MULBERRY BOW

Women and the Future of Financial Advice

A White Paper by Martha Hayward-Hopkins

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Executive Summary

Women are a growing force in the investment world. Over recent decades, participation of women in the investment markets has gradually increased. On the advice side too, women are now more likely to choose finance and investment as a career than ever before. Having said that, women face additional obstacles when dealing with an industry that has been designed 'by men, for men'. They must also deal with preconceived and often mistaken ideas about their financial competence, risk appetite and priorities.

This paper serves to contribute to the growing discussion around the experiences of women both with, and within the financial planning space, as well as considering some of the ways that forward-thinking firms are adjusting to create more comfort and success for female clients. It also aims to give female investors more confidence, encourage them to take a more active role in investment decisions and demand that their financial advisers provide them with a service that is more tailored to their goals and priorities.

Yes, in the post-war era, women have been less involved in managing the personal finances of most families. As their involvement grows, however, it is increasingly clear that their ability to make sound financial decisions is on a par with their male counterparts. In fact, certain characteristics of female investors, such as preference for longer investment timeframes, suggest they will typically enjoy better investment outcomes.

We invite you to challenge ideas about women investors that you or your advisers may have previously accepted as fact, and to consider the relationship between financial advice and gender, mindful of its multi-faceted nature.

Let's get started...

If any of the ideas in this paper pique your interest, why not get in touch.
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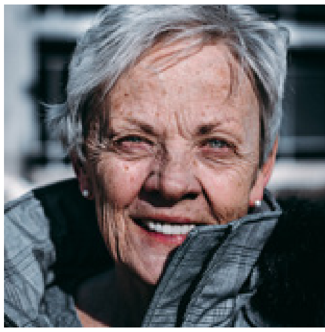


The changing financial landscape

Research focusing on the interplay between gender and finance has revealed some interesting insights:

1. The proportion of global assets under management held by women investors is increasing at a rapid rate. The speed at which women's wealth is increasing plots very differently from that of men, so they will need advice tailored to their needs more than ever
2. The widely accepted view that women are, on average, less financially literate than men, is not to be taken as fact and requires further examination
3. Evidence shows that women are not inherently less risk-averse than men. Many different factors influence an investor's attitude to risk, and the different facets of women's investing behaviour demand more in-depth and open-minded consideration. One of these facets is the gender of the adviser. There has been compelling research which allows us to understand the impact of more women advisers in the industry on female clients' appetite for risk
4. As an industry, we need to address the under-representation of women on the professional side of the table, in order to improve the space for women investors

Women's wallets are getting heavier

Financial industries are facing a new reality: the number of women clients with independent wealth to invest is large and growing. According to a study commissioned by McKinsey & Company in June 2022, almost a third of assets under management (AUM) in Western Europe is controlled by women. This proportion is set to increase rapidly, with female wealth growing at a much faster pace than wealth controlled by men[1]. Growth of women's assets by 2030 is projected at c.8.1% compound annual growth rate (CAGR), compared to just c.2.7% for men's assets[2]. This rapid change, part of the broader phenomenon referred to as the 'Great Wealth Transfer', is understandably at the forefront of conversations around how financial advising can adapt and keep up with a rapidly changing world.

Work by Dr Eliza Filby suggests that as early as 2025, 60% of Britain's wealth could be in women's hands, at which point there could be a large disparity between the number of wealthy women and the number of women seeking financial advice. Thus, the financial advising sector is required to move fast, to ensure that this increasing demographic is being recognised and engaged.

WHY IS THE GAP BETWEEN WEALTH CONTROLLED BY WOMEN AND MEN NARROWING?

There are many reasons why women are getting wealthier faster than men, including the following:

- Over the past few decades, the proportion of women in employment has greatly increased[1].
- Statistically, within relationships, women tend to be younger and live longer than their partners and so are more likely to inherit their partner's wealth in old age. Their longevity also means that they can stay invested in the market for longer[2].
- As the general level of wealth increases, more parents are leaving bequests to their children in their will. Whereas in the past, daughters were sometimes disadvantaged in wills, they are now more likely to benefit from their fair share of inheritance when their parents pass away.

1. Cristina Catania, Constance Emmanuelli, Martin Huber, Nicolo Pittiglio, and Rosario Sorrentino, Wake up and see the women: Wealth Management's underserved segment. McKinsey & Company 2022, p.2
2. Ibid




A knowledge gap?

