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Investments: Women are more cautious than men because they have less financial resources at their disposal

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Experts on investments and financial products assume that women are less amenable to risks and therefore put their money into secure investment products. A current study conducted by the DIW Berlin (German Institute for Economic Research) challenges this view. The study demonstrates that men and women are equally likely to take a chance on risky investments—assuming that they have the same financial resources at their disposal. A general cliché may not longer be true: that sex is a determinant factor in investment decisions and that the difference in attitudes toward investment between men and women is a result of gender-based investment attitudes. Women are likely to have cautious investment habits because—as a rule—they have only half the investment resources available that men have at their disposal.

Are women predisposed by their very nature to take fewer risks than men? Or are the differences between them based on socioeconomic factors such as income and financial assets? The DIW study aimed to determine the cause of the frequently observed predilection of women for secure investments. The data that the study was based on included the 2004 data collection survey conducted by the Socioeconomic Panel (SOEP)[1] that investigated the household heads of over 8,000 private households. This sampling included 4,829 (59%) men and 3,291 (41%) women. Hereafter the terms man and woman will be used to refer to male and female household heads.

The data contain information regarding the socio-economic circumstances of those surveyed, e.g. financial savings, which shows that the majority has some form of financial buffer. At 64%, female households save more than male households with a figure of 60%.

Women prefer secure investments…

The research divided investment into six categories:

1 In single-person households the sole member of the household is also regarded as its household head. In households with more than one person, the household head is considered to be the person who is in the best position to provide information about the needs of the household and its other members and who has the most influence over administration of the household income. The SOEP is a representative recurring survey carried out by the DIW in Berlin and TNS-Infratest Sozialforschung. It has been conducted annually in conjunction with private households in West Germany since 1984 and since 1990 in East Germany, cf. Wagner, G. G., Frick, J. R., Schupp, J.: The German Socio-Economic Panel Study (SOEP) – Scope, Evolution and Enhancement. In: Schmollers Jahrbuch, Jg. 127, 2007, 139–169.

JEL Classification:
G11, J16

Keywords:
Gender, Risk aversion, Financial behavior

- Traditional savings at a bank in the form of a bank savings book or a bank savings account
- Home ownership savings plans
- Life insurance
- Bond issues, whether issued federally, by the various German provinces, or by any other public law entity
- Stocks and bonds for businesses listed on the stock exchange, investment funds, and securities such as options or certificates
- Shares in businesses not listed on the stock exchange

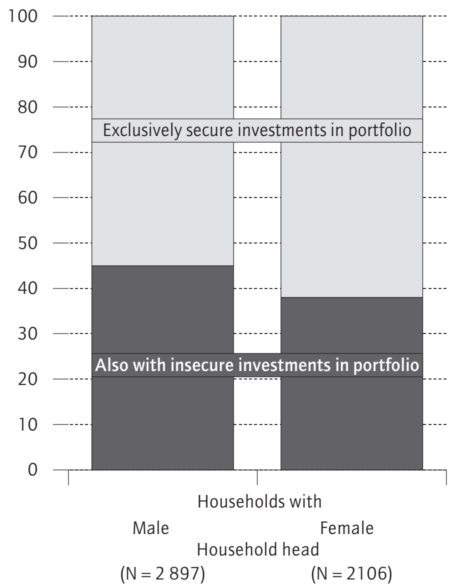
The last three types of investment are usually associated with uncertain returns. There is the risk of losing all or part of the invested capital. Let's place these three types of investments in the category of insecure investments.

Men and women clearly differ in the types of investments they choose. Only 38% of women who save reported that they owned insecure financial products. On the other hand, around 45% of the men who saved had decided to take the risks associated with insecure investments (Figure 1). These data support the cliché that women prefer to avoid investment risks and put their trust in safer instruments, even at the price of reduced earnings.

Figure 1

Households with Insecure Investments

Share of all households engaging in savings in percent



Source: SOEP 2004; calculations by DIW Berlin. **DIW** Berlin 2009

…women perceive themselves as much less likely to take risks than men

In the SOEP's 2004 data collection survey the participants were asked about their attitudes towards risks associated with investment. The question "How would you rate your willingness to take investment risks on a scale from zero (not prepared to take any risk) to ten (very willing to take risks)?" was used to determine the risk threshold of participants. Women gave themselves ratings in the lower risk threshold categories much more often than men (Figure 2). The average risk threshold for men was 2.89 while that for women was 1.94. These results point to a clear relationship between gender and one's attitude to risk.[2] However, these data in no way prove that an aversion to risk is an inherent characteristic of women. A person's attitude to investment risks is also influenced by a variety of socioeconomic factors that must be taken into account during analysis.[3]

Female household heads have less financial resources available than their male counterparts

One of the most important variables influencing the attitude to investment is the financial resources at one's disposal. Generally speaking, there is a positive correlation between assets and the willingness to acquire insecure financial securities.[4] There are two reasons for this:

Costs are associated with activity in markets for insecure financial products. There are fees for custody accounts as well as both fixed and variable fees for issuance and account management. It is only worth investing if the investment involves a significant amount of capital. This creates difficulties for those with less money to invest.

