

Správanie mužov a žien na finančných trhoch

Behavior of men and women in financial markets

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Abstract

Recently, more than ever publish reviews of irrational behavior of investors in the financial markets. Published as various deviates from rationality. Their number is likely to even increase. This is reflected efforts to explain the reasons for these deviations. Analyze the factors which are likely to cause these variations. Still less is written about the differences in the behavior of different groups of investors, potential or real. In practice, we can also trace some differences in behavior between men and women. They are caused by several factors, known and unknown. Some are saying this post.

Key words

psychology of investors, investing, investment behaviour, several factors, decision-making,

JEL Classification

G21, G23

Introduction

It should be recognized that there are certain practical considerations which may influence the behavior of the various gap. For example, most women have during their lives fulfill parent responsibilities. And thus it is involved in work in less time. Therefore, their income is in many cases lower than incomes of men. The opposite trend says that women live longer than men. In many countries, retire a little earlier than men. And therefore typically they spend more time in retirement than men.

Discussion

Many studies show that regarding financial matters, women consider themselves less competent than men; in this respect they subjectively feel a lower degree of self-confidence and therefore they are also less willing to take a risk [4]¹, [3]².

Consequently, women usually prefer assets with a steady, but lower yield. “But this strategy is a high risk with regard to the fact that women live, on average, longer than men and therefore they have to accumulate more funds for the time of retirement. If we look at demographic development forecasts, this trend will probably still deepen in the future. In view of the on average lower income, they should mainly opt for assets with a rather high yield. However, this requires from them to have better information about these assets and know how to evaluate the information. With regard to a high number and complexity of information, women apply simplified decision-making procedures that can be described as unprofessional. Application of such simple strategies is advantageous for women also for the fact that they do not have to process a great volume of information for a long time.”³ [1] What is likely different in the women’s way of thinking about money when compared to the men’s way of thinking:

- They often associate the term ‘investing’ with greed;
- They reproach themselves that they put family finances in danger;
- They are of the opinion that to be able to invest they have little money and knowledge;
- They usually ask a lot of questions and require detailed answers;
- They reserve longer time to think it over;
- They define investment reasons and objectives better than men.

And although the main reason for investing is a relatively comfortable income for both genders, women mention it more frequently. Many investors, including men, do not look for information, because they do not know where to start. Not coincidentally, women preferred information available on the Internet to printed brochures or they found them conveniently selected and explained more comprehensibly. Therefore, we can say that women make investment decisions

¹ FIFEKOVÁ, E., NEMCOVÁ, E. 2005. Ellsbergov paradox: rozhodovanie za podmienok rizika a neistoty (Ellsberg’s paradox: Decision-making in risk and uncertainty conditions). In *Ekonomický časopis*, Volume 57, no. 3, pp. 213-229.

² BERNASEK, A., SHWIFF, S., 2001. Risk, and Retirement. In *Journal of Economic Issues*, 2001, Volume 35, no. 2, pp. 345-357.

³ BALÁŽ, V. 2008. Osobitosti investorských stratégií u žien (Particularities of Women’s Investment Strategies). In *Investor*. ISSN not assigned, 10/2008. pp. 24-27.

at a higher degree of uncertainty than men and therefore they also opt for more conservative investment strategies than men, or when accepting high-risk solutions they require a higher investment premium. The investment bank Merrill Lynch ordered a survey on investment behaviour in 2005. The survey focused on a sample of 500 men and 500 women, from the middle-class. The annual income of their households was at least USD 75,000.

The basic findings can be summarised as follows⁴ [2]:

- Women invest less and they also like it less;
- They more accept advice from men (mostly not from their husbands), usually from financial advisors or colleagues at work;
- Typical mistakes of men are excessive self-confidence and greed arising from that, impatience and frequent changes in the portfolio;
- Men diversify less and keep loss-making investments for a pointlessly long time;
- Men know more about investing and can evaluate some aspects more realistically (e. g. they evaluate historical inflation rates and their impact on the amount of the yield);
- Men consider themselves experienced and successful investors.

The fact that an average man knows about investing a bit more than an average woman does not mean that he knows enough. When investment results are compared, the differences are minimal or none. Excessive self-confidence of men, for example, causes that they make unnecessary mistakes, even repeatedly. Men who admitted that they had accepted an investment tip rashly and without sufficient consideration and the investment then did not succeed and who repeated this mistake accounted for 63%. Women's share was 47%.

⁴ Prepared based on BALÁŽ, V. 2005. Mars a Venuša investujú inak (Mars and Venus invest differently). In *Investor*. ISSN not assigned, 10/2005, pp. 50-51.

Table 1: Investment behaviour of men and women (in %)

	Men	Women
They are overly self confident	33	20
They are impatient	28	19
They are greedy	32	16
They dislike thinking about investing	49	60
They like investing	69	55
They describe themselves as successful investors	19	13
They use financial advisors' services	50	70
They know little about investing	30	47
They do trade too often	12	5
They make purchases quickly and without thorough consideration	24	13
They diversify little	32	23
They keep loss-making investments for a long time	47	35

Source: Own elaboration Author

Only 47 per cent of women made a mistake of keeping loss-making investments too long, whereas men accounted for 63 per cent of such cases.

Men were most sorry for the mistake that they had been hesitating too long to sell the loss-making investment. Women were most sorry that they had started to invest too late and made decisions slowly.

However, it turned out that postponement of investment decisions by women has its positive – their decision-making was more responsible.

2 Results of our survey

One of the objectives of our survey was to compare results with already known results of similar surveys that had been conducted abroad.