Understanding that there are no longer far more wealthy men than wealthy women goes hand-in-hand with the understanding that women are not necessarily less financially literate than men. It is one thing to onboard more women clients but quite another to make them feel understood and respected. Speaking to women IFAs at firms across the country about their experiences for this paper, more than one informed me that their female clients who had previously been advised by men had sometimes felt patronised or under-estimated during their meetings.

Traditionally, in a way that still impacts many in the Baby Boomer generation, women have not been involved with the family's Financial Adviser, or in the family's financial well-being more generally. This has the potential to cause difficulty when, as in the case of 90% of women, widowhood or divorce results in women who have been absent from meetings and explanations becoming responsible for their finances[3]. There is of course no inherent reason why a woman should be less capable of understanding finance – the only obstacle is her active involvement. This involvement should be encouraged and focused on by the family's adviser. When women are involved, as is increasingly the case with younger women particularly, it is important that subconscious preconceived ideas about their knowledge does not impact their access to attention and information.

Advisers should also be mindful of the fact that there may be a difference in how men and women report their level of understanding of financial concepts to their adviser. When dealing with a subject that men have been traditionally expected to know more about, it may be tempting for men to exaggerate and for women to understate the extent of their knowledge. Financial sophistication and an understanding of various financial products is one of the criteria that advisers must assess to ensure that the client understands them. Therefore, it is important for advisers to gauge their client's financial literacy for themselves, instead of relying solely on what clients claim, so that women don't miss out on some of the more complex elements of an investment strategy or financial plan, just because they may be more likely to underplay their financial competence.

Risky or smart?

Whether it be a result of the alignment of women with motherhood, or potentially socially entrenched ideas of women as 'meek,' the idea that women are inherently less risk-averse is something that is widely accepted. A 2021 study measured investors' self-reported appetite for risk alongside the proportion of their assets held in cash to understand how investing behaviour varies depending on investor and adviser gender.

"Compared to women with female advisors, those with male advisors self-report lower risk tolerance, knowledge and confidence, and allocate 11%-points more of their investible assets to cash...Women with female advisors report the highest average self-reported risk tolerance, investment knowledge and confidence (and the lowest cash allocations) compared to all other subsamples, including male investors."[3]

This research demonstrates that conversations around women's attitude to risk should not be oversimplified, and further suggests that women invest more of their wealth when their adviser is a woman. It is interesting to note that in this study, men's investing behaviour was not altered by the gender of their adviser[4].

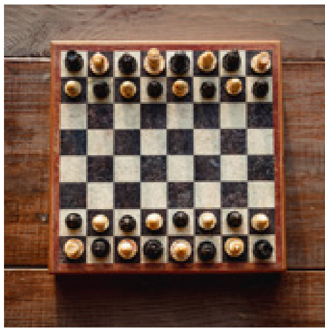
The impact of how much risk women with wealth are willing to take is not to be underestimated. Left unchallenged and potentially misunderstood, the disparity in risk attitude between men and women may lead to differences in portfolios that generate wealth inequality. Since the 1990s, it has been argued that women should in fact hold riskier portfolios because of the probability that they will live longer.[5]

As more wealthy women enter the investing space and seek out advisers, it is crucial to understand which different factors may impact their attitude toward risk, so that they can get the most out of their investments. Research by Patti and Yao (2017) examines the demographic, socioeconomic, and attitudinal factors that affect risk tolerance and how each of these impacts men and women differently.[6] The study breaks these factors down into; financial knowledge, amount to invest, number of dependents, use of a financial planner (particularly direct and regular contact with a planner) and employment status. They found that all these components are individually impacted by gender. The results of the study demonstrate that when women do take a risk-averse approach to investing, it is not because of their gender itself, but because of the gender difference in the numerous factors that relate to their risk tolerance.[7] The study concludes with the direct and sensible statement that “financial advisors must understand the unique financial needs of women in order to provide advice that is in the client’s best interest.”[8]

Good Investor = Female Investor?