2 This correlation has not only been observed in Germany. Women in other countries also regard themselves as more reluctant to take risks than men when evaluating themselves, cf. Badunenko, B., Barasinska, N., Schäfer, D.: Risk Attitudes and Investment Decisions across European Countries: Are Women More Conservative Investors than Men? DIW Discussio Paper 928, Berlin 2009.

3 Dohmen, T., Falk, A., Huffman, D., Sunde, U., Schupp, J., Wagner, G. G.: Individual Risk Attitudes: New Evidence from a Large, Representative, Experimentally-Validated Survey. DIW Diskussionspapier Nr. 511, Berlin 2005

4 Guiso, L., Haliassos, M., Jappelli, T.: Household Portfolios. Cambridge 2001.

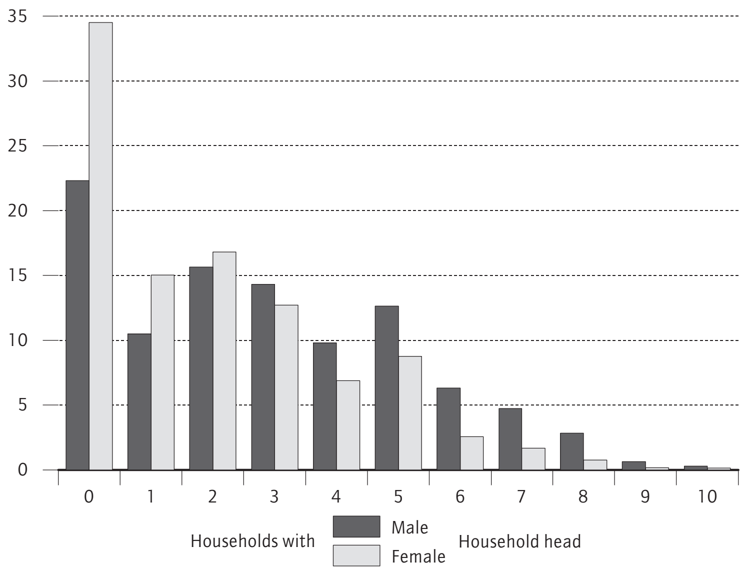
The smallest tradable par value of many commercial papers is generally quite high. For example, at the beginning of the recent financial crisis two thirds of the euro bonds traded were issued in denominations of 50,000 or 100,000 euros.[5] If one chooses securities with a high face value and at the same time seeks to spread risk, a great deal of capital is required. As a result, investors with less capital are not always able to acquire the securities they need in order to diversify their portfolio.

If one compares the assets of men and women reflected in the sampling, it becomes clear that female investors must deal with much smaller budgets.[6] For male household heads the average amount is 41,000 euros. For women it is half of this amount (Figure 3). While in the case of annual net income the difference is not quite so pronounced, on the average women still earn 10,000 euros less than men.[7]

Figure 2

Self-Evaluation Regarding Willingness to Take Investment Risks

Share in percent (Distribution over the eleven risk categories)



Source: SOEP 2004; calculations by DIW Berlin. **DIW** Berlin 2009

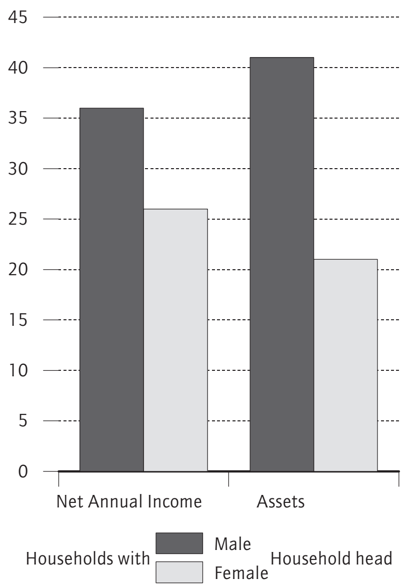
Men and women exhibit similar behavior when they have the same amount of assets at their disposal

