New Insights into Advising Female Clients on Investment Decisions

by Cäzilia Loibl, Ph.D., CFP®, and Tahira K. Hira, Ph.D.

Executive Summary

- A large number of professional and academic studies have indicated that, in general, women are less knowledgeable, less risk tolerant, and less confident about their investment decisions than men are. This paper applies a model for change and suggests augmenting techniques for financial planners that can help women investors improve their investing behavior.
- The model is called the *transtheoretical model of change*, which only recently has been applied to financial behavior. Instead of trying to get adults to change their behavior instantaneously, the model takes a person through five successive stages of change: precontemplation, contemplation, preparation, action, and maintenance. Planners can learn to identify which stage the female investor is in and help her move to the next stage.
- In the precontemplation stage, the female client has either avoided reassessing her past investment decisions or has tried and given up because of the complexity and difficulty.
- In the contemplation stage, the client intends to take action in the next couple of months and is weighing pros and cons.
- In the preparation stage, she's considering imminent action and they need a plan of action.
- In the action stage, she makes specific investment decisions.
- In the maintenance stage, she is increasingly confident about her investing abilities and commits to regular investments.
- The paper recommends techniques for planners to help their female clients successfully move from one stage to the next.
- A person may not successfully stay on course on the first attempt. Relapse and recycling during stages occur frequently.

Cäzilia Loibl, Ph.D., CFP®, is an assistant professor at The Ohio State University in Columbus, Ohio, and state specialist with OSU Extension. Her research and community outreach activities address savings and investment behavior.

Tahira K. Hira, Ph.D., is a professor and executive assistant to the president at Iowa State University in Ames, Iowa. She has taught financial planning courses at graduate and undergraduate levels and her research deals with socio-psychological aspects of financial management practices.

The topic of gender and investment behavior has stimulated much discussion and analysis in the personal finance field (NEFE 2000). The large number of studies in the professional and academic literature indicate that, in general, women are less knowledgeable, less risk tolerant, and less confident about their investment decisions than men are (Bajtelsmit 1996, Meier-Pesti and Penz 2003, Prince 1993). The question then arises: How can women's investment behavior be influenced to improve their investment decisions? To answer this question, this paper first will summarize the current state of research on gender differences in investing. It will then introduce the "transtheoretical model of change" as a unique way of understanding and initiating behavior change, and present ways financial planners can help motivate their female clients to initiate critical behavioral changes.

Gender Differences in Investing

Even though women have become more interested in and better informed about financial investments in the last ten years (Oppenheimer 2004), the National Association of Securities Dealers (NASD) Investor Literacy study's knowledge quiz underscores women's continuing lack of basic investment knowledge (AP&L 2003). Another recent survey finds that a large number of baby boomer women claim they "do not understand" investment accounts (49 percent), 401(k)s (33 percent), or individual retirement accounts (36 percent) (Prudential 2005). More specifically, comparing, for instance, a 48-year-old, college-educated, female investor with an annual income of $72,640, to a male investor with the same demographics, the gender differential can account for an increase of about 10 percent in predicted investor competence for the male investor (Graham, Harvey, and Huang 2004).

Women also seem to be more risk averse than men in investment decisions according to several studies (Bernasek and Shwiff 2001 Jianakoplos and Bernasek 1998; Powell and Ansic 1997; Hinz, McCarthy, and Turner 1997). Empirical research indicates that women favor stable, easy-to-manage investments (Oppenheimer 2004, Prudential 2005, Merrill Lynch 2005). As a result, they generally invest less in securities and are more conservative investors (NEFE 2000). An extremely low risk tolerance in long-term investing may prevent female clients from accumulating adequate retirement funds and reaching other longer-term financial goals. Low-risk investors may experience opportunity losses by not investing in stocks, while investors with an extremely high risk tolerance may incur unnecessary losses in wealth (Yao and Hanna 2005, Graham et al. 2002).