Questions in the first part of the questionnaire, which we deal with in this contribution, primarily relate to perception of risk, attitude to it and experience in investing. Deliberately, there are no questions concerning income and property, because these are areas on which the Slovak population hates to comment; moreover, the survey sample are university students who usually have little or no property. For this reasons it is impossible to say into what income bracket the respondents can be categorised.

The size of the survey sample is comparable to the size of samples in standard statistical surveys. We can compare it with the data gathered in the grant project APVV-0004-07 “Slovak school of behavioural economy and finance”. This project was implemented by the o.i. “Slovak Survey of Investment Behaviour (Slovenský prieskum investičného správania). It focused on three big population brackets: The basic sample of the Slovak population, students of University of Economics without any special financial education, and a sample of Slovak investors with relatively good theoretical knowledge and practical experience in investing. In total, the survey covered more than 2,000 respondents of which 867 in the third part of it, at the end of 2009⁵. [5] The questionnaire contained 25 questions of which 10 concerned investors’ rationality.

Our own survey was conducted over the past four years. The sample consisted of students of the fourth year of FNE of University of Economics, study programme Finance, banking and investments. The sample of 1,340 respondents also included students of the fourth year of the study programme Financial management from the Faculty of Management of the Comenius University and students of the fourth year of the Faculty of Economics and Administration of Masaryk University in Brno, the study programme Finance. The differences identified in behaviour of respondents from different schools are minimal (in the range of ca. 1-2 per cent). The differences among years were also minimal. We did not follow up these differences particularly.

⁵ POKLEMBÁ, P. 2010. Profily a dlhodobé investičné stratégie slovenských investorov (Profiles and Long-term Investment Strategies of Slovak Investors). Bratislava: Institute for Forecasting of the Slovak Academy of Sciences, dissertation

3 Evaluation

The first part of the questionnaire, which I deal with in this contribution, focused rather on uncovering experience in investing and uncovering attitudes of potential investors to risk.

The average age of the compared sample was 30 years (in our survey 23 years), 47% of the respondents with university education, 20% university students, 23% of the respondents with a lower education (in our case all of them were in the university student category) . For comparison purposes, we used five questions that were identical or similar to the questions in our survey.

Question no. 1: Gender

Man	Woman
48%	52%

Question no. 2: What comes first into your mind when you hear the word ‘risk’?

Understanding of the term ‘risk’ in the second question by our sample reveals that our respondents show a higher risk tolerance than the compared sample. They understand risk as an opportunity to a higher extent and as a danger to a lesser extent. Women in our sample are more careful and less courageous than the average of both our and compared samples. The group of risk takers in the line “Risk as excitement” is not beyond the average. Behaviour of our sample supports the statement that people with higher education and younger people show a higher risk tolerance.

We regard risk as:	Our men	Our women	Compared sample
Danger	14%	21%	18.87%
Uncertainty	45%	47%	48.28%
Opportunity	35%	28%	26.42%
Excitement	6%	4%	6.44%

Question no. 3: How would you characterise your experience in investing?

In this question which looks into investors’ experience in investing, the comparison turned out as follows.

Investment experience	Our men	Our women	Compared sample
I have not got any great experience yet	16%	34%	17.98%
I have some experience	29%	24%	26.30%
I have reasonable experience and I have an idea of a profit I can expect from a certain type of investments	44%	36%	42.95%
I am an experienced investor, having enough knowledge about investing	11%	6%	12.76%

In this question, our sample respondents mostly admit less experience less than the compared sample, especially the female segment of the spectrum. However, if we exclude women from the consideration (the compared sample includes only 30% of women, our sample even 52%), we may say that our students overrate their experience and evaluate their experience unrealistically even with regard to a great percentage of experienced investors in the compared sample. The fact is also convincingly proven by comparison in the next question on personal experience, particularly regarding less known (other) financial products:

Question no. 4: What are the financial products you have personal experience of? (Multiple options can be marked off.)

Personal experience with investing	Our men	Our women	Compared sample
I have a term deposit in a bank	6%	22%	47%
I have a life insurance	29%	26%	72%
I have opened a building society saving account	44%	46%	48%
Other	19%	6%	87%

Question no. 5: Imagine that you are to make a choice between a certain, but less paid job or a less certain, but more lucrative employment or entrepreneurship. Which option is closer to you?

This question looking into preference of a lower, but more certain pay to uncertainty by contract turned out as follows:

What do you prefer:	Our men	Our women	Compared sample
I prefer a certain, long-term job, although less paid	3%	5%	6%
I prefer a slightly less certain job, but with prospects for the pay to grow	7%	12%	10%
Preferably a less certain job, but with prospects for a higher growth of the pay	56%	55%	62%
The high-income possibility means more to me than the job certainty	34%	28%	22%

The high-income possibility is preferred to certainty by our respondents more than the compared sample (women as well). This data also confirms a higher risk tolerance of our respondents. It is related to a higher level of education and lower average age.

Young people and childless people tend to behave more risky. It is rationalised by their low level of life experience and by the fact that if someone has not a family, he or she has almost zero responsibility for surrounding people. The survey sample is, on average, 24 years old, which means they are young from which we can deduce that they are childless.

Conclusion

We have mentioned already in the instruction, that men have a higher inclination to risk than women. Some authors explain it by division of labour in the old days when men carried out more dangerous activities. We were also able to prove other statements by multiple authors mentioned in the introduction of this contribution.

Probably also with regard to expected obligations of motherhood, women expect and usually have a lower income than men. They like investing less, due to a limited interest they also have less information and therefore women consider themselves less competent in financial matters than men, they subjectively feel less self-confident and consequently, they are less willing to take a risk. They take investment decisions at a higher level of uncertainty than men and therefore they opt for more conservative investment strategies than men do. Men regard themselves as more experienced and better informed. It is usually excessive self-confidence. Women's decision-making is more responsible.

References

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