The female predilection for more secure financial products is not so much the result of a specifically feminine attitude to risk but rather due to the relatively lower assets at the disposal of women. This view becomes cogent when one takes into account the differences in the budgets at the disposal of men and women and the relationship between the amount of assets and available investment strategies. Regression analysis was used to help determine whether men and women with the same amount of assets at their disposal would exhibit different attitudes to investment. A model was created that reflected the relationship between decisions regarding the type of investment a person might make and a variety of socio-economic characteristics. Some of the characteristics taken into account were: gender, age, level of education, type of employment, family structure, property ownership, entrepreneurial activity as well as the amount of income and assets. This data was used to determine the likelihood that a man and a woman with the same assets and the same socio-economic characteristics would invest in insecure financial products.[8] If women were still

Figure 3

Income and Assets of Male and Female Investors

In 1,000 euros



Source: SOEP 2004; calculations by DIW Berlin. **DIW** Berlin 2009

5 Online portal of WirtschaftsWoche dated 13.06.2008, www.wiwo.de/finanzen/wo-es-noch-attraktive-alt-anleihen-fuer-privatanleger-gibt-295569/.

6 The value of assets is considered to be the total of all assets, including savings accounts, home ownership savings plans, life insurance policies, bonds, stocks, and other securities belonging to members of a household.

7 Annual net income is considered to be the total revenue of all members of a household, including that derived from employment, pensions, social welfare, and investments minus income tax and capital returns tax.

8 The estimate is based on a two-step Heckman model, cf. Green, W. H.: Econometric Analysis. 6th Edition, 2008, 884–889. This model makes it possible to take into account that the decision regarding how to invest takes place in two steps. The initial decision is a determination as to whether or not to invest. The next decision addresses how to invest: secure investments, insecure investments, or both.

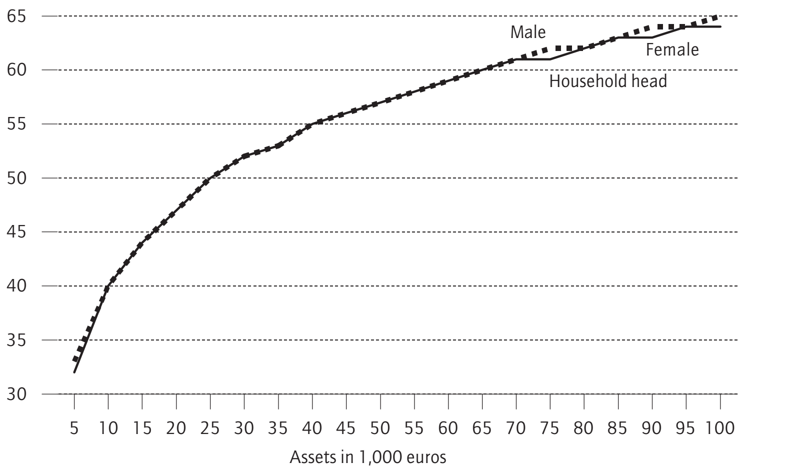
less likely to engage in insecure investments, the cause would most likely be a higher, gender-specific aversion to risk. If there were no significant differences between men and women, then the differences between their attitudes to investment would rather be due to sociological characteristics and not to a fundamental difference in attitude to investment risks.

The results of the analysis reveal a positive correlation for both men and women between the amount of assets and insecure investments and also show that the probability that a person will acquire insecure financial products is the same for both male and female savers throughout the entire spectrum of assets (Figure 4).[9] Therefore a person – whether man or woman – who has assets of 5,000 euros has a 32% likelihood of investing in insecure financial products. The probability increases to 64%[10] with assets of 100,000 euros. This demonstrates that if men and women have the same amount of assets at their disposal they are equally likely to invest in insecure financial products.

Figure 4

The Probability of Investing in Insecure Financial Products Based on Assets

In percent



Source: SOEP 2004; calculations by DIW Berlin. **DIW** Berlin 2009

Conclusion

The share of women who have portfolios that include insecure financial products is substantially smaller than that of men. However, this is not due to the fact that women are by nature adverse to risk. The difference in attitude towards investment is primarily due to the fact that households with a male household head have access to twice as much money as households with a female household head. If one takes into account the amount of own funds and other socio-economic characteristics of a person, then there is no difference in the predilection to make insecure investments. The difference in funds at disposal between men and women is the primary factor that causes more women than men to invest their savings in secure financial products.

9 The probability estimates assume that the individuals are between 40 and 50 years old, that they do not have a university degree, that they work, are married, and have at least one child.

10 For purposes of analysis, all single and multiple-person households were selected where it was known that the partner defined as household head made the decisions regarding funds or had the most influence on such decisions. Of course, it was not ruled out that the other partner also took part in such decisions. Because gender could not be taken into account in such situations, our results could be distorted. In order to deal with this problem the same analysis was undertaken for singles. The results were very similar for all households.

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