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Behavioral economics show that women tend to make better investments than men

By Robert Carden,October 11, 2013

Behavioral economics show that men tend to take more financial risks and… (Bill Mayer/For The Washington…)

It's happy hour at Hanaro in Bethesda, and I'm with my wife. We're there about an hour, gobbling plates of half-price tuna rolls and washing them down with $3.50 Blue Moons. Have to hurry, happy hour ends soon. My wife slows down and cautions me to do the same. I don't listen. Keep 'em coming, right up to 7 o'clock. Then I get the bill: $75. Yikes, how did that happen? I thought this stuff was half price! Call this stupid male tricks — or behavioral economics.
Behavioral economics tries to figure out why people consistently make irrational financial decisions — like paying $75 to jam 15 orders of sushi down your throat in an hour. The bar happy hour embodies two classic ploys that cause irrational choices: scarcity, get it now before it's gone; and the idea of getting something for nothing, buy two pairs, get the third free. (You needed that third pair of Birkenstocks?)

"If you think something is going away, it can lead to excessive and desperate consumption," says George Loewenstein, a professor of economics and psychology at Carnegie Mellon University in Pittsburgh.

Legitimate marketers, con artists and stockbrokers make lots of money off our irrational behavior. I didn't need that last plate of sushi, and I absolutely didn't need that last drink. My wife told me to slow down, and I didn't listen — and while she might say that's not an altogether uncommon occurrence in our relationship, this time I really should have because I overate, overdrank and overspent. And a load of research in behavioral economics suggests that a man's portfolio and pocketbook would be a lot better off if we listened more to women.

Terry Odean, a University of California professor, has studied stock picking by gender for more than two decades. A seven-year study found single female investors outperformed single men by 2.3 percent, female investment groups outperformed male counterparts by 4.6 percent and women overall outperformed by 1.4 percent. Why? The short answer is overconfidence. Men trade more, and the more you trade, typically the more you lose — not to mention running up transaction costs.

"In our research, male investors traded 45 percent more than female investors," Odean says. "Men are just making a lot more bad decisions than women. More trading leads to lower performance."

Stock picking with men is too often about one-upmanship and bragging, says LouAnn Lofton, author of "Warren Buffet Invests Like a Girl: And Why You Should, Too."

“With men, too often investing is all about keeping score. It’s a macho thing,” Lofton says. “They’re looking for hot stock tips to get the quick win and then talk about it.”

Additionally, men hold onto their losers a lot longer than women. They’re sure the stock will come roaring back — even as it sinks. Academics call it confirmation bias; investment advisers call it boneheaded.

“Women are more loss averse than men, more emotionally unattached and are far quicker to unload losers. Whereas men with their bravado, they don’t want to admit they’re wrong,” says Anthony Zalesky, a certified financial planner who advises individual investors and small businesses.

Bad financial decisions often can be traced back to unwarranted optimism, or the “positivity illusion” that things are going to turn out just right. On paper it sounds good — better to be hopeful right? Not so fast. This tendency clouds critical thinking.

“I like confident clients, but not overconfident ones. I like clients who are secure in a long-term strategy. They won’t react to every bit of short-term news. They won’t listen to the guys screaming loudest on TV,” says Jordan Smyth, managing director of Bethesda’s Edgemoor Investment Advisors. “Once you get caught up in the emotions of investing, you’re going to buy high and sell low. There’s probably a lot of testosterone in some of these decisions.”

Aha, the T word.

Have you seen those TV ads about Low T (low testosterone)? They typically feature a swarthy 50-something, maybe in a Mustang convertible. The ads are often couched between the Cialis and Rogaine spots on, say, the Golf Channel. Apparently, popping a couple of these pills boosts testosterone and thus summons your inner Brad Pitt.

So not only will you be able to land Angelina Jolie, but you’ll jet ski, kayak and climb Mount Kilimanjaro. That’s all well and good, but if you want to trade stocks, you’ll have to leave your inner Brad with Angelina. Because too much testosterone can wreck your portfolio.

