

Women and Investing: A Behavioral Finance Perspective

FALL 2015



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According to new Merrill Lynch research, gender differences among investors tend to be overstated. In fact, the ways in which men and women approach their financial lives are often strikingly similar. Understanding who they are as investors can help women better focus on ways to successfully work toward their personal goals.

Researchers have devoted a great deal of time to exploring the investing differences between women and men. Which gender makes for more successful investors? Is one sex more prone to making emotional decisions?

Such studies often yield interesting results, but when we're focused on gender differences we may overlook the fact that men and women share a number of fundamental similarities as investors—and forget that people are first and foremost individuals, not types. In fact, proprietary Merrill Lynch findings, along with other research, suggest that men and women may be significantly closer in their investing views and habits than many people assume. 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.¹ What's more, the ways in which women don't invest in quite the same manner as men sometimes works to their advantage. In exploring this point further, let's take a moment to consider three questions dealing with perceptions about women, men and investing. Ask yourself:

- **Are there innate differences between men and women when it comes to investing?**
- **Do men or women want to be more actively engaged in the investment process?**
- **Who is focusing more on family when it comes to investing, men or women?**

Key Takeaways

Women responding to Merrill Lynch's proprietary Investment Personality Assessment defy gender stereotypes and reflect remarkably diverse perspectives on finance and investing. For example:

Mindset toward risk. More than 80% of these women feel the past benefits of investing will continue, and they believe they can adjust their lifestyles if necessary to meet investment goals. Given that 55% of the women said they “know less than the average investor,” they may benefit from working with investment professionals who can help them explore their concerns, take appropriate risks and boost their investing confidence.

Preferred approach to investing. Women's varied responses in this assessment make it clear that there's no typical “woman investor.” Some place a premium on access to their investments and portfolio protection, while others focus on different concerns. In this regard, too, an advisor can help investors find and maintain an investment approach that suits their needs and preferences.

Overarching investment purpose. Women also have diverse views on goals for their own lifestyles and how and whether to help family members. About half are concerned that they may outlive their investments, and more than four in ten don't feel the need to extend financial support to others in their families. What's crucial is for each individual to articulate explicitly what matters to her as a part of establishing investment goals and managing progress toward them.

¹ Rachel Croson and Uri Gneezy, “Gender Differences in Preferences,” *Journal of Economic Literature*, 2009.



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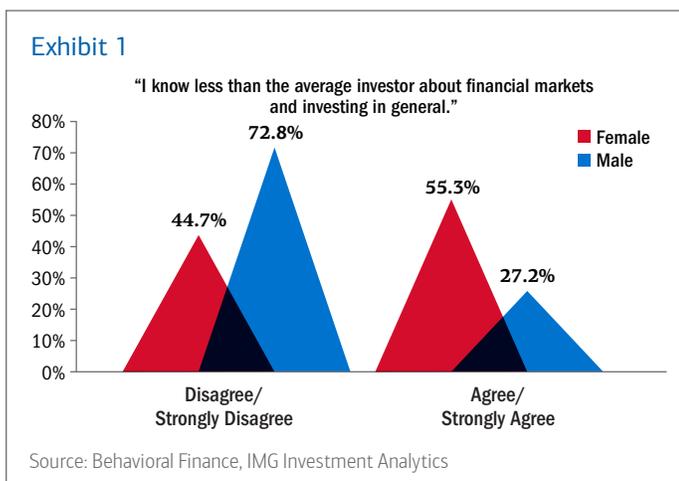
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The gender difference that seems to have the most significant impact on investor behavior is the level of financial knowledge.

Now we'll consider these questions in light of published academic studies and the responses of more than 11,500 people—roughly 5,000 of whom were women—who took the Merrill Lynch Investment Personality Assessment (IPA) between mid-December 2012 and mid-June 2013. The IPA asks clients and prospective clients of Merrill Lynch to react to 27 statements designed to reveal how they think and feel about investing.² Here are some of the most important questions our research addressed:

Are there innate differences in investment behaviors between men and women?

