BRENTHURST WEALTH MANAGEMENT

INVESTMENT REPORT

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MEN ARE FROM MARS, WOMEN ARE FROM VENUS ...EVEN IN THE WORLD OF INVESTING

RENEE EAGAR & SONIA DU PLESSIS

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UPCOMING INVESTMENT SEMINARS WITH INVESTEC ASSET MANAGEMENT:

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Global Markets AND SA ECONOMY

By RENEE EAGAR and SONIA DU PLESSIS — FINANCIAL PLANNERS CFP ®

If you had to ask a group of people in a social setting, be it at a friendly gathering or amongst colleagues at work, who they would put at the top of the list of brilliant investors of our time, chances are pretty good that Warren Buffett's name would be mentioned.

Buffet, who is in his early eighties already, made a titanic fortune from smart investments. Often referred to as the "Sage of Omaha", Buffet has an estimated net worth of around R45 billion, and is the largest shareholder and CEO of Berkshire Hathaway.

John C Bogle, Peter Lynch and George Soros might be other names that will be bandied about when impressive investors are discussed.

The interesting thing is that you would be hard-pressed to hear the name of a woman amongst these male investing giants. It's perhaps because the Wall Streets of the world are still dominated by men. It could be because men are perceived to be bigger risk takers, and without higher risk, you don't get high returns, right?

Various behavioural economics studies and reports, released over the last decade, would beg to differ.

These studies indicate that on average women are actually better at the investment game than men, if you use average returns as an indication.

Emotions, decisions and the differences between the genders.

Behavioural economics, which looks at how and why we make decisions, is a fascinating and complex area.

"CLASSICAL FINANCE DOES NOT TAKE INTO ACCOUNT THE EMOTIONS INVOLVED IN DECISION MAKING. IT ASSUMES WE ARE ALL RATIONAL, BUT WE AREN'T. UNDERSTANDING OUR PERSONALITIES AND HOW THEY SHAPE OUR FINANCIAL DECISION MAKING IS FUNDAMENTALLY IMPORTANT IF AS INVESTORS WE ARE GOING TO ACHIEVE GOOD RETURNS."

This quote is from a study by Barclays Wealth in co-operation with Ledbury Research that was released last year.

Being quoted is Greg Davies, Head of Behavioural and Quantitative Finance for Barclays Wealth.

Our emotions and personalities are thus integral factors in our decision making, but no one will argue that between men and women there is a fundamental difference between reigning emotions and between personalities.

Thus, it stands to reason that the emotions that come into play when making financial choices will also differ.

The Barclays Wealth study looked at investment personalities among global, high net worth individuals and what rules and strategies are used to control these personality traits.

More than 2 000 high net worth individuals (all of whom had over $1.5 million in investable assets and 200 more than $15 million) were surveyed from all around the world, including South Africa.

Also, Ledbury Research conducted a series of interviews with academics, entrepreneurs and other experts from around the globe.

The study found that women were more likely than men to have a greater desire for self-control while men tend to have a higher risk tolerance. The men were more likely to label themselves "financial risk takers". Thus they were more open to choosing high risk investments.

Furthermore it was found that men have more positive views on the benefit of frequent trading and timing the market, while women are more long-term oriented with less of a need to trade often.

Women tended to have lower composure than men and thus had a desire to employ self-control strategies. They are also less prone to overconfidence.

Confidence is a good thing. Overconfidence? Not so much. And the overconfidence that men often display in the investment world has a direct effect on how men trade.

In the study Dr. Chun Xia, Assistant Professor of Finance in the Faculty of Business and Economics at the University of Hong Kong, says that overconfidence results in the person believing their ability is above the average or their information is more precise than the average. This, according to the professor, is simply impossible.

"When people believe they have a higher ability than the average, or more precise information, or a more accurate interpretation, then what they will do is to buy or sell with a larger amount than optimal. Basically, they trade too much. However, if they trade too much, then they pay more commission, and they push the price to a level against their interest, so the return will be reduced," he says.

