4 Ways Women Are Better Investors Than Men

By Tom Sightings December 17, 2013 11:10 AM

The evidence is in: According to a number of studies from banks and investment firms over the past decade, women make better investors than men. The most recent, from the tax and advisory firm Rothstein Kass, found that hedge funds run by by women outperformed those managed by men by 6 percentage points over a nine-month period in 2012.

Why do women, on average, do better? No one knows for sure. And, of course, there are plenty of exceptions like Warren Buffett. But when tallied over the long term, women generally produce better investment returns than men. There are four likely reasons:

1. Men are more competitive. You'd think this would be a good thing, right? But as in so many areas of investing, the obvious answer is not the right answer. For many men, the most important thing is not the absolute return of an investment, but whether or not they beat their rivals. This often leads male managers to make riskier bets, which are less likely to pay off.

The second most important investment criteria for many men is bragging about their returns. And as we all know, men are less likely to ask for advice. Somehow it's seen as a mark of weakness. All this leads men to focus on the short term and lose sight of the real objective of investing: producing consistent, positive returns over an extended period of time.

2. Women take fewer risks. According to research by behavioral scientists, women as a rule are more risk-averse than men. Women are more inclined than men to wear seat belts, avoid cigarette smoking and get their blood pressure checked. They are 40 percent less likely to run yellow traffic lights. So it should come as no surprise that women gravitate toward safer investments and hold stock portfolios that are less volatile.

One investment study concluded that when things go wrong, men get angry, while women become more fearful. Anger can lead people to take action that will lead to more losses, such as doubling down on losing investments or trying to "catch a falling knife." By contrast, fearful women are more likely to avoid market downturns in the first place, and then if they do suffer losses they are more likely pull in the reins and step away from big disasters.

3. Women do more homework. Women are less confident than men, and therefore less likely to be deluded into believing they know more than they do. They want to be in control, and therefore do more research to find out exactly what they are investing in. Women also have more realistic ideas about what an investment can reasonably deliver. In short, they have lower expectations. Therefore, they are less likely to jump on the "next big thing" or fall for a "can't miss" stock tip.

One report found that a quarter of the men surveyed admitted they would gamble on a "hot" investment without doing any real research, while only half as many women would make that same mistake. As a result, women trade less frequently. They incur fewer transaction costs and fewer tax consequences. Women commit to their investments, and because they've done their homework, are more likely to honor their commitments. They are more patient investors and typically do not get spooked by a short-term hiccup in a company's performance.

4. Women realize they are not in control. Surveys have shown that women are more likely than men to attribute success to factors outside themselves like luck or fate. This apparent contradiction - aiming to achieve control when you know you can only control so much - gives women the perspective they need to avoid panic. And yet, paradoxically, it also allows them to admit when they have made a mistake.

Women look out for the next storm. When it arrives they batten down the hatches and ride it out. They know the market is like the ocean. It is much bigger than any one investor, subject to huge global forces. But over time there's a certain ebb and flow, and if you're a good navigator you can sail on to richer shores.

So how is it that the best investor of all, the legendary Warren Buffett, happens to be a man? Perhaps you should ask author Louann Lofton, who wrote the book: "Warren Buffett Invests Like a Girl: And Why You Should Too".

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