

## Female Finance: the benefits of diversity

**How and why we still need to do more to get more women into finance, encourage more women to invest and improve education about gender, diversity and finance.**

Remember Deborah Tannen's classic bestseller "You Just Don't Understand," from the 1990s? A professor of linguistics, Tannen essentially argued that in Western societies, girls and boys grew up in rather distinct cultures, leading them to use language in different ways with different goals in mind as adults.

Conversation thus became akin to cross-cultural communication, often fraught with genuine confusion.<sup>1</sup> Thirty years on, the same obviously holds when we talk about a concept as fluid as gender across generational divides, including on such vital issues as female finance.

### Female money wisdom and male overconfidence

Plenty of good guide books now exist specifically by women and for women on how to gain money wisdom.<sup>2</sup> In recent years, the idea that it can make sound financial sense to entrust money to female fund managers and to asset management firms that have a strong focus on diversity and female empowerment has become conventional wisdom in much of the industry.<sup>3</sup>

To younger readers – especially those with a background in behavioral finance – it may seem strange that this was ever even controversial. To be sure, neither gender has a monopoly on cognitive biases that can be costly.<sup>4</sup> Still, overconfidence appears to be a particularly male streak, not just in modern humans.<sup>5</sup>

This has important implications for investment strategies and fund management. More than 20 years ago, a now classic study looking at a large sample of individual investors found that women outperformed men by about 1.4% in annual risk-adjusted net returns, largely because men were trading too much, presumably reflecting overconfidence.<sup>6</sup> Subsequent research over time and across multiple countries paints a more nuanced picture. As with many behavioral traits, there is great variation within both sexes, reflecting learning as well as cultural environments.

Change takes time, as people, firms and other institutions seek to replicate past examples of success through pattern-matching.

### How to bring about cultural change

For example, perceived incongruity between traditional female gender roles and an occupational role that has traditionally and "ideally" been masculine, such as well-known star investors, tended to lead to less favorable views of women in such roles.<sup>7</sup> How to change culture when it comes to gender is a tricky subject in many areas of life, not just within finance.<sup>8</sup>

"Even in the 2020s, women still have different life experiences and perspectives. For investing, that translates into different needs, investment horizons and habits," argues Katharina Seiler, portfolio manager at DWS. "Including more female investors benefits our business. As importantly, it has beneficial ripple effects for the economy and financial markets overall."

### Reducing the potential for groupthink

Numerous studies have shown that diversity can lead to more robust decision-making processes, reducing the potential for groupthink and enhancing risk management, potentially boosting returns and lowering earnings risks.<sup>9</sup> Investors can play a key role in this, by encouraging female empowerment at every level.<sup>10</sup> In turn, we expect such progress to be helpful in overcoming unconscious biases against other groups too, in the financial industry and beyond.

The key is for all members of a group, deciding, for example, on investment strategy, to feel listened to and safe to express a dissenting view respectfully. This helps to successfully resolve, rather than suppress, conflicts. Diversity, properly handled and encouraged, also opens the way to new, creative solutions. In a nutshell, overcoming unconscious biases can further our common understanding of financial markets and make asset managers more successful.<sup>11</sup>

## Footnotes

- <sup>1</sup>Tannen, D. (1992, repr. ed.) "You Just Don't Understand: Women and Men in Conversation"; Virago
- <sup>2</sup>See, in particular, Kalee, B. (2023) "Make Money Your Thing: Ditch the Shame and Design your Dream Life"; re:books
- <sup>3</sup>The Economist (Mar 8th 2018), [Investment by women, and in them, is growing \(economist.com\)](https://www.economist.com)
- <sup>4</sup>See, for example, Kahneman, D. (2011) Thinking, fast and slow. Farrar, Straus and Giroux and Taleb, N. (2004, 2nd ed.), "Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets"; Texere Publishing
- <sup>5</sup>There are sound biological reasons to assume that differential mating strategies have broader implications for how human thinking and cultures have evolved, now broadly accepted within the cognitive sciences. For an early outline, see Barkow, J. H., Cosmides, L., & Tooby, J. (Eds.). (1992). "The adapted mind: Evolutionary psychology and the generation of culture", esp. parts III and IV; Oxford University Press. For examples of overconfidence and its evolutionary underpinnings as well as reasons to see human culture on such issues as quite fluid, see, in particular, Peterson, D. & Wrangham, R., (1997) "Demonic Males: Apes and the Origins of Human Violence"; Mariner Books
- <sup>6</sup>Brad M. Barber, B. & Odean, T. (2001) "Boys will be Boys: Gender, Overconfidence, and Common Stock Investment"; in The Quarterly Journal of Economics, Vol.116:1, pp. 261-292; available at: [BOYS WILL BE BOYS: GENDER, OVERCONFIDENCE, AND COMMON STOCK INVESTMENT \(berkeley.edu\)](https://www.berkeley.edu)
- <sup>7</sup>Eagly, A. H., and Karau, S. J. (2002) "Role congruity theory of prejudice toward female leaders", Psychological Review, 109(3), pp. 573-598.
- <sup>8</sup>See, for example, Chang, E. (2019, repr. ed.) "Brotopia: Breaking Up the Boys' Club of Silicon Valley"; Penguin Publishing Group; Venture Capitalists Are Using the Wrong Tools to Improve Gender Diversity - Behavioral Scientist and Venture Capital and Entrepreneurship | Harvard Kennedy School
- <sup>9</sup>See, for example, Janis, I.L. (1982) "Groupthink: Psychological Studies of Policy Decisions and Fiascoes. Boston: Houghton Mifflin." A good introduction to the complex, dynamic nature of group problem solving in a broad range of situations is offered by Surowiecki, J. (2004) "The Wisdom of Crowds: Why the Many Are Smarter Than the Few and How Collective Wisdom Shapes Business, Economies, Societies and Nations", Little Brown. For a critical assessment of such insights and their practical application, see, for example, Tetlock, P. and Gardner, D. (2015), "Superforecasting: The Art and Science of Predictions", Crown Publishers, pp. 193-211.
- <sup>10</sup>See, for example, [sp500\\_board\\_diversity\\_snapshot\\_2022.pdf \(spencerstuart.com\)](https://www.spencerstuart.com) and, for the most recent data, [2023\\_new\\_director\\_diversity\\_snapshot.pdf \(spencerstuart.com\)](https://www.spencerstuart.com).
- <sup>11</sup>For a further overview of "Groupthink" and "Groupfeel" research, as well as some intriguing suggestions in developing these ideas to better understand financial markets, see Tuckett, D. (2011) Minding the Markets: An Emotional Finance View of Financial Instability', esp. pp. 66-70

## Glossary

**Behavioral finance** is a sub-field of economic science, which studies the effects of psychological, social, cognitive and emotional factors on financial decisions, as well as the consequences for financial markets.

**Risk-adjusted** implies that the risk involved is taken into consideration. For example, risk-adjusted return is how much return your investment has made relative to the amount of risk the investment has taken.

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