A 2001 behavioural finance study indicated that women outperformed men by one percentage point per year.[9] Other studies suggested female outperformance ranged anywhere from 0.4%[10] to 1.8%[11] annually, which compounded over time can have a dramatic effect on the value of the portfolio. There are several reasons why female investors may be more likely to outperform men in the long run. According to Merrill[12], some of these include:

- **Patience:** Female investors are more likely to stick to a long-term strategy. Compared to men, they are less reactive, perform fewer day trades, miss out on fewer market-best days and incur fewer transactional fees
- **Balance:** Women favour balanced and diversified portfolios and are more likely to avoid overexposure to a specific stock or industry (like tech) or overinvestment in stocks in general, versus bonds. This helps them fare better in periods of market volatility, which means they are more likely to hold on to stocks when times are tough and less likely to panic sell at a loss



- **Focus on goals:** Female investors are more likely to aim for specific long-term goals, such as grandchildren’s education or property purchase. As a result, they are more consistent in sticking to their investment strategy
- **Open mind:** Women are more likely to ask questions and seek advice from an investment professional. They also tend to be more open to acting on the advice received. A lack of overconfidence may help them avoid making investment mistakes

- **Confidence and risk awareness:** An investor’s risk appetite can be influenced by their perception of their own financial competence. The more confident the investor feels in their own abilities, the more tempted they might be to trade frequently and to try and outperform the market. Handpicking shares and outperforming the market is a difficult challenge, even for experienced investment professionals. Just as when behind the wheel[13], female investors tend to be less likely to overestimate their capabilities and so less likely to engage in risky behaviour. Perhaps both in the car and when it comes to financial decisions, it is time for women to take the driving seat?

3. Barbara Steward, CFA and Blair duQuesnay, CFA, Female Advisers: Five Reasons Why They’re a Better Fit Than Ever, CFA Institute, 26 October 2021
4. Ibid, p.16
5. Kwok Ho, Moshe Arye Milevsky, and Chris Robinson, “Asset allocation, life expectancy and shortfall,” Financial Services Review 3 (2), 1994
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7. ibid, p.200
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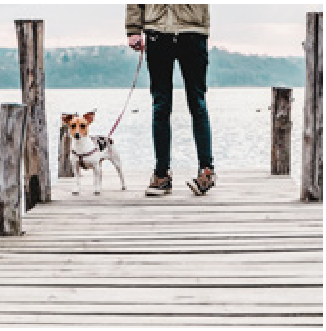
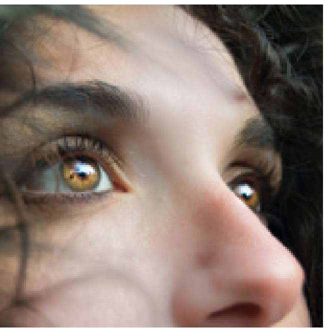




"Since Mulberry Bow was established in 2015, the firm has mostly advised couples and we've seen a significant shift in the role female clients play in the relationship. While we find that women still leave the majority of investment conversations to a male partner, they are noticeably more involved in decision-making. We also find that both parties being fully involved tends to lead to a more balanced approach, greater peace of mind for both members of the couple and a better overall outcome.

It seems undeniable that, for now at least and whatever the reasons why, men often still lead on the wealth creation side of things, but decisions about how wealth gets deployed increasingly rest with women and that will be more and more the case in future. I owe the finance industry a great deal, having thoroughly enjoyed my career within it, but I fear that most firms are poorly prepared for the two 'conceptual tsunamis' about to hit; AI and female-led client relationships."

Gosia Rosa, Mulberry Bow

Investing through the gender lens

A truth that cannot be denied, but that is often overlooked in investment decisions, is that regardless of if you are considering emerging markets in the Global South or the start-up world of Silicon Valley, women have less access to: leadership positions, global capital, and influence on the economy.[14] Gender lens investing, as a form of impact investing, allows one to acknowledge and consider this truth through their investment strategy choices. It is specific and focused through its selection of investments that actively benefit women and girls. This may be nuanced, but could refer to businesses with excellent workplace opportunities, women-owned or run businesses, and businesses that consciously work to improve economic conditions for women and girls.