Even in a marriage, wives are, in general, much less willing to take risks as investors than husbands. It seems that the risk tolerance levels of both husband and wife should be considered in assessing a married couple's risk tolerance (Hanna and Lindamood 2005). When the married couple is viewed as a unit, the combined husband-wife portfolio is intermediate in risk between the portfolios of the two people's actions as individuals (Powell and Ansic 1997). Wives' dominance has been shown to be highest in egalitarian partnerships, where automatic and wife-dominated decisions were reported more frequently than in traditional partnerships (Meier, Kirchler, and Christian-Hubert 1999). In socially equal partnerships, wives appeared to adapt to the dominance wielded by their husbands in savings and investment decisions. In addition, spouses with more expertise than their partners exerted more dominance in decision-making processes (Meier, Kirchler, and Christian-Hubert 1999). Overall, women's involvement in longer-term asset accumulation has grown, as indicated by a survey conducted in four-year intervals (Prudential 2005). In 2004, baby boomer women revealed that joint decisions dominate investment accounts (49 percent versus 39 percent solely) and IRAs (62 percent versus 33 percent solely). Only for 401(k) accounts do more women report that they alone are responsible for investment decision-making (41 percent versus 39 percent joint) (Prudential 2005).

The finding that women are less-risk-tolerant investors is closely related to the finding that women are less confident in their investment decision-making. Men are inclined to feel more competent in financial matters. than women do and men also tend to be more overconfident about their ability to make financial decisions (Beyer and Bowden 1997, Barber and Odean 2001). For instance, men trade more than women, and the performance of men is hurt more by excessive trading than is the performance of women. This difference is greatest between single men and single women. Married couples, again, influence each other's investment decisions and thereby reduce the effects of gender differences on overconfidence (Barber and Odean 2001).

Further, the self-serving attribution bias is greater among men than among women. Men tend to emphasize their investment successes rather than their failures (Beyer and Bowden 1997, Deaux and Farris 1977, Meehan and Overton 1986). They are also more likely to spend more time and money on security analysis. Men rely less on their brokers, make more transactions, believe that returns are more highly predictable, and anticipate higher possible returns than women (Lewellen, Lease, and Schlarbaum 1977). Although both men and women expect their own portfolios to outperform the market, men expect to outperform by a greater margin than do women (Barber and Odean 2001).

Gender differences in investor self-confidence seem to be linked with a person's ability to accept the lack of clear and unambiguous feedback from the financial markets. Women's confidence equals that of men when feedback is immediate and unmistakable. But feedback in the stock market, for instance, is ambiguous, which seems to influence women's opinion of their abilities as investors. Women's confidence in their investment decisions is significantly lower than that of men when researchers control for professional background and ability and when the expected outcomes of the different investments are equivalent (Estes and Hosseini 1988). More recently, however, women seem to have gained greater confidence. A 2005 study reports that women are more likely than men to describe themselves as "very successful" investors (19 percent versus 14 percent) and are more likely to say they do a "very good job" of managing their investments (34 percent versus 25 percent) (Merrill Lynch 2005).

Stages of Investor Behavior Change

The discussion in the previous section shows that gender differences exist regarding investor knowledge, risk tolerance, and investment confidence. In particular, the literature indicates the need to advise women to become better-informed, more confident investors. To that end, we introduce a model of behavior change to explore how it might be used for investment learning and related behavior change. The central questions are

1. What are the stages through which adults advance when learning new concepts and behaviors?
2. What motivates adults to change their behaviors?
3. How can financial planners tailor their approach and messages to influence more positive investment behavior?

In many regards, behavior change is considered a process that comes about in stages. One of the most prominent and widely used stages models is the *transtheoretical model of change*. The transtheoretical model of change takes its name from its use of stages of change to integrate processes and principles of change across major theories of intervention (Prochaska, Redding, and Evers 2002). It suggests that adults do not undertake high-involvement behaviors instantaneously, but instead work up to those behaviors through a series of five successive stages that start with precontemplation, continue with contemplation, preparation, and action, and end with maintenance of the new behavior.

Despite the widespread use of the model in many disciplines, it has been the target of conceptual and empirical critique. The criticism focuses primarily on the fact that different stages of change have not been shown to be discrete. Littell and Girvin (2002) argue that studies have generally found that most participants do not fit neatly into one specific stage of change but instead may answer items on questionnaires in a manner that represents at least two different stages at the same time. A continuous measure of readiness for change might be an alternative concept in place of an algorithm that forces each person into only one stage of change at a time. Because the relationship between processes and stages of change represents only tendencies, a compromise solution suggests that both processes and stages of change in investment behavior be identified in order to reduce the likelihood of mismatching stages and processes (Petrocelli 2002). This approach has been adopted for the present study.

