continued to evolve and leads us to a few surprises.

### Social and economic factors

A number of academic research studies and surveys support the idea that socioeconomic factors such as education and income better explain the gender difference in risk tolerance and comfort. Research by Dr. Kim Bridges from Texas Tech found that while, in practice, women preferred more bonds within retirement portfolios, when she included human capital (i.e. income and earnings) as a factor, the preference towards more conservative assets was wiped out.<sup>10</sup>

In addition, in 2012, Johan Almenberg and Anna Dreber released a paper that compared stock market participation to financial literacy. Their study found that “gender differences in financial literacy can explain a significant part of the gender gap in stock market participation”.<sup>11</sup> Therefore, if women are as financially knowledgeable as their male peers, they become

more comfortable with the risk-return trade-off and take a similar view to owning equities. These newer studies clearly contradict the traditional view of women as inherently more conservative. While it may appear on the surface that women generally prefer more conservative investments than men, once researchers control for factors such as income and financial literacy, the risk tolerance differences diminish.

### Conclusion

One could make the assumption that being risk-averse and reportedly less confident are negative attributes leading to risk-averse female investors not fully capturing available market returns. Surprisingly, the *Boys Will Be Boys* study shows that the opposite is true. While female investors may not have been capturing available returns, the study noticed that the lower trading activity of women led to lower trading commissions. The difference in costs was so dramatic that the conservative portfolios actually achieved higher returns over the same period. In this instance, the more confident approach of the men was not able to capture enough return to overcome the cost of their more aggressive strategy.

This is, therefore, a cautionary tale. As women’s income, education, and financial literacy improves, they will become more comfortable with investment decisions. Although being comfortable can improve recognition of the benefits of the risk-return trade-off, literate investors need to recognize that comfort that transforms into overconfidence can be extremely detrimental.

It is clear that perception of the influence of gender on investment performance is evolving and every investor can learn from this discussion. While work or income may remain stable, financial literacy is within the control of each investor. With improved literacy, investors undoubtedly will become more comfortable with taking the appropriate risks to meet their financial objectives. Our role as Investment Counsellors then is to help transform our clients, both men and women, into literate and engaged investors.

<sup>8</sup> Boys will be Boys—Gender, Overconfidence and Common Stock Investment, Quarterly Journal of Economics Feb 2001 Brad Barber & Terrance Odean.

<sup>9</sup> <http://www.blackrock.com/ca/individual/en/literature/press-release/pr-2015-03-05-en-ca.pdf>.

<sup>10</sup> [http://www.thinkadvisor.com/2013/02/22/busting-the-risk-myth-of-women-and-investing?page\\_all=1](http://www.thinkadvisor.com/2013/02/22/busting-the-risk-myth-of-women-and-investing?page_all=1).

<sup>11</sup> <http://swopec.hhs.se/hastef/papers/hastef0737.pdf>.



**Marshall McAlister, CFA**  
*Private Wealth Counsellor, Principal*

[mmcallister@pavilioncorp.com](mailto:mmcallister@pavilioncorp.com)

T 780 638 2491  
F 780 451 5547



**Cary Williams**  
*Associate Private Wealth Counsellor*

[cwilliams@pavilioncorp.com](mailto:cwilliams@pavilioncorp.com)

T 780 638 2493  
F 780 451 5547

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