Research does support the idea that women don't make investment decisions exactly as men do. For example, women tend to be more risk-averse than men are. 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. Confidence can become overconfidence; caution can become timidity. 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. In Merrill Lynch's own research based on its Investment Personality Assessment, 28% of all respondents described their investment experience as relatively high, 40% as moderate and 32% thought it was relatively low. Women were far more likely than men to say they had lower levels of financial knowledge. More than half 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 (Exhibit 1).

But how much people think they know and how much they actually know can be two very different matters. This was

demonstrated clearly in an academic study of 2,000 mutual fund investors, in which women were shown to take fewer risks than men. Yet when the results were adjusted to take investing knowledge into account, the willingness of women to take risks was closer to that of men. In other words, as the difference in the knowledge level between men and women investors narrowed, so did the presumed gender difference about risk.³

Because the IPA questions assess investors' perceptions rather than their actual know-how, there are two possible conclusions: 1) women know less than men do about investment subjects; or 2) women know as much as men do, but have less confidence in their knowledge. Either way, to change that perception, by building their knowledge base or instilling greater confidence, involves taking direct steps that apply equally to women and men—such as working closely with an advisor who clearly explains the purpose of different investment strategies and shares educational materials that help the investor better understand her choices.

² For more information, please ask your advisor; see Michael Liersch and Anil Suri, "Innovations in Behavioral Finance: How to Assess Your Investment Personality," Merrill Lynch Wealth Management Institute, Spring 2012.

³ Peggy D. Dwyer, James H. Gilkeson and John A. List, "Gender Differences in Revealed Risk Taking: Evidence From Mutual Fund Investors," Economics Letters, 2002; see also Stanley M. Atkinson, Samantha Boyce Baird and Melissa B. Frye, "Do Female Mutual Fund Managers Manage Differently?" Journal of Financial Research, 2003.

When it comes to men, research reveals their tendency to be overconfident at times. Just as reflexively shying away from risk can be problematic, so can unchecked risk taking—for example, by buying and selling stocks too frequently. One study found that men trade nearly 1.5 times more often than women. But rather than improving returns, this excessive trading often led to lower overall investing success.⁴ The study also found that married men are less apt to be overactive traders—quite possibly because they may be taking into account their spouses’ perspectives on investing and adopting an attitude toward trading that could benefit both spouses and their families in the long term.⁵

Do men or women want to be more actively engaged in investing?

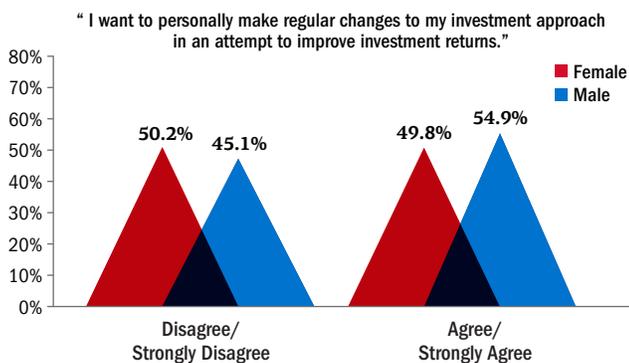
Another persistent stereotype holds that women are simply less interested in investing than men are, and are less likely to be actively engaged in the process. Like attitudes about risk, engagement can be a double-edged sword. Being too engaged could lead to making too many

trades,⁶ while a lack of engagement may result in not taking needed actions. This is another area in which education level, wealth and other factors appear to play a far greater role than gender.⁷ In fact, results from the Merrill Lynch IPA show roughly half of women and 55% of men say that they personally wanted to take part in making changes to their investment approach—not a substantial difference. And nearly 100% of participants, regardless of gender, said they desired the support of an experienced advisor or money manager to help in making productive investment decisions (Exhibits 2 and 3).

Are men or women more focused on family when it comes to investing?