Only recently has the transtheoretical model of change been applied to financial behavior. Xiao et al. (2001) describe its use for the MONEY 2000™ financial education campaign. The target behavior change of this campaign was to increase saving or reduce debt. The findings supported positive effects on preparation and action, the two stages surveyed in the program. Shirer and Tobe (2004) used the transtheoretical model of change to develop a financial education curriculum for low-income families. This tool significantly improved participants' organization of financial documents, record keeping, and bill payment as they advanced from the precontemplation and contemplation stages to the preparation stage. Most recently, Shockey and Seiling (2004) applied the model to six financial behaviors. They found that after an educational intervention, participants moved from preparation to action for three behaviors: setting goals, tracking spending, and using a spending plan. The means of the other three behaviors—such as reducing debt, saving for unplanned expenditures, and saving for a long-term goalÑmoved in a positive direction but were not statistically strong enough to reach the next higher stage. In short, initial work has been conducted in using the transtheoretical model to improve financial behaviors.

Insights for Advising Female Clients

Suggestions for the practical application of the transtheoretical model of change to the work of financial planners with female clients and techniques for encouraging them to become better-informed, more confident investors are presented in this section. As noted earlier, the transtheoretical model of change identifies five stages for behavior change:

1. Precontemplation
2. Contemplation
3. Preparation
4. Action
5. Maintenance of the new behavior

Figure 1 depicts the model and the relationships among the stages (DiClemente 2003). Figures 2–5 illustrate the processes that motivate people to proceed from a more elementary stage of change to a more advanced one. These processes represent the internal and external experiences and activities that may enable female clients to move from stage to stage.

