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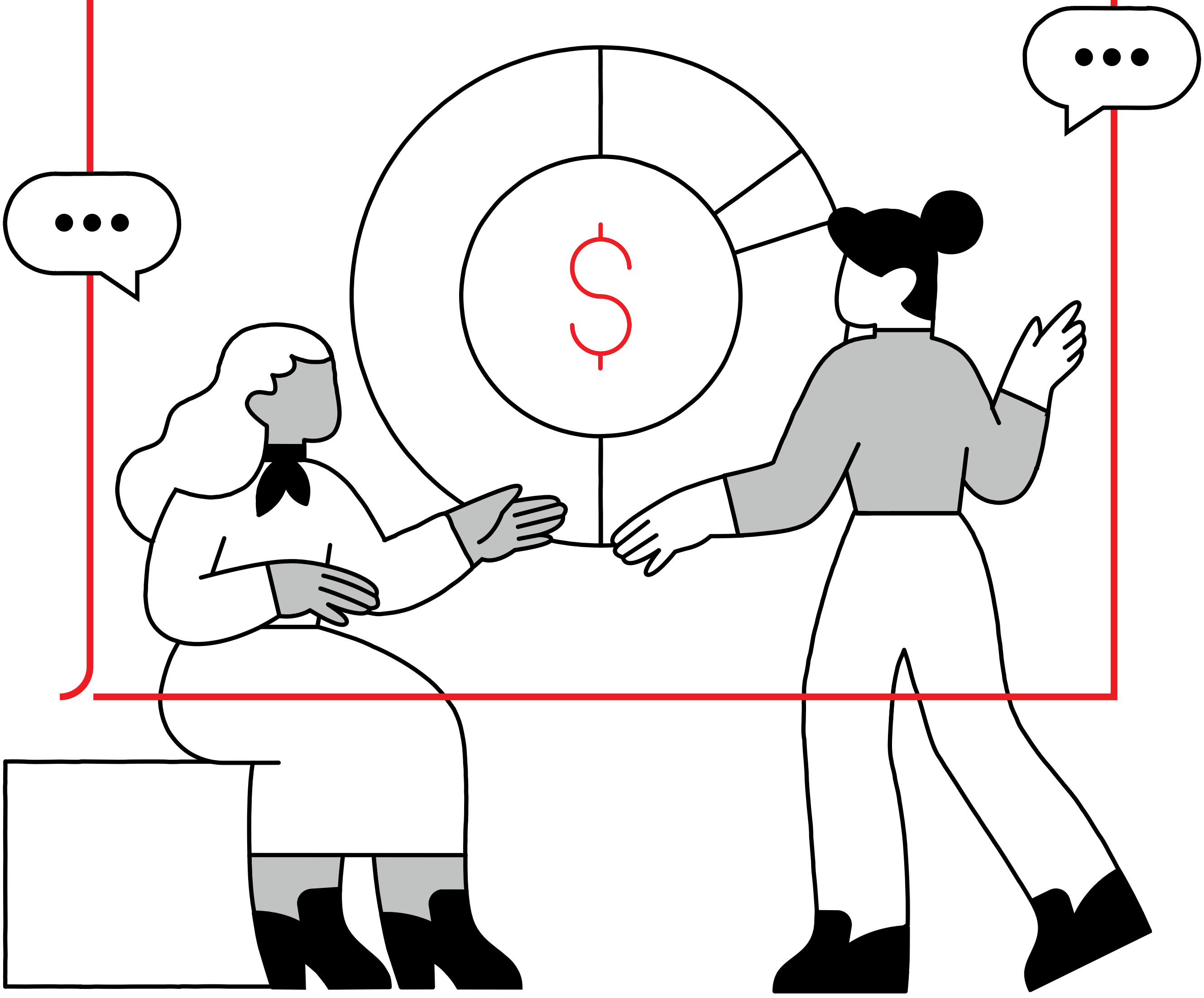
Chief Investment Office GWM
Investment Research

Women and investing

Reimagining wealth advice



Editorial

We wrote our first publication on women and investing in 2017. In that publication, we looked at why it is important for women to make their own financial decisions. We identified issues such as pay disparity, career discontinuity, work flexibility, life expectancy, and risk tolerance, all of which combine to disadvantage the financial outcomes of women. At the time, we illustrated the differences between men's and women's wealth journeys and highlighted the importance of women taking action and investing to meet their objectives and narrow the gender gap.[1]

In this publication, we review the differences in these journeys in more detail and focus on how the wealth management industry can best support women in taking control of their finances. We start by looking at women's wealth and whether there has been an increase in the number of women investing. We then look at how women tend to make investment decisions along with their needs and preferences. Based on these insights, we identify the key components for a compelling wealth management value proposition for women. We acknowledge that women as a segment should not be a single homogeneous group. Advisory models should cater to their personal needs and preferences, and we also highlight the importance of holistic advice.