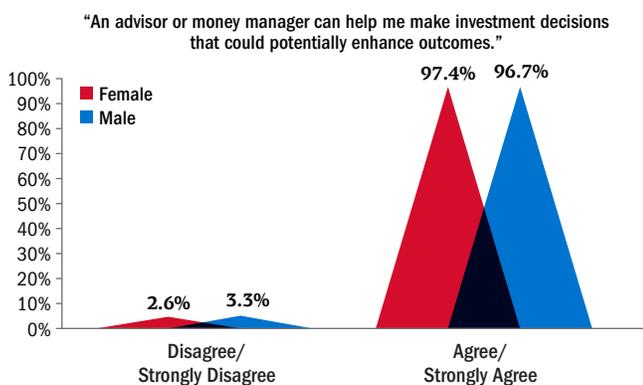
Numerous studies suggest that women and men have differing views on a variety of work, marriage and parenting matters. Yet they tend to share similar views on financial issues such as preparing their estates and leaving money for family members. About half of men and 44% of women in the IPA described themselves as having important family legacy goals—a very similar number. What’s more, when spouses work together on these issues they tend to concur on most things. About two-thirds of the 1,763 married couples (3,526 investors) taking the IPA saw eye to eye on their legacy priorities. That remained true whether or not they intended to leave money to family members—about half of the couples surveyed planned to do so, while the other half did not.

Exhibit 2



Source: Behavioral Finance, IMG Investment Analytics

Exhibit 3



Source: Behavioral Finance, IMG Investment Analytics

Even when spouses’ views differed about leaving money to family, there was no clear pattern indicating which partner was more or less inclined to do so. In cases where couples’ answers

⁴ Brad M. Barber and Terrance Odean, "Boys Will Be Boys: Gender, Overconfidence and Common Stock Investment," *The Quarterly Journal of Economics*, February 2001.

⁵ Ibid.

⁶ The DALBAR Analysis of Investor Behavior (2012) shows that from 1991–2011 the average equity investor missed out on an annualized 4.3% in returns relative to the S&P 500, possibly due to overreactions to market movements (e.g., downturns).

⁷ Alexandra Bernasek and Vickie L. Bajtelsmit, "Predictors of Women’s Involvement in Household Financial Decision-Making," *Association for Financial Counseling and Planning Education*, 2002.

When couples disagree, important factors may need to be evaluated with the help of an advisor.

conflicted, about half of the time the wife was the one with legacy goals, and the other half it was the husband. When couples disagree, important factors may need to be evaluated with the help of an advisor. Is the couple making a joint decision or separate decisions? If making a joint decision, does the couple want to compromise, or go with the primary decisionmaker's views? The answers to these and other questions will have a significant influence on the investment strategies that are eventually developed, implemented and managed.⁸

Mindset, Approach and Purpose.

The Merrill Lynch Investment Personality Assessment does more than offer broad insights into how men and women view finances and investing. First and foremost, it's a valuable tool that can help investors better understand their own views and needs.

The assessment, which takes between five and seven minutes to complete, may yield significant benefits. An advisor, using Merrill Lynch's proprietary algorithms, can determine where investors stand on nine elements of investment personality. Those elements, in turn, provide a window on how a person views investing and risk (her mindset), how she envisions her investment journey (her approach) and the goals she hopes those investments will help her reach (her purpose). Once all that is clear, it becomes much easier for the investor and the advisor to determine which actions may be needed to make the investment process more effective.

Women's Mindset Toward Investment Risk			
INVESTMENT MINDSET	SAMPLE QUESTION	DISAGREE/ STRONGLY DISAGREE	AGREE/ STRONGLY AGREE
CONFIDENCE my confidence about the future of markets.	It is my perspective that the historical benefits of taking investment risk may continue into the future.	15.4%	84.6%
ADAPTABILITY my ability to adapt to changing market environments and investment outcomes.	I feel that I may be able to adjust my lifestyle and spending to accommodate changes in the value of my investments.	18.8%	81.2%
EXPERIENCE my familiarity with markets and investing.	I believe that I have a lot of investment experience.	67.8%	32.2%

Mindset. All investing involves risk. Yet it can be hard for people to accept risk in their own portfolios, particularly during times of economic uncertainty. Indeed, our research found that 15% of women believe that although risk-taking has historically had benefits, those benefits may not continue into the future. At the same time, most women understand and agree with the idea that reaching goals requires taking some degree of risk.