Figure 1: Stages of Behavior Change

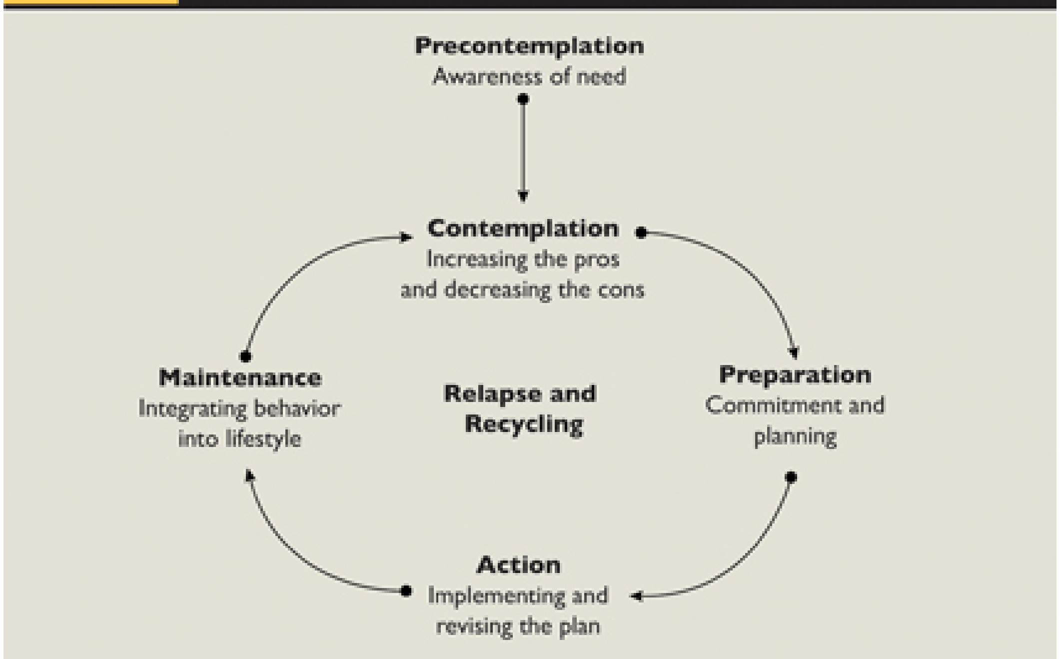
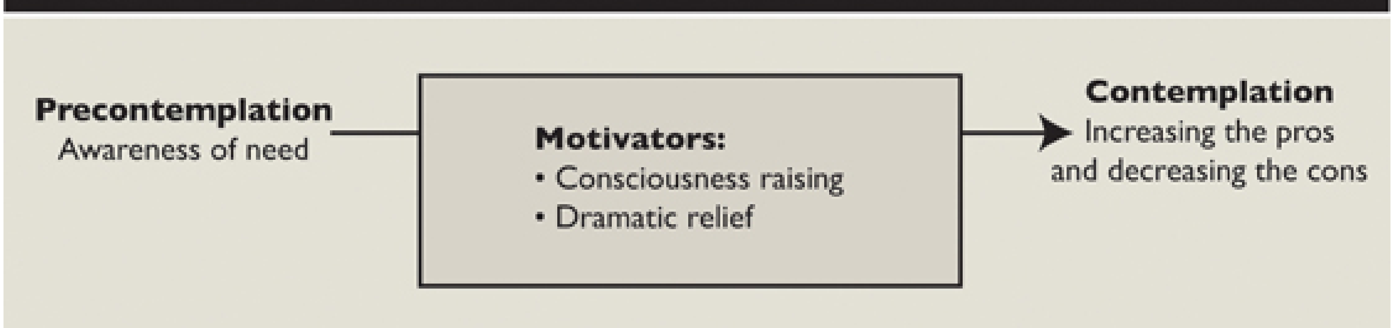
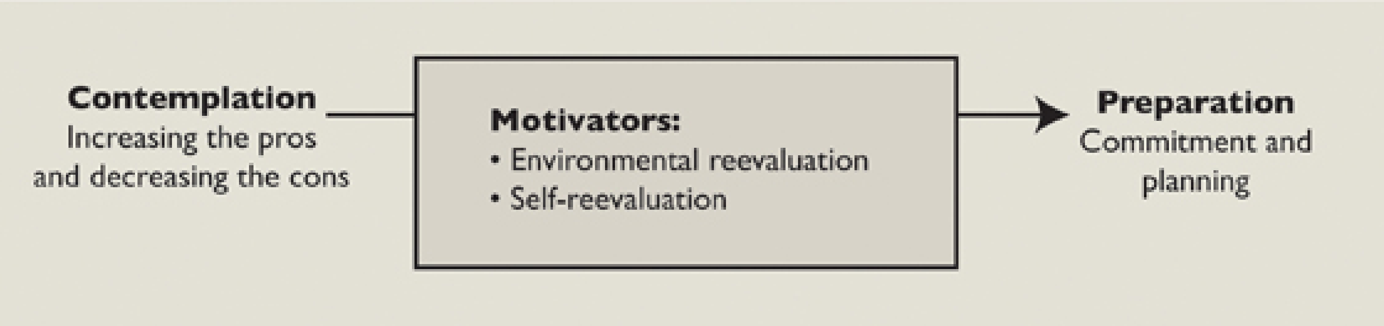


Figure 2: Moving from Precontemplation to Contemplation Stage



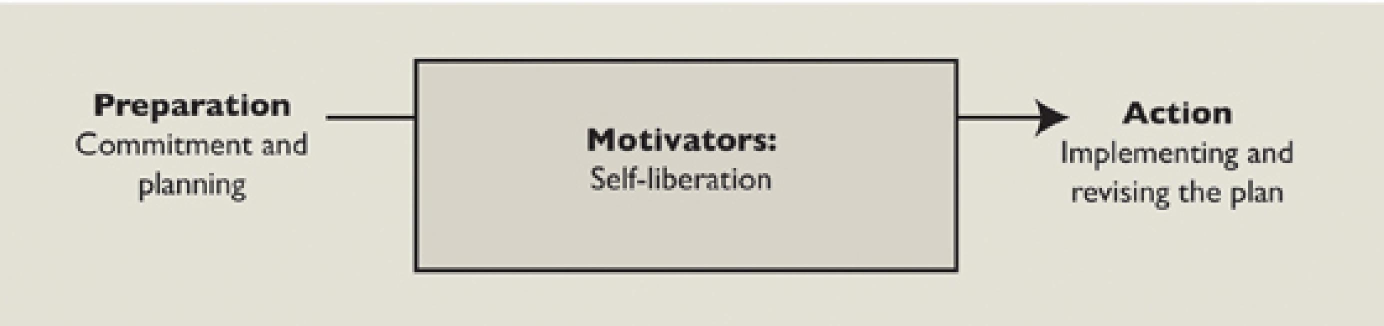
Source: DiClemente, C.C. 2003. *Addiction and Change*. New York: Guilford Press.