Marianna Mamou
Head Advice Beyond Investing
Chief Investment Office Global Wealth Management

See references on page 12.

Introduction

Positive momentum in number of women wanting and taking action

Since 2017, we have seen an increase in the number of women interested in taking control of their finances. However, the arrival of COVID-19 has been a challenge for women, given the higher unemployment rates they experienced during the recent 'she-cession' and the added burden of childcare responsibilities many undertook as a result of school closures and lockdowns.

But the pandemic has also had a silver lining. Increased precaution has led women to take more action. It has prompted many to review their financial situations and seek control of their destinies. Based on research from Fidelity in 2021, the number of women in the US who say they are more interested in investing has risen by 50% since the start of the pandemic.[2] The survey also found that 67% of women are now investing outside their retirement plans, compared to 44% in 2018, with young women taking more action.[2] Specifically, 71% of millennial women versus 62% of baby boomers are investing outside their retirement plan.[2] This trend was also captured in a 2021 Nutmeg survey, where one in five women said they felt more confident dealing with money matters in light of the pandemic.[3]

Furthermore, UBS's 2021 Investor Pulse survey in 2021 showed that 68% of women had started talking more about finances within their families. However, only a fraction of these followed through with the actions they intended to take.[4]

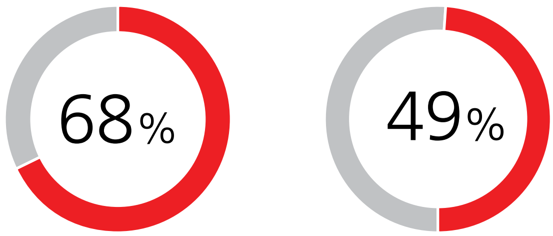
In the US, the UBS Own Your Worth report in 2021 found that women and men agreed that making long-term financial decisions together would increase their confidence in the future, minimize financial mistakes, and reduce anxiety about money.[5] But the report also found that the majority of married women globally let their spouses make financial decisions. The reasons included long-standing "historical and social precedents to family, gender roles, and confidence levels," such as following parental examples in terms of gender roles and financial control.[5]

Nevertheless, financial participation has also increased among married women. A 2020 McKinsey report showed that 30% more married women were making financial and investment decisions than five years previously.[6]

Attitudes to wealth management and gender vary across markets and cultures. In a report from BCG, titled *Managing the Next Decade of Women's Wealth,* no Middle East women respondents reported being involved in financial decisions, while in Asia most female respondents said that they take the lead in their households.[7]

Figure 1

Women are discussing finances more with the family



discussing **money** more with their partner

discussing **inheritance** with their kids

Yet, women fall short of their intention to act

January 2021 progress since May 2020	Those who intended to act		Those who have taken action		Gap between intention and action
Review financial situation	40%	–	12%	=	28
Discuss portfolio impact with Advisor	34%	–	9%	=	25
Review will and estate plan	37%	–	11%	=	26
Update long-term care plan	36%	–	11%	=	25

Source: UBS 2021 Investor Pulse

A gap between intention and action is also seen in Switzerland, where nine out of 10 women say they want to make investment decisions together with their partner. However, only 50% of these women stated that this was indeed the case in their households.[8]

Since 2017, media coverage of financial education topics for women has also increased. These topics have included investing for retirement, and the impact of inflation and COVID-19 on financial wellbeing. This contrasts with the traditional media focus on women budgeting, saving, and reducing shopping splurges.[9] In addition, there has been an increase in women interested in and joining investment clubs.[10]

What would help translate this increased interest into actual investment? How can women turn this willingness into action? What are the challenges?

