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He Invests, She Invests: Who Gets the Better Returns?

He's a hyperactive stock jockey. She's a timid bond investor. Want to fight about it? If you and your spouse often tussle over how to invest the family nest egg, there's a good reason: It seems men and women have fundamentally different investment styles.

Here's a look at how the sexes differ -- and what we can do to improve our investment results.

Paying the price. Academics have uncovered two key gender differences. First, women trade less than men. Second, men not only keep more of their portfolio in stocks, but also favor riskier stock strategies. Maybe these differences have evolutionary roots. Men may be hard-wired to take risk, in pursuit of the family dinner, while women are more cautious, so they can survive and care for their children. Alternatively, maybe these differences reflect the way boys and girls are raised.

But whatever the reasons, the differences are stark. A study in the February 2001 Quarterly Journal of Economics found that men turn over their portfolios 45% more each year than women. The authors, finance professors Brad Barber and Terrance Odean, attribute this to men's overconfidence. This cockiness carries a price, with men's trading hurting their stock performance by 2.65 percentage points a year, while women hurt their results by 1.72 percentage points. This doesn't necessarily mean men do worse overall. Thanks to their heftier stock allocation, men may notch better portfolio returns, even if their stocks fare poorly because of high trading.

Getting comfortable. As investors, men and women clearly both have flaws. But arguably, it's a bigger problem for women. After all, women typically earn a smaller salary and have a longer life expectancy. That means they have to fund a lengthier retirement with less income -- and yet they're also crimping their returns by shying away from stocks. There is evidence that when women are more knowledgeable about investing, they become more comfortable taking risk. Even so, gender differences still matter, according to a new study of U.S. stock-fund managers by Ph.D. student Alexandra Niessen and economics professor Stefan Ruenzi, both of Germany's University of Cologne. The study found that female managers traded less, were more risk-averse and were more consistent in their investment style. Interestingly, the study also found that female managers received far less new cash from investors, despite generating returns that, on average, were comparable with those of male managers.

Battling instincts. What should investors do about all this? Here are three suggestions: Given that men trade too much, maybe they should wait a week before acting on their latest investment idea.

Alternatively, they might give themselves a quota of trades for the year or check with their spouse or a friend before they make their next portfolio change. "What you want people to do is buy and hold diversified portfolios," says Prof. Odean, of the University of California at Berkeley. "If men get a lot of pleasure from trading, they should set aside 10% of their portfolio as their entertainment account. You don't want to gamble with money you can't afford to lose."

While both men and women would benefit from a good investment education, it's especially important for women. "Women need to take more risk," says Deena Katz, a financial-planning professor at Texas Tech University in Lubbock, Texas. "Getting an education is the key. Women will take more risk once they're comfortable." To improve your financial savvy, consider enrolling in an investment course at your local college, check out the books in the accompanying chart, and regularly read personal-finance magazines and the newspaper business section.

Can't agree with your husband on investing? Divvy up the family portfolio. You can take half the money and buy bonds. He can take the other half and invest in stocks. Between you, "you'll have a well-diversified portfolio," Prof. Odean notes. "Yes, you've still got churning in the stock portfolio. But it's half as much as if the man was controlling everything."

CFR Working Paper 2006-01

Alexandra Niessen, Stefan Ruenzi

Sex Matters: Gender and Mutual Funds

<http://www.cfr-cologne.de/download/workingpaper/cfr-06-01.pdf>