Figure 3: Moving from Contemplation to Preparation Stage



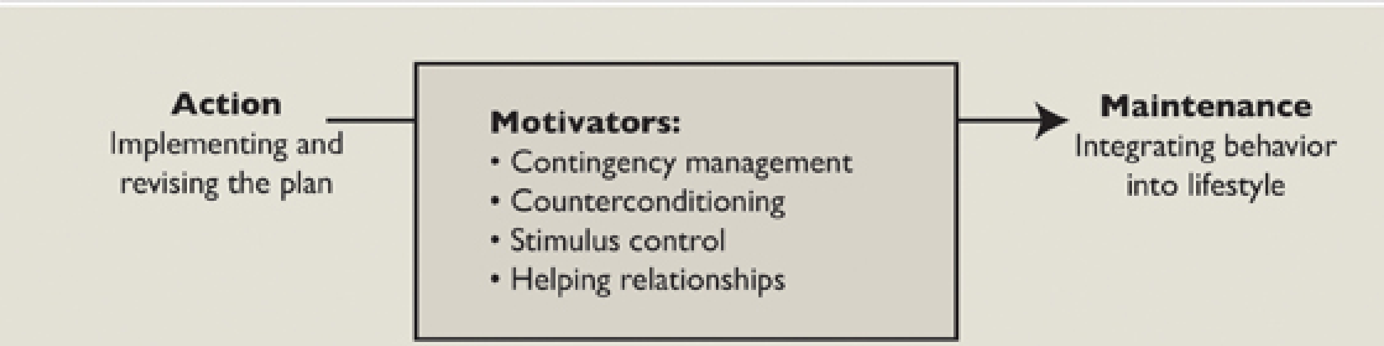
Source: DiClemente, C.C. 2003. *Addiction and Change*. New York: Guilford Press.

Figure 4: Moving from Preparation to Action Stage



Source: DiClemente, C.C. 2003. *Addiction and Change*. New York: Guilford Press.

Figure 5: Moving from Action to Maintenance Stage



Source: DiClemente, C.C. 2003. *Addiction and Change*. New York: Guilford Press.

Precontemplation Stage

The signs that a female client is in the first stage, the *precontemplation* stage, are that she has no intention of reassessing in the foreseeable future her past (perhaps inappropriate) investment decisions. A female client might be in this stage because she is uninformed or under-informed about the long-term consequences of her financial decisions. Or she might have tried to reassess her investments a number of times but did not take action because she had become demoralized about the complexity and difficulty of the topic. Both groups tend to avoid reading, talking, or thinking about it.

During this stage, *consciousness raising* is a useful technique for the financial planner to use to increase the awareness about the causes, consequences, and "cures" for a female client's past investment behavior. The financial planner has several opportunities to engage actively in consciousness raising, including professional feedback, careful confrontations, and financial data analysis and interpretations. In particular, at this early stage, the planner is encouraged to educate female clients on how to find accurate investment information and to explain basic investment concepts (such as the time value of money), to brainstorm investment ideas, and to provide professional tips that increase clients' awareness of investment strategies.

Dramatic relief is another technique recommended for this early stage. It is aimed at producing increased emotional experiences followed by reduced affect if appropriate action is taken (Prochaska, Redding, and Evers 2002). Reconsidering past investment decisions may present situations when women experience strong negative emotions that go along with not making any, or not making informed, investment decisions. Role playing and personal testimonies are examples of techniques that can move female clients emotionally. As a result, they may become freer to reevaluate themselves both affectively and cognitively (see Figure 2).

