

TRACKING THE ALPHA FEMALE

Six Techniques for Advisors
in Pursuit of Female Investors



Women have quickly moved into the role of influential investor. As of this year (2020), it is estimated that women will control \$22 trillion of wealth in the US¹ – and almost 60% today are solely responsible for making investment decisions² and their long-term perspective tends to result in better risk- and cost-adjusted returns. The investment industry has taken notice and is diligently seeking to engage female investors in a meaningful way.

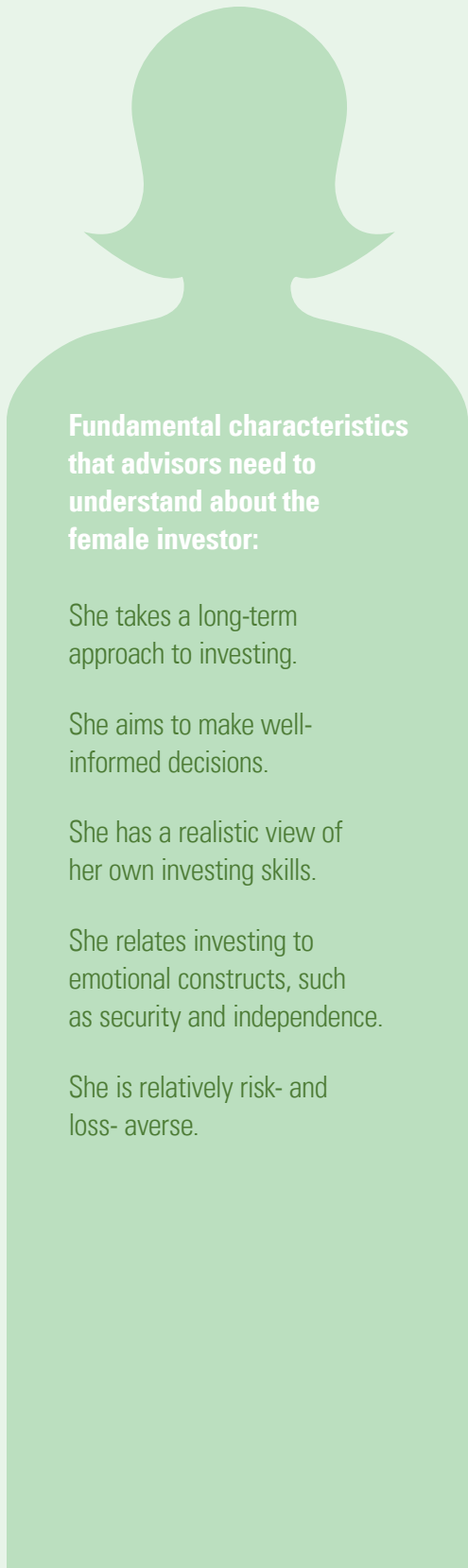
So why is it that, despite the increased interest and focus, 39% of women still feel misunderstood by the investment industry and have yet to reach their full investing potential?³

Gender stereotypes and fundamental service misalignments are standing in the way of the industry meeting the needs of female investors. If we fail to change the conversation and don't move away from deeply entrenched stereotypes when we look at male and female investors, we are likely increasing opportunity risk and making it harder for female clients to meet their financial goals.

MOVING BEYOND MISPERCEPTIONS

Women who seek out additional information and take more time to make investment decisions are often labeled as indecisive and less confident. To make matters worse, advisors who assume female investors prefer working with female advisors are missing the point of what female investors really want — an investment partner who demonstrates understanding and integrity, and can help guide her decision-making process.

Appreciating the female investor as an individual and understanding how these characteristics influence her investment experience could be a tipping point — a real leap forward in gender intelligence throughout the industry.



Fundamental characteristics that advisors need to understand about the female investor:

She takes a long-term approach to investing.

She aims to make well-informed decisions.

She has a realistic view of her own investing skills.

She relates investing to emotional constructs, such as security and independence.

She is relatively risk- and loss-averse.

Advisors can directly translate these observations into their own service model by improving their efforts in communication, coaching and educational offerings. Here are six practical ways to apply these insights, focusing on the female investor’s decision-making style and communication preferences.

