07/12/12: Note to Investment Advisors: Women are your Future

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Note to investment advisers: women are your future

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By Chris Taylor

NEW YORK, July 10 (Reuters) - When Rachel Smith met with her first financial adviser, he talked to her like she was five years old.

"Whenever I had questions, he would just say, 'Forget that and listen to me,'" says Smith, a 35-year-old New York real estate agent. "He was an older guy who was very condescending, and saw me as a young, inexperienced woman who didn't know anything."

The relationship didn't last long.

Fortunately, that kind of treatment is becoming less common, as financial advisers wake up to the fact that women control a lot of money and make good clients.

Women already are the primary financial decision-makers in most American households, according to a new survey by personal-finance site DailyWorth in which 76 percent of women reported being their household's primary retirement planner.

Moreover, women already have accumulated significant wealth - some $8 trillion in assets, according to a study by TD Ameritrade Institutional, which provides brokerages services to investment advisers. It expects that number to balloon to $22 trillion by 2020, as baby boomer women inherit assets from their parents and their husbands, whom they typically outlive.

Not only that, but women have also proven better investors than men, winning higher returns with longer-term vision and less inclination to trade frequently, according to new research.

It is no wonder financial institutions are practically frothing at the mouth. All that cash is low-hanging fruit for financial planners, says Maddy Dychtwald, co-founder of consulting firm Age Wave and author of "Influence: How Women's Soaring Economic Power Will Transform Our World for the Better."

But women are wary of the boys-club atmosphere that has long epitomized the financial-planning world. Many, like Smith, find themselves patronized.

"When women are asked which industries do the best job of addressing their needs, financial services comes out at the bottom," says Eleanor Blayney, consumer advocate for the Certified Financial Planner Board of Standards and president of McLean, Virginia, consulting firm Directions for Women. "Financial advisers need to forge better partnerships with women and figure out how to win their trust."

MARS AND VENUS

While stereotyping is a dangerous game, financial professionals report that certain gender-specific behaviors tend to emerge.

Women generally take more time to make big financial decisions and want more information and explanations, says Blayney. They're more willing to accept lower returns if it means less risk, reports a new study from Milwaukee-based Northwestern Mutual.

Women also tend to frame discussions in terms of the end goal: That might be putting the kids through college, or caring for an aging parent, or achieving financial peace of mind. That compares with percentage annual gain, which is what data-obsessed male investors often focus on.

"That's a big 'Aha moment' for many advisers," says Dychtwald. "It's not always about the returns. For women, their frustration comes into play when they show up and feel they're getting ignored or not listened to. Communicating with them properly, in a way they understand and appreciate, ranks as even more important than getting those high returns."

Another common finding is that women report a lack of confidence in retirement planning. Fewer than two in 10 women say they feel "very prepared" to make the right financial decisions, according to the Prudential study "Financial Experience & Behaviors Among Women." And women are much more likely than men to admit that their financial planning needs improvement, according to Northwestern Mutual.

But while all of those industry-generated stats are very consistent, they measure attitude, and not acuity. They may not actually say much about how well men and women understand retirement planning. It may be, for instance, that women are just answering the question more modestly. Men, in contrast, often have a blithe certainty that everything's under control - the same characteristic that has them refusing to ask for directions while driving the family car.

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ADVISORS

TRADING PLACES

So what's the end result of these diverging approaches to money? One is that women often pepper their financial advisers with questions, to the point that planners want to "tear their hair out," laughs Dychtwald.

But as an investing strategy, such a deliberative approach is usually the superior one. Men, in comparison, are much more likely to act on a buddy's stock tip, or to move in and out of positions they just saw touted on television, Blayney says.

Over the long term, such frequent trading - and all the fees associated with it - could sap a portfolio's growth potential.

Indeed, in a paper titled "Boys Will Be Boys," academics Brad Barber of UC Davis and Terrance Odean of UC Berkeley found exactly that. The authors reported: "Models of investor overconfidence predict that men will trade more and perform worse than women ... we document that men trade 45 percent more than women, and earn annual risk-adjusted net returns that are 1.4 percent less than those earned by women."

"Women investors usually think more about the long-term," agrees Linda Descano, president and chief of Citi's personal-finance site Women & Co. "That's why there's data suggesting women-run investment clubs outperform male counterparts. Men are more apt to use up their profits through taxes and trading costs."

That's something else for the advisers now targeting women - and the women being targeted - to consider. Raising the level of respectful conversation is just step one. Planners still will have to deliver the goods. Advisers will earn the trust and the portfolios of women like Smith when they talk the talk and deliver solid results.