Contemplation Stage

Female clients in the second stage, the *contemplation* stage, can be identified by the fact that they intend to take action and make an investment decision in the next couple of months. They can be expected to be aware of the need for making investment decisions to provide for their financial security in later life, but also acutely aware of the risks and costs. They might start reading about investment opportunities, listening actively to television and radio programs dealing with financial investments, talking to an investment professional, or consulting family, friends, and co-workers about investments. They are considering pros and cons.

When working with female clients in the contemplation stage, financial planners are advised to encourage environmental reevaluation and self-reevaluation. Environmental reevaluation uses female clients' concerns about the effects of a less-then-ideal investment behavior on their social network, especially on the people they care about most. It also can include the awareness that one can serve as a positive or negative role model for others. Empathy training, documentaries, and comprehensive financial planning can lead to such reassessment. Self-reevaluation combines both the cognitive and affective assessment of one's self-image as an investor, such as one's image as the "investing for dummies" groupie and one's different image as an informed, confident investor. Values clarification, examination of professional role models, and imagery are techniques that can motivate female clients in this stage (see Figure 3).

Preparation Stage

The third stage, the *preparation* stage, is the stage in which female clients are considering taking action in the immediate future. These women now need a plan of action, such as examining employer plans, determining investment allocations that best match their intermediate and long-term goals, considering the fees of various investment vehicles, contacting a financial planner, broker, or banker for the investment purchase, or establishing an online mutual fund account. According to Prochaska (2000), these are the individuals who are generally considered the most responsive to professional advice or educational intervention.

At this stage, "preparers" need to set goals and financial priorities accordingly. Financial planners should encourage the development of an action plan for how their female clients are going to proceed with the investment decision task. The financial planner also should encourage firm financial commitments to make sure clients follow through on the investment decisions they make. As female clients prepare for the action stage, it seems to be particularly important that they act from a sense of self-liberation. Self-liberation is both the belief that one can change and the commitment and recommitment to act on that belief (Prochaska, Redding, and Evers 2002). Female clients need encouragement that strengthens their beliefs in their autonomy to change their lives in key ways and to take control of their financial situation (see Figure 4).

Action Stage

Action, the fourth stage, is the stage in which female clients make specific investment decisions. Because action is observable, behavior change has often been equated with action. Not so in the transtheoretical model, where action is just one of five stages and where action is measured by a criterion that professionals agree is adequate to count as action (Prochaska, Redding, and Evers 2002). In financial planning, activities such as determining the asset allocation or reallocating funds, automating investments through regular contributions to a retirement plan, or enrolling in a dollar-averaging savings plan offered through financial institutions count as action (see Figure 5).

Maintenance Stage

In the final stage, the *maintenance* stage, clients commit to regular investments and are considered to be increasingly more confident about their investor abilities. They are also more likely to employ explicit trade-off considerations when making investment choice decisions and may reallocate according to their capacity for risk, temperament, and time horizon. Individuals typically begin by taking small steps from action toward maintenance. Financial planners can employ four different techniques to encourage maintenance behavior:

1. Contingency management
2. Counterconditioning
3. Stimulus control
4. Helping relationships

With female clients in action, financial planners may use contingency management, a positive-reinforcement treatment method in which clients are given rewards for constructive actions taken in their investment choice processes, to ensure appropriate investment actions. The related techniques provide consequences for taking steps in a particular direction. Particularly successful is increasing intrinsic and extrinsic rewards for making well-informed investment decisions. Examples of rewards include taking advantage of special investor programs at financial institutions or celebrating a successful investment decision.

Counterconditioning requires the learning of investment practices that can substitute for past behaviors. In addition, relaxation, assertion, and positive self- statements are appropriate strategies that help female clients commit to the investment plan even if pressured to allocate resources otherwise.

Stimulus control involves adding cues or reminders to help female clients take well-informed investment actions. Examples include setting up automatic deposits to the investment accounts, carefully reviewing the investment information received by mail, or joining an investment club.

Last but not least, the financial planner is encouraged to build a helping relationship with the client that combines caring, trust, openness, and acceptance, as well as support for difficulties experienced during the decision task. In so doing, the financial planner helps the client in a variety of ways, including providing emotional support, modeling a set of financial beliefs, and serving as a sounding board. Rapport building, follow-up calls, and regularly scheduled meetings can be sources of professional support.