1 By taking a deliberate approach, she will align her investment strategy with her values-focused mindset.

She takes a very different path to the bottom line. For the female investor, it’s not just about beating the benchmark — it is truly about achieving long-term goals. This is what defines her as our “Informed Investor.” You can help her develop a structured decision-making process built around these goals.

The Informed Investor takes the time to gather information, evaluate her options and consider viewpoints from her trusted network. Her more holistic approach motivates her to make fully informed investment decisions. It supports her definition of success and how she values wealth.

“It’s easier to think it through before you make the decision than to make the decision and say, ‘I shouldn’t have done that; I should’ve done this instead.’”

— *Female investor*

“To make a decision, women do research, and when they feel satisfied that they have a strong basis for making a decision, they do just that.”

— *Marianne Legato, M.D., FACP, PC, founder and director, Foundation for Gender-Specific Medicine at Columbia University*

However, this comprehensive process can become unproductive if it stalls with indecision. That indecision may actually be a desire to avoid regret. Help her gain the information she needs while being mindful of excessive rumination.

As issues arise, ask the female investor about her past experiences with similar investment challenges to better understand her perspective. Take time to explain your own views and how you arrive at specific recommendations. This will build trust and strengthen the relationship.

A Holistic Outlook on Investing



Source: State Street Global Advisors' survey, "Assessing the Landscape: Female Investors and Financial Advisors," 2015.

2 Focusing on the risks that count will lead to more empowered decision making.

Research supports the idea that male and female investors make decisions differently. One of the key contrasts is mindset to risk.

Highlighting the elements of the decision-making process that are within her control will help the female investor craft a risk-aware strategy that can be maintained with confidence over time.

“I want to be confident in my decisions, because it is my money. I’ve worked hard for it.”

— *Female investor*

Help her to look at the downside risk of an investment option separately from overall volatility, which can mask outperformance. Consider introducing the idea of a portfolio risk budget (to help investors incorporate risk in their portfolios where it is most likely to be rewarded) for investors who are likely to find this concept useful.

If she’s holding an unsuitable amount of risk-free assets relative to her return expectations, help align her actual risk tolerance with her asset allocation. Illustrate the opportunity cost and

inflation impact of holding too much cash. For example, calculate the expected additional years to retirement based on her current cash allocation. Discuss the concepts of risk aversion and loss aversion, and how these can bias the investor’s decisions. This will help her become a more effective and more knowledgeable investor.

“Personality typing can assist investment advisors in determining an individual investor’s propensity for risk taking and his decision-making style in seeking returns.”

— *CFA Institute⁴*

Proactively help the female investor manage loss aversion by making objective and quantitative comparisons between investment choices. When it’s appropriate, frame decisions in a relative context. For example, discuss the historic performance of an investment option compared with a minimal risk investment such as staying in cash. Her long-term perspective is a natural fit with this approach. She is inclined to stay the course and is not easily distracted by capricious market cycles.

3 Presenting options and information will make her feel more involved in the decision-making process and support her desire to feel in control.

Build confidence and empower her by being her partner, not her commander. What she wants is a collaborative partner, not someone to dictate decisions.

Listen to her ideas, address her questions and look for ways to build upon successes. Reinforce progress made toward her financial goals.

“I’m completely satisfied because she follows my lead instead of telling me how to invest.”

— *Female investor*

Female investors are more likely to have an advisor than their male counterparts, often because they are looking for a sounding board to help facilitate the decision process. Remind her that she does not need to be an expert at investing in order to achieve her goals.

“A conversation can actually change the brain chemistry, moving the energy to the prefrontal cortex where trust is built. It’s completely different than being told something.”

— Elizabeth Jetton, CFP, *co-founder, TurningPoint LLC*

Women want the facts. Serve as a guide for her and provide her with resources that are condensed and meaningful. Inform her — don’t pitch to her — so she can draw her own conclusions.

Roughly 50% of female investors second-guess their decisions when they don’t have enough information to make an informed decision or when they feel pressured to make a decision.



Q: When are you likely to second-guess a decision you have made?

Source: State Street Global Advisors’ Women and Investing Omnibus Survey, April 2015.

4 She will take advantage of opportunities to learn. With experience and education, she will become a more confident and decisive investor.