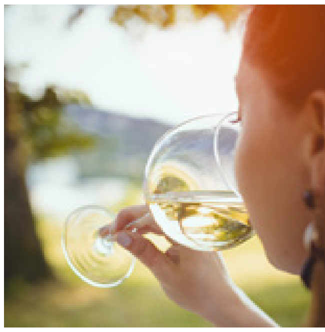
Fortunately, and perhaps unsurprisingly, this approach is not synonymous with underperformance. In fact, according to the European Investment Bank, "companies with strong female representation on their boards are 28% more likely to outperform their peers, and gender diversity in executive teams increases the chance of outperformance by 25%"[15]. The approach's aim is not to turf men out of the boardroom, it is simply to be mindful of where women fit into the holdings of the investment strategy and to be purposeful in an intention to create a beneficial social impact alongside the expected financial return.

Holding a mirror up to the industry – the case for more female financial advisers

It is difficult to discuss the experience of women investors without considering that the industry they will be interacting with remains dominated by men. Currently, women advisers make up about 15-20% of advisers in the marketplace.[16] This is incompatible with the fact that many women, particularly after major life events such as divorce or the death of a spouse, prefer to seek financial advice from another woman. In one study, 45% of high-net-worth UK women chose a woman adviser, regardless of circumstances in their personal life. Alongside improving the way that existing advisers facilitate relationships with women clients, more women advisers need to enter the space. Interestingly, at a graduate level, the gender ratio in finance and banking has significantly shifted, with women now making up almost 50% of subject graduates. As is the case in many sectors, however, "the proportion of women in the profession declines rapidly with seniority."[17]

Many of the women advisers I spoke to for this paper told me that they often see women become career 'paraplanners', i.e. support financial planners, but not go on to become financial planners themselves. Of course, paraplanning is a career in its own respect, but it is interesting to consider why there is still such an imbalance between the number of men and women who progress to advise. Women working in majority-male industries need to have a high level of workplace well-being in order to recommend working in the industry to other women. More women in the industry, therefore, breaks down 'social-level barriers' for women investors approaching financial planning.[18] Sector-wide conversations about attracting women to financial careers are thus extremely important, and may prove to be crucial for the adjustment to "the Great Wealth Transfer.

Are financial firms failing women?



For decades, financial advice was to a large extent delivered by men, to men. It focused on traditionally male client needs and concerns, such as the desire to outperform the market. While this is changing, it is nevertheless true that the industry is slow to adapt, and it doesn't yet fully meet women's needs.

Women with wealth to invest are more likely to seek guidance from an investment professional than men. This should encourage good outcomes for female clients, as professional advisers can help clients avoid some of the common traps and mistakes that individual investors can make. The problem is that once women engage financial advisers, only one-third of them feel that their adviser understands their goals[19] and they are less satisfied with the service they receive than men (62% of women were dissatisfied, compared to 44% of men in a survey by Econsult Solutions).[20] This might be because their advisers have not yet fully understood that their female clients are not like men clients, but a bit shorter.

There are subtle but important differences between the average male and female investor and their goals. Women tend to focus less on abstract ideas of performance and more on tangible financial goals, such as clearing a mortgage or achieving financial security in retirement. They are more likely to engage in discussions around estate planning, appropriate insurance, wills and other elements of a sound financial plan, and are less likely to be interested in poring over graphs, analysing the performance of specific stocks. They favour long-term financial security and wealth over riskier short-term gains[21]. Finally, women are statistically more concerned about ensuring that their investments have a purpose and reflect their values. 84% of women expressed an interest in sustainable investing and investing which has a positive impact on society, versus 67% of men[22]. In heterosexual couples, it is often the woman who initiates the discussion about sustainability with the adviser.

Conclusion

It is clear then, from research and lived experience, that women occupy a large space in the future of the financial world. There are and will continue to be more women with more money to invest, and the financial services industry must adjust its thinking to accommodate this new reality. This involves challenging preconceived ideas around women's knowledge and attitude to risk, and understanding the numerous factors that influence a woman's willingness to seek financial advice. Open discussion and subsequent action is fundamental to this much-needed shake-up. Ultimately, this is undoubtedly an incredibly exciting time for financial services.

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About the author

Martha Hayward-Hopkins graduated from the University of Glasgow with a First Class Honours in Theology & Religious Studies (MA). The title of the degree is slightly misleading in that the Scottish higher education system enables undergraduates to cover a wide variety of academic areas, and Martha excelled in modules such as Corporate Finance. This, and her maths background, piqued her interest in finance and having completed an internship with Mulberry Bow summer 2022, Martha joined the graduate training programme and is working her way through the technical exams required to become a Chartered Financial Planner.

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