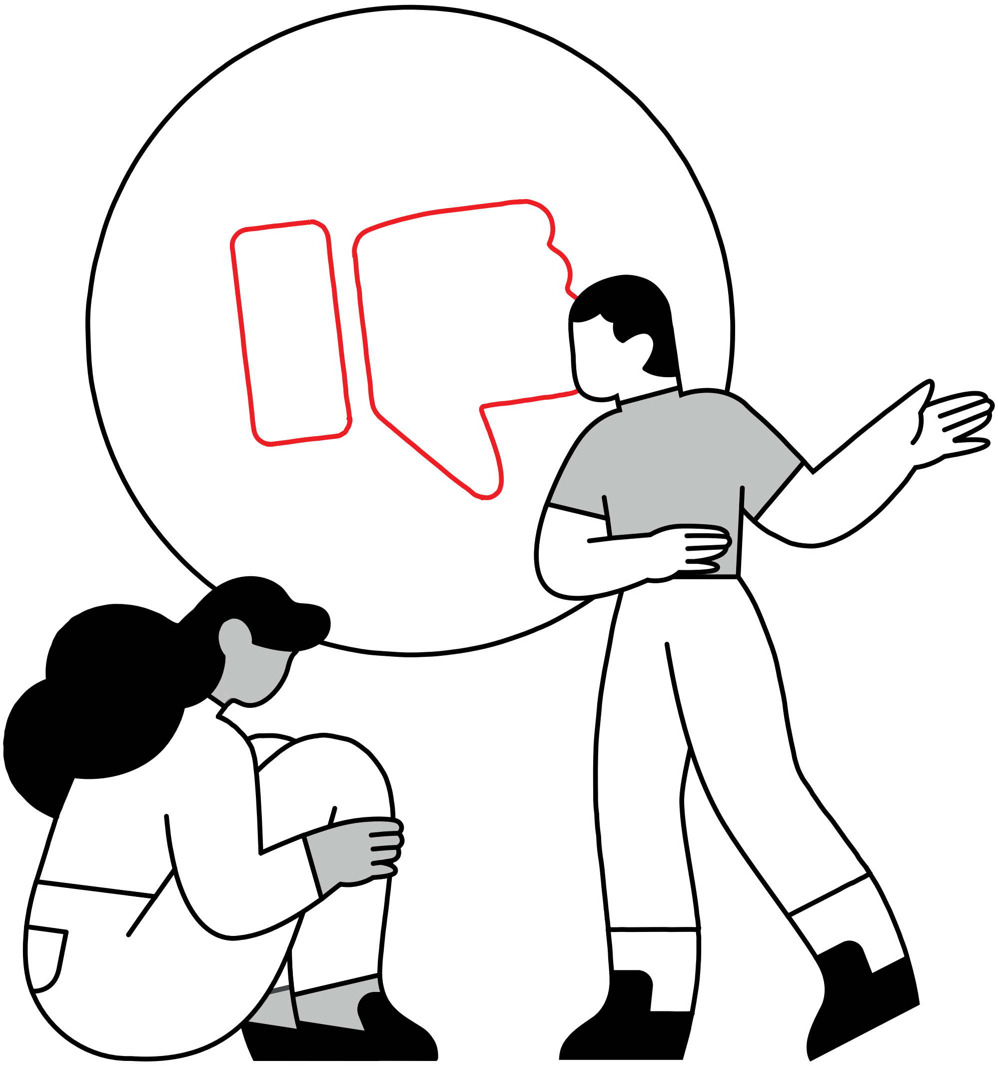
See references on page 12.

Lower satisfaction with existing wealth advice

Women often report they are not satisfied with their wealth management arrangements or financial advice, stating that they often feel their wealth managers simply do not understand their needs. Based on EY research, 67% of female investors globally stated that their wealth managers misunderstood their goals.[11] This dissatisfaction is also demonstrated by the finding that 70% of women switch their wealth relationship to a new financial institution within a year of their spouse's death.[6]

A survey by PIMCO suggested that 72% of women, and 81% of millennial women, said the investment system was "set up to be confusing."[12] One contributing factor was the use of jargon. Women found such jargon more off-putting than men, with more than a third saying they felt this compared with around a quarter of men.[13] Beyond the jargon, women also typically reported not receiving the type of advice they were looking for and that would help them take control of their finances with finances.

Wealth managers should take note that besides ethical considerations and the clear benefits of gender equality for society, the female segment is fast-growing and presents a huge business opportunity.



See references on page 12.

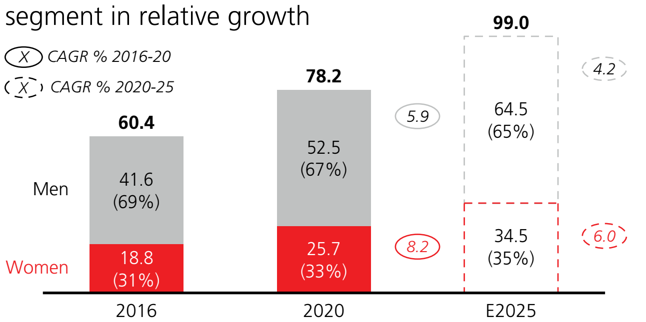
How great is women's wealth?