The female investor is more realistic in her self-assessment, having benefited from a socialization process that fosters an objective view of her own investment abilities. To help her become a more decisive investor, offer a diverse set of educational opportunities that will build on her financial literacy.

“I spend a lot of time reading the information he sends me, and I get my questions lined up: ‘Why this investment as opposed to something else?’”

— *Female investor*

Educational materials and events should include conceptual information (for example, how inflation impacts purchasing power) and product information (such as, the benefits of liquid alternatives). Financial knowledge is correlated to investor confidence, but keep in mind that information alone is not enough. It’s essential to connect this information with the investor’s goals in order to influence investment behaviors.

Women tend to feel uncomfortable when they don’t know all the facts. However, no one wants to be talked down to. Don’t soften the conversation and don’t be condescending.

“Women may be hindered by a fear that if they don’t know everything they know nothing. Advisors need to build trust by exhibiting good listening skills, patience, and low self orientation so that women feel comfortable enough to ask the question they want and need to ask. It is about building trust.”

— *Judy Beatrice, executive leadership development consultant, co-founder of Hyperion Business Solutions*

Females tend to learn by talking things through and sharing ideas and opinions. Having a conversation and fostering an environment that allows her to ask questions will give her the collaborative learning style she seeks.

5 Women balance the EQ (emotional quotient) and the IQ (intelligence quotient) in investment decision making.

Our industry can learn from how women leverage the EQ in investing. Women use both emotion and information in a way that allows them to achieve suitable risk levels and meet long-term goals.

“Past research has already established that emotion is not something you can separate from cognition or thinking. It’s an integral part of the process.”

— Peter Sokol-Hesser, Ph.D., *director, The Sokol-Hessner Labs*

Lack of balance — too much emotional influence or a desire to know everything — can negatively impact the decision-making process and ultimately hurt investment outcomes. Her empathy, sense of community and devotion to her family can also lead to competing demands for her finite resources. Whether that includes college tuition for a grandchild, an annual donation to a favorite charity, or support for a friend in need, help her stay on mission and strike the right balance between social commitments and a secure financial future.

A female investor’s ability to recognize and embrace the role of emotion — and to channel it productively — is related to her ability to approach wealth management holistically. Advisors

can connect with female investors at this more meaningful level by demonstrating empathy, listening actively and showing patience during the decision-making process. Understanding how women relate investments to emotional constructs (such as family, security and independence) and supporting this as a force for action also help the advisor build a deeper connection.

“I’m an ‘attached’ investor, whereas my spouse is a ‘detached’ investor. He is more results oriented. That’s important, but I appreciate an emotional reward to investing in a business. I would like to see it do well for reasons beyond stock value.”

— *Female investor*

Look for opportunities to tailor the investment solution to her personal circumstances and align with her feelings and attitudes toward investing. Women are typically interested in the “double bottom line.” That means the female investor is not just concerned with the investment gain in percentage, but she also wants to see how it contributes to satisfying goals for herself, her family and her community.

Emotion Plays a Key Role in Decision Making

5 Elements of Emotional Intelligence

Social Skills

Self-Awareness

Empathy

Motivation

Self-Regulation

Source: David Goleman, *Emotional Intelligence: Why It Can Matter More Than IQ*, Bantam Books, 1995.

6 Women have many different strengths when it comes to saving and investing.

The female investor's ability to see beyond the present not only supports her definition of success and money, but it also helps her achieve both. She knows that her decisions will impact the financial future for herself and her family, and she is acutely aware of the additional hurdles facing female investors, including the gender gap in pay, increased longevity and number of dependents. All of this shapes her as an investor.

- Her relationship with money is a means to security and independence;
- Her more holistic view on investing directly informs her risk tolerance.
- A long-term perspective fuels her motivation to stay focused on the big picture.

Beyond these broad observations, each investor's situation will always be unique.

"While it is possible to make generalizations about different age groups and genders, the industry really needs to start taking a more individualized approach, particularly when it comes to women. This is 51% of the population. It's a very nuanced group."

— Kathleen Burns Kingsbury, *wealth psychology expert, founder, KBK Wealth Connection*

There are many factors that influence each individual's investing behavior, including age, experience with investing and socio-economic background. Use these insights as a guidepost, not an exact formula.