Progress from One Stage to Another

The stance of the financial planner may vary depending on the female client's stage. Following Prochaska (2000), the relationship might be characterized as follows: With precontemplators, often the planner's role is that of a "nurturing parent" who can join with the resistant and defensive "youngster" who is both drawn to and repelled by the prospects of becoming more independent. With contemplators, the planner's role becomes one of a "Socratic teacher" who encourages women clients to achieve their own insights into their condition. With clients who are in the preparation stage, the stance is more that of an "experienced coach" who can provide a game plan or review the person's own investment plan. With clients who are progressing into the action and maintenance stages, the financial planner becomes more of a "consultant" who is available to provide expert advice and support for action and when action is not progressing as smoothly as expected.

Planners should also keep in mind that women clients may not successfully stay on course on the first attempt (Prochaska 2000). Relapse and recycling through the stages occur quite frequently as individuals attempt to modify behavior. As income and occupation change throughout a person's life, investment opportunities and the related action may change accordingly. Relapse might occur in financially demanding life stages that leave only little room for saving and little time for dealing with investment decisions. As a result, change seems to occur in a spiral pattern. Prochaska's (2000) spiral model suggests that most relapsers do not revolve endlessly in circles, nor do they regress all the way back to where they began. Rather, they potentially learn from earlier investment experiences and, for instance, may only recess from an action or maintenance stage to the preparation stage.

Conclusion

The review here has summarized literature on gender differences in risk tolerance, investment confidence, and investment knowledge. To better advise female clients in their investment decision-making, this paper suggests applying the transtheoretical model of change to investor behavior. The following recommendations are offered for the financial planner's work with female clients:

- Take time to identify the appropriate stage of behavior change of the female client.
- Understand the techniques that will advance the female client from a more elementary stage to a more advanced stage.
- Direct particular attention to female clients who struggle through relapse and recycling as they attempt to become better informed and more confident investors.

In summary, integration of the processes and stages of the transtheoretical model provides an empirically guided planning tool for the investment advisory practice and benefits the long-term goal of the profession to "create awareness of the importance of financial planning and the value of the financial planning process" (CFP Board 1999).

References

Applied Research & Consulting LLC (AP&L). 2003. "NASD Investor Literacy Research." NASD Investor Education Foundation ed. Retrieved September 10, 2005, from http://www.nasdr.com/pdf-text/surveyexecsum.pdf.

Barber, B. and T. Odean. 2001. "Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investment." *The Quarterly Journal of Economics* 116, 1: 261–292.

Bajtelsmit, V. L. and A. Bernasek. 1996. "Why Do Women Invest Differently than Men?" *Financial Counseling and Planning* 7: 1–10.

Beyer, S. and E. M. Bowden. 1997. "Gender Differences in Self-Perceptions: Convergent Evidence from Three Measures of Accuracy and Bias." *Personality and Social Psychology* 23, 2: 157–172.

Bernasek, A. and S. Shwiff. 2001. "Gender, Risk, and Retirement." *Journal of Economic Issues* 35, 2: 345–356.

Certified Financial Planner Board of Standards (CFP Board). 1999. First annual CFP Practitioner Survey: Executive Summary of Findings, Certified Financial Planner Board of Standards, ed. http://www.cfp.net/media/survey.asp?id=14.

Deaux, K. and E. Farris. 1977. "Attributing Causes for One's Own Performance: The Effects of Sex, Norms, and Outcome." *Journal of Research in Personality*. 11: 59–72.

DiClemente, C. C. 2003. *Addiction and Change*. New York: Guilford Press.

Estes, R. and J. Hosseini. 1988. "The Gender Gap on Wall Street: An Empirical Analysis of Confidence in Investment Decision Making." *The Journal of Psychology* 122, 6: 577–590.

Graham, J. F., et al. 2002. "Gender Differences in Investment Strategies: An Information Processing Perspective." *The International Journal of Bank Marketing* 20, 1: 17–27.

Graham, J. R., C. R. Harvey, and H. Huang. 2004. "Investor Competence, Trading Frequency, and Home Bias." AFA 2006 Boston Meetings. Unpublished presentation. Retrieved September 10, 2005, from http://ssrn.com/abstract=620801.