Dr. Xia's research thus confirms previous findings that women trade less, but earn more. A lack of financial confidence in this regard, ironically proves to be an advantage. Due to their lack of overconfidence women will usually tend to also insist on more information before making an investment decision as opposed to men who would confidently decide on an investment direction, sometimes without understanding the specific market section or having all the information.

Reports on the subject have quoted Harvard University professor Jennifer Lerner, who has conducted studies that show that in the face of a crisis men react with anger, while women react in fear.

ANGER SPURS PEOPLE TO MORE OPTIMISTIC AND RISK-SEEKING ACTION, WHILE FEAR MAKES THEM PESSIMISTIC AND AVERSE TO RISK.THEN THERE ARE THE REALITIES THAT WOMEN HAVE TO CONTEND WITH THAT THEY, THE CURRENT GENERATION AT LEAST, WILL LIVE LONGER THAN THEIR MALE COUNTERPARTS AND WILL NEED MORE SECURITY TO FUND THEIR LONGER LIVES. THIS ALSO MAKES THEM RISK-AVERSE.

On this point, however, it is important to note that a recent study done in the UK does indicate that adult males will soon have the same life expectancy as females for the first time since the records began. In the long run, this could ultimately influence the behavioural economics of men.

Studies have been showing these same results, that women outperform men with regard to investing, for a while.
A study in 1999 by Berkley professors Terrance Odean and Brad Barber analysed the returns of 35 000 of the clients of a major share broking company in the United States over six years. They found that women investors, on average, achieved an annual return of 1.4% higher than the men.

WHAT TO LEARN FROM THIS? ….ESPECIALLY OUR MALE INVESTORS READING THIS ARTICLE

Well, you can't change the way you are wired, but you can learn from the research material available on the topic.

- ⇒ RESIST THE URGE TO TRADE TOO OFTEN. IT ERODES EARNINGS.
- ⇒ BEWARE THE PLAGUE OF OVERCONFIDENCE. THINK THROUGH INVESTMENT DECISIONS THOROUGHLY.
- ⇒ GATHER ENOUGH INFORMATION ABOUT THE INVESTMENT DIRECTION YOU DECIDE ON.
- ⇒ EVALUATE YOUR EMOTIONS AND UNDERSTAND THEIR ROLE IN INVESTMENT DECISION MAKING.
- ⇒ AND FINALLY, IF YOU HAVE A PARTNER OF THE OPPOSITE SEX IN YOUR LIFE, IT COULD BE A WISE DECISION TO MANAGE YOUR PORTFOLIOS TOGETHER. THIS WAY YOU WILL ACHIEVE IMMEDIATE DIVERSIFICATION IN YOUR INVESTMENT STRATEGY.

After all, balance is important.

REPORT BACK:BRENTHURT & RSG WOMEN SEMINAR

AWESOME WOMEN: *IN CELEBRATION OF NATIONAL WOMEN'S DAY, BRENTHURST IN CONJUNCTION WITH RSG PROUDLY PRESENTED ON THE 23RD AUGUST AN INVESTMENT SEMINAR FOCUSING ON "FEMALE FINANCIAL INDEPENDENCE. THE CHARITY EVENT PROVED TO BE UNFORGETABLE.*

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BRENTHURST GUESTS: AWESOME AND FABULOUS WOMEN

SPOTLIGHT: JHB SENIOR WOMEN FINANCIAL PLANNERS

RENEE EAGAR has been in the financial services industry since 1998 and has worked for institutions namely TMA and of recent Investec Asset Management for 7 years.

Renee obtained her Higher Certificate in Financial Markets in 2004 and then went on to qualify as a Certified Financial Planner in 2006.

She is a member of the Financial Planning Institute of South Africa and is fully qualified to give advice on all Investment matters.

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SONIA DU PLESSIS has been in the financial services industry since 2001 and has worked for Magnus Heystek International and Absa Private Bank.

Sonia has experience in investment and life insurance matters. She has a B.Com degree from the University of the Free State and went on to qualify as a Certified Financial Planner in 2004.

She is a member of the Financial Planning Institute of South Africa and is fully qualified to give advice on all investment and estate planning matters.

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