One way to bridge that apparent contradiction—that taking risks may be necessary, but may no longer make sense—is to identify specific types of investments or strategies that could be sparking the most serious concerns. One investor may be bothered by the inherent unpredictability of the stock market, while another may fear that her investment portfolio won't grow fast enough

⁸ Michael Liersch and Anil Suri, "Making Group Decisions the Behavioral Finance Way," Merrill Lynch Wealth Management Institute, Fall 2012.

to support spending needs. It might be wise for those having concerns to share them with an advisor, spouse or trusted family member in order to gain confidence in their decisions. As a result of those discussions, investors may decide to replace certain investments with others that achieve similar goals but give them a greater degree of comfort. At the same time, as they learn about and become more engaged in the process of investing, they may come to see the benefits of strategies that once concerned them.

INVESTMENT MINDSET	SAMPLE QUESTION	DISAGREE/ STRONGLY DISAGREE	AGREE/ STRONGLY AGREE
ACCESSIBILITY the level of access to my investment dollars that would help me sleep better at night.	I feel that I may have an unforeseen need for a large amount of money in the future.	63.1%	36.9%
PROTECTION my desire to protect against downturns in investment value.	I spend very little time worrying about losing my principal (or original investment).	51.8%	48.2%
ACTIVITY my interest in active involvement in the investment process.	Being involved in detailed, day-to-day investment decisions is important to me.	77.6%	22.4%

The Merrill Lynch Investment Personality Assessment reveals that more than half of women investors fear losing principal.

Approach. In creating an investment strategy, it can help to anticipate needs that may unfold over time. For example, in the Merrill Lynch research, more than a third of the women expressed concern about not having access to cash when they might need it to help a family member, start a business or meet another unanticipated expense. One solution to a concern of that kind might be to establish a reserve fund containing cash and cash equivalents that's large enough to draw upon for unexpected needs. Having that can allow an investor to pursue a long-term investment strategy with greater confidence.

The research also revealed that more than half of women investors fear losing principal. Such a concern, however well founded, can harm a portfolio if it leads to an over-reliance on "safe" investments whose growth can't keep pace with inflation and result in diminishing buying power. There are many investment options and strategies that offer the potential for growth along with a degree of principal protection. Each of these possibilities carries its own advantages as well as costs and risks that must be weighed carefully to determine whether they're suited to the investor's needs.

While Merrill Lynch research found that roughly half the women taking the IPA wanted to make regular changes to their investment approach—like identifying how to protect investment principal while seeking growth—they didn't necessarily want to do it all themselves. In fact, 78% of women taking the IPA said they did not consider making detailed, day-to-day investment decisions a priority.

Realizing that the differences between men and women aren't great can be enormously liberating, because it suggests that it's within our grasp to take control of how we invest and deploy our financial resources.

Women's Purpose for Investing

INVESTMENT MINDSET	SAMPLE QUESTION	DISAGREE/ STRONGLY DISAGREE	AGREE/ STRONGLY AGREE
SELF my focus on my own investment goals and aspirations.	I believe that I am investing enough for my future and have very little concern that I may outlive the money I have accumulated.	50.7%	49.3%
FAMILY my focus on investing for my family.	I feel that I should financially support my children, parents or significant other.	42.5%	57.5%
COMMUNITY my focus on communities, charities and other organizations or people.	I enjoy giving money to charities or other nonprofit organizations.	28.5%	71.5%

Purpose. Now we come to what may be the most important component of investing—what a person is trying to accomplish with his or her money. Investors who cannot articulate concrete goals and manage their progress toward those goals take the chance of missing opportunities and falling short of their objectives.⁹

About half of the women answering the IPA voiced concerns about their ability to reach one of the most important personal goals: having enough money for the rest of their lives.¹⁰ Again, much of this concern can be tied to social and demographic factors, such as women's generally longer lifespans and their confidence in their own ability to invest.