“Rising levels of testosterone can lead to irrational levels of exuberance,” says John Coates, a neuroscientist at Cambridge and the author of the book, “The Hour Between Dog and Wolf: Risk Taking, Gut Feelings, and the Biology of Boom and Bust.”

Coates is a former Wall Street trader who began studying the brain and biological implications of trading while working at Goldman Sachs. He performed — in his own words “an act of irrational exuberance by walking away from a high-paying managing directorship on Wall Street for the minimum wage of science.”

But the investing public is better off for it. Coates’s book looks at how our physiology affects decision making and affects risks — he studies things like cortisol and testosterone levels in stock traders. He says, in a bubble market, men become more emboldened and take more risks, while doing less homework, so they get creamed in the inevitable crash. It’s called the “winner effect” and contributes to market meltdowns.

Women produce just 10 percent the testosterone of men, so they are less likely to be swept away in risky gambles. Women probably won’t make as much on the way up — but will lose a lot less on the way down.

“When it comes to trading, men are more hormonal than women,” Coates says.

Take that, Paul Tudor Jones. Last summer, Jones, a billionaire hedge fund guy, stirred the gender pot when he said “you’ll never see as many great woman investors or traders as men.” Jones attributed this to child birth and said a woman loses focus when she has a child.

Coates, in his nicest across-the-pond parlance, says Jones is full of it.

“I think he’s mixing up issues, any important event, like having a child or going through a divorce will affect performance in men or women,” he says. “On the contrary, when women return to the work force, they are so eager to work I find them more focused. Anyone can have an opinion, but that doesn’t matter; data matters. And if you look at brokerage records and hedge fund performance over the long term, women managers generally outperform men.”

Con artists love men, particularly well-educated, optimistic, overconfident ones who think they’re too smart to be taken. These guys are the easiest mark for the crook, according to the FINRA Investor Education Foundation. Gerri Walsh, its president, is an expert on investment fraud and behavior.

“Studies show men tend to be overconfident and less likely to seek another opinion,” Walsh says. Women, she adds are “less excited” about investing. All this leads to less of a gambling mentality among women and makes men more vulnerable to a fraud pitch.

Okay, so now what? Men, it seems, are wired to piddle away money on good sushi and bad stocks.

“Ask and check,” Walsh says. “Develop a plan. Stick to it. And ask questions.” She adds that men are more impulsive investors — so having a plan makes it easier to dial back on emotional investing.

Lofton’s remedies are more challenging to certain men, because they involve listening. And not the kind of “yes, dear” head nodding while watching SportsCenter’s top 10 plays.

“If the man is lucky enough to have a wife or girlfriend, bring them into the discussion, share the decision making with them. Women will tamp down some of the crazier risk,” she says. Legendary Fidelity fund manager “Peter Lynch involved his wife and daughters in a lot of decision making, and he did pretty well,” she says.

On the institutional side, Coates has lots of ideas — among them, financial organizations should hire more women and older (Low T) men. He argues this would lead to less overtrading of accounts, more long-term planning and less volatility. And important people are listening. Britain’s Parliamentary Commission on Banking Standards (which studied the 2008 crash) recommended a number of Coates’s ideas, including gender diversity in banking and stringing out bonuses over longer periods of time.

Odean and lots of academics say investors shouldn’t even bother trading individual stocks. It’s a loser’s game.

“Trading underperforms a buy and hold strategy,” Odean says. “My advice is to find a good, broad-based diversified mutual fund that has low fees. There are lots out there.”

How prudent. And, most investors, men and women alike, would be better off following it. But at what cost? Do we lose a little of ourselves always doing things the proper way? Don’t we need a little juice, risk, excitement?

Maybe, deep down, boys just want to have fun.

When I’m not pigging out at happy hour, I like to bet horses. But I found I am no better at handling trifectas than I am at resisting bargain sushi and Belgian ales. I’ve lost a lot more than I’ve won. Yet, I still go and handicap because I just know I am going to beat the pros and my big payday is just around the bend. It’s dumb, emotional, positively delusional — I guess I’ll never learn.