

galileo capital

Challenging Conventional Wisdom

MEN, WOMEN AND MONEY

Gender stereotypes would dictate that men are better with money (especially investments) and so they should take responsibility for this aspect of the family's affairs. As with many stereotypes, this thinking is deeply flawed and could cost families a significant amount of money over time.

As a start, women tend to save more than men over their careers. According to research by Fidelity Investments* women save 8.3% of their salaries every year while men only save 7.9%. This might not seem like a large amount but the compound effect of this difference is significant and is illustrated in my example at the end of this section.

In addition to being better savers, women are also better investors than men. This was proven by Terrance Odean and Brad Barber in their paper published in the Harvard Quarterly Journal of Economics. The paper was called Boys will be boys: Gender, overconfidence, and common stock investment. They found that women tended to outperform men with their investment portfolios by 0.94% per year. Once again, this amount might seem small but over a 30-year period, a woman who invests R1m, is likely to have R7.6m more than a man who starts with the same amount.

A business based in the USA called Betterment, found that women checked their online investment portfolios 45% less than men and changed their portfolios 20% less. It has been proven in a range of studies that men make far larger changes to their portfolios; they are far more likely to move their entire portfolio into cash or back into shares. Women tend to be more patient and hands-off, which has proven to be a better strategy over the long-term.

To understand the impact of women saving more and investing more efficiently than men, I calculated what would happen if a man and woman earned the same amount over a 30 year career. I assumed that they saved and invested as predicted by the studies mentioned above. The difference

in capital is astounding; the woman will have R35.9m after 30 years while the man will have R26.6m. The difference is explained by the fact that the woman will save 0.4% per year more and her growth is likely to be 0.94% higher.

You might be wondering why I suggest that it is better to invest as a team if women are better investors and savers. Numerous studies also show that because women are less confident with investments, they tend to be reluctant starters. As men usually suffer from overconfidence, a combined team of men and women should do better than a single man or woman. I feel it is worth pointing out that both parties must be equal in this team.

If you are single, consider investing with friends. I do not mean that you must pool your investments but rather consider starting an investment club where you work on investments together and act as a collective sounding board for each other. Ideally try to balance the genders and personalities and also ensure that everyone has a voice in the club so that the deep thinkers are not overwhelmed by the louder, more talkative people in the group.

*Fidelity Investments Decision to Retire August 2015.