By 2030, American women are expected to control much of the USD 30 trillion in financial assets that baby boomers will possess.[6]

- In 2020, female investors controlled 33% of total global personal investable wealth, up from 31% in 2016, and are projected to further increase this share to 35% by 2025.[14]
- The growth in women's investable wealth has outpaced men's between 2016 and 2020 (CAGR of 8.2% versus 5.9%).[14]
- Women's investable wealth is expected to continue to grow more rapidly than men's over the period 2021-2025 (projected CAGR of 6.0% versus 4.2%).[14]
- Women's share of regional wealth is highest in North America, but growing fastest in Asia.[14]

Figure 2

Female wealth segment is outpacing male segment in relative growth

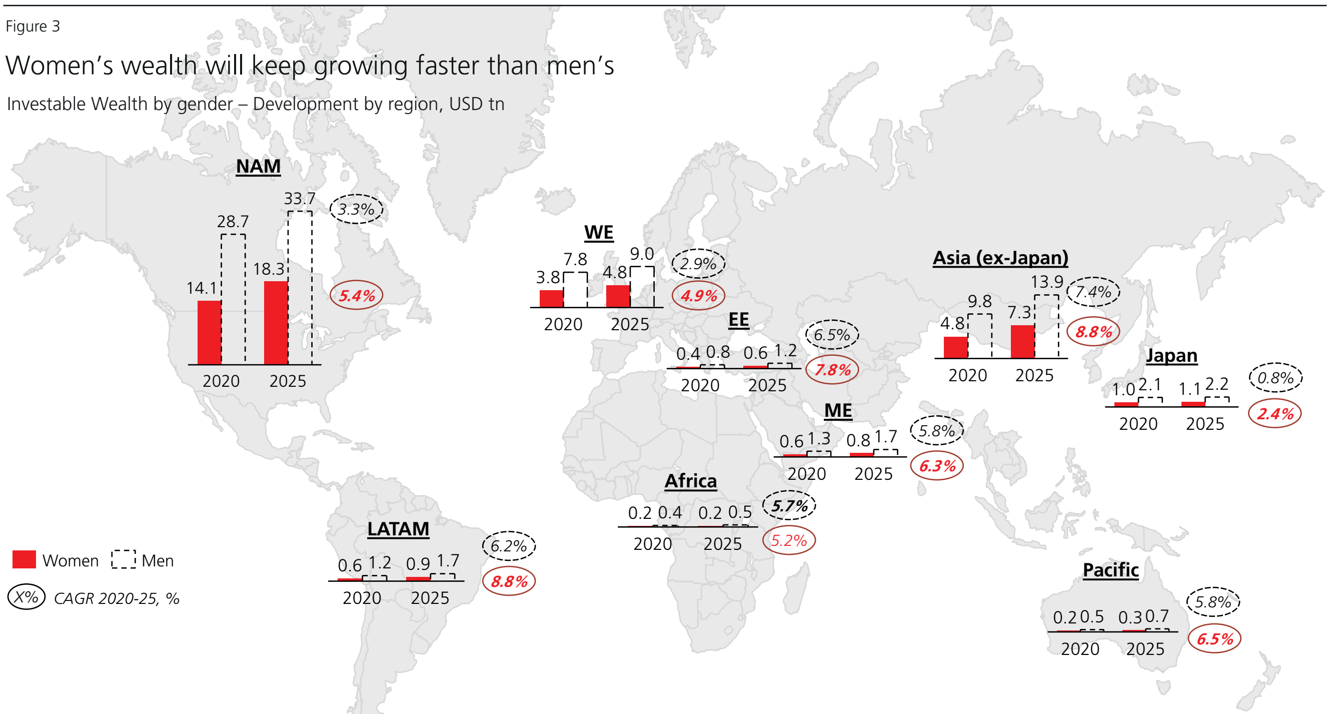


Note: Market figures based on BCG 2020 Global Wealth Market Sizing and BCG Global Wealth Report 2021, based on personal investable wealth from asset bands of USD 1m+
Source: BCG Global Wealth Report 2021; BCG S&BD market sizing for Total global investable wealth

Figure 3

Women's wealth will keep growing faster than men's

Investable Wealth by gender – Development by region, USD tn



Source: BCG Global Wealth Report 2021; BCG S&BD market sizing for Total global investable wealth