This is where an advisor can be especially helpful. By establishing a client's lifestyle needs—evaluating spending patterns as well as determining what resources will likely be needed for the rest of her life—the advisor can lay the groundwork for an investment strategy that addresses the client's larger objectives.

Those objectives aren't exclusively personal. More than half of the women taking the IPA considered it important to support family members and their communities. But those who put family and community high on the list of priorities can't afford to neglect their own needs. If they do, family members and the community may ultimately be called upon to help a woman meet her financial needs, which would be exactly the opposite of her intention.

To avoid this possibility, investors should ask themselves, Do I have enough to give to family members or the community? If so, how much can I give and still sustain the lifestyle I seek? By taking a deliberate approach, women can increase their chances of recognizing any tradeoffs they may need to make, and of building an investment strategy that helps them achieve all their goals.

What Women Can Do.

Realizing that the inherent differences between men and women aren't really all that great can be enormously liberating, because it suggests that it's within our grasp to take control of how we save, invest and deploy our financial resources. After all, who wants her or his destiny determined by a stereotype?

⁹ "Goals-Based Wealth Management: Helping You Pursue Personally Meaningful Goals," Merrill Lynch Wealth Management Institute, Spring 2013.

¹⁰ According to Social Security actuarial tables, the average life expectancy of adult women now takes them well past 80: <http://www.ssa.gov/oact/STATS/table4c6.html>.

By taking a deliberate approach, women can increase their chances of building an investment strategy that helps them achieve their goals.

At the same time it's challenging—taking charge of one's future implies actively doing whatever is needed to understand one's unique investment personality and to overcome any emotional obstacles that might stand in the way.

Specifically, it means making three commitments as an investor.

The first is to engage personally in the investment process. The Investment Personality Assessment suggests that both women and men would like to be involved in determining how their money is invested and deployed. Collaborating with an advisor to identify the right level of engagement can help investors do just that, while also providing the opportunity to gain experience and develop confidence in their decision-making ability.

The second is for investors to commit to making investing personally meaningful, by moving beyond thinking in terms of financial returns to exploring ways their decisions can address individual goals.

Finally, a third critical element in success as an investor is communicating with key decision-makers—such as spouses, family members and other important people—using structured methods of sharing thoughts and feelings via tools like the Investment Personality Assessment.

Working closely with an advisor can help any investor articulate objectives and can make it much easier to communicate with others to overcome differences and agree on a suitable path.

In the end, the right financial decisions are generally driven by the unique circumstances and experiences of each investor. Investors are probably best served by focusing on their specific needs, concerns and goals—not upon gender.

Michael Liersch, head of Behavioral Finance, is a member of the Client Segments and Advisor Development team at Merrill Lynch Wealth Management. He leads the behavioral finance initiative, which is focused on tailoring investment advice to help meet the needs of a client's unique investment personality in the context of their investment goals.

Prior to joining Merrill Lynch, Michael led the behavioral finance initiative at Barclays Wealth for North and South America. He has also previously held the positions of Director of Research at Behavioral Research Associates, Consultant at Deloitte Consulting and Visiting Professor at New York University's Stern School of Business.

Michael's research has been published in top psychology journals including *Psychological Science* and *Journal of Marketing Research*. His perspectives have been highlighted in investment media outlets including *Bloomberg TV*, *CNBC*, *The Wall Street Journal*, *USA Today*, *On Wall Street* and *FundFire*. Michael earned a Ph.D. from the University of California, San Diego in Cognitive Psychology. He also holds an A.B. in Economics from Harvard University.

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