Hanna, S. D. and S. Lindamood. "Risk Tolerance of Married Couples." Academy of Financial Services Annual Meeting. Unpublished presentation 2005.

Hinz, R. P., D. D. McCarthy, and J. A. Turner. 1997. "Are Women Conservative Investors? Gender Differences in Participant-Directed Pension Investments." *Positioning Pensions for the Twenty-First Century*. M. S. Gordon, O. S. Mitchell, and M. M. Twinney, eds. Philadelphia: University of Pennsylvania Press, 91–103.

Jianakoplos, N. A. and A. Bernasek. 1998. "Are Women More Risk Averse?" *Economic Inquiry* 36: 620–630.

Lewellen, W. G., R. C. Lease, and G. G. Schlarbaum. 1977. "Patterns of Investment Strategy and Behavior Among Individual Investors." *Journal of Business*: 296–333.

Littell, J. H. and H. Girvin. 2002. "Stages of Change: a Critique." *Behavior Modification*, 26, 2: 223–273.

Meehan, A. M. and W. Overton. 1986. "Gender Differences in Expectancies for Success and Performance on Piagetian Spatial Tasks." *Merrill-Palmer Quarterly* 32: 427–441.

Meier, K., E. Kirchler, and A. Christian-Hubert. 1999. "Savings and Investment Decisions Within Private Households: Spouses' Dominance in Decisions on Various Forms of Investment." *Journal of Economic Psychology* 20: 499–519.

Meier-Pesti, K. and E. Penz. 2003. "Sex or Gender? Expanding the Sex-Based View by Introducing Masculinity and Femininity as Predictors of Financial Risk Taking." European Association for Consumer Research (unpublished presentation).

Merrill Lynch Investment Managers. 2005. "When It Comes to Investing, Gender a Strong Influence on Behavior." Retrieved September 10, 2005, from http://www.ml.com/media/47547.pdf.

National Endowment for Financial Education (NEFE). 2000. "Frozen in the Headlights: The Dynamics of Women and Money." NEFE, ed. Retrieved September 10, 2005, from http://www.nefe.org/pages/dynamicswhitepaper.html.

OppenheimerFunds Distributor. 2004. "Women & Investing: 10 Years Later." Retrieved September 10, 2005, from http://www.oppenheimerfunds.com.

Petrocelli, J. V. 2002. "Processes and Stages of Change: Counseling with the Transtheoretical Model of Change." *Journal of Counseling and Development* 80, 1: 22–30.

Powell, M. and D. Ansic. 1997. "Gender Differences in Risk Behaviour in Financial Decision-Making: An Experimental Analysis." *Journal of Economic Psychology* 18: 605–628.

Prince, M. 1993. "Women, Men, and Money Styles." *Journal of Economic Psychology* 14, 1: 175–182.

Prochaska, J. O. 2000. "Change at Differing Stages." *Handbook of Psychological Change*. C. R. Snyder and R. E. Ingram, eds. New York: John Wiley & Sons: 109–127.

Prochaska, J. O., C. A. Redding, and K. E. Evers. 2002. "The Transtheoretical Model and Stages of Change." *Health Behavior and Health Education*. K. Glanz, B. K. Rimer, and F.M. Lewis, eds. San Francisco: Jossey-Bass, 99–120.

Prudential Financial. 2005. "Prudential Financial's Study on the Financial Experience and Behaviors Among Women 2004–2005." Retrieved September 10, 2005, from www.prudential.com/media/managed/WomanBro2004_Complete.pdf.

Shirer, K. and E. Tobe. 2004. "Getting Ready to Save: Applying Stages of Change Theory to Financial Education for Families with Low Incomes." Working paper. Michigan State University Extension.

Shockey, S. S. and S. B. Seiling. 2004. "Moving into Action: Application of the Transtheoretical Model of Behavior Change to Financial Education." *Financial Counseling and Planning*. 15, 1: 41–52.

Xiao, J. J. et al. 2001. "Application of the Transtheoretical Model of Change to Financial Behavior." *Consumer Interest Annual* 47: 1–9.

Yao, R. and S. D. Hanna. 2005. "The Effect of Gender and Marital Status on Financial Risk Tolerance." *Journal of Personal Finance* 4, 1: 66–85.