A female investor's decision to work with an advisor is also highly individual and highly personal. For some, releasing control is difficult; for others, tapping into the expertise of an advisor helps to manage the transitions between life stages. The female investor seeks a financial partner who understands what she wants and what she needs.

"I would use a financial advisor to plan my trust, to plan my withdrawals. I have been saving and investing and making money, but I don't have the withdrawal strategy yet. Now, I'm at a stage where I'm asking, 'What am I going to do with all this money?' I don't want the government to take all of it. I worked hard all my life. How can I make sure that my grandchildren can go to college, that they will be okay?"

— *Female investor*

FROM MISJUDGED & UNDERSERVED TO EMPOWERED & THRIVING

Valued Advice for the Values-Based Investor

Advisors should focus on the three qualities that female investors value most:



Exhibit knowledge and experience.



Garner trust through honesty and empathy.



Be a sounding board.

Demonstrating these qualities as part of an overall client-centric value proposition will help establish deeper connections with female investors and ultimately help them reach their investing potential.

The investment industry is more complex than ever, but one thing is clear: As the need for quality advice continues to increase, advisors have an enormous opportunity to more effectively engage female investors. This requires a real awareness of the industry's misperceptions that have impacted female investors, both at conscious and unconscious levels. With a more client-centric approach that focuses on individual risk preferences, communication styles and decision-making processes, advisors can move beyond the gender stereotypes to build deeper and more satisfying relationships with female investors.

“Gender differences are an important underlying factor, but if they become the conclusion to our industry’s efforts to better understand female investors, then we will have failed to deliver a truly client-centric approach — a model that works for all client segments and across gender lines.”

— Brie P. Williams, *head of Practice Management, State Street Global Advisors*

Building on the female investor’s individual strengths and guiding her decision process will demonstrate the kind of understanding and integrity that the female investor looks for in an advisor. With the right partner, she can become a true alpha female investor, leading the pack in reaching her potential and successfully meeting her long-term goals.

Research Methodology

A nationally representative sample of 250 financial advisors and 1,000 individual female investors participated in an online survey undertaken by State Street Global Advisors and a2bplanning in January and February of 2015.

The advisor sample is representative across different channels: independent broker/dealer; multi-platform/direct; national broker or wirehouse; private bank; and registered investment advisor, all with accounts under management of at least \$20 million. Female Investors included in the study were aged 25–84 and had a household investment portfolio of \$200,000+ (\$100,000+ for those aged 25–34). All worked full-time, part-time or were retired and shared in the financial/investment decision-making for their households.

The quantitative surveys explored nearly identical themes, which allowed comparison of advisors' assumptions regarding their clients against actual investors' attitudes and behaviors. Questions were grouped into the following discussion areas:

- What investment behaviors are common in female investors?
- How well do advisors feel they understand female investors and how well do female investors feel understood by their advisor?
- What are advisors doing to ensure understanding of the differences in male and female investors?
- What investment goals are most prevalent among female investors?
- What preferences do female investors have when it comes to working with an advisor?

The data collected from this survey were segmented and analyzed to extract insightful and actionable opportunities.

In April 2015, 946 adults — 516 males and 430 females, responsible for investment decision-making of a portfolio of any size — participated in an omnibus survey intended to deepen our learning.

To further contextualize our findings, we also conducted qualitative research with a range of leading industry, business and economic experts. This helped to inform our key findings and practice techniques. They include:

- Phone interviews with 19 subject matter experts, and
- In-home interviews with six female investors with a household portfolio of at least \$100,000.

¹ BMO Wealth Institute, *The Financial Concerns of Women*, 2015.

² State Street Global Advisors' survey, "Assessing the Landscape: Female Investors and Financial Advice," 2015.

³ State Street Global Advisors' Women and Investing Omnibus survey, April 2015.

⁴ *Managing Investment Portfolios: A Dynamic Process*, Third Edition, John L. Maginn, CFA, Donald L. Tuttle, CFA, Jerald E. Pinto, CFA, and Dennis W. McLeavey, CFA, editors. Copyright © 2007 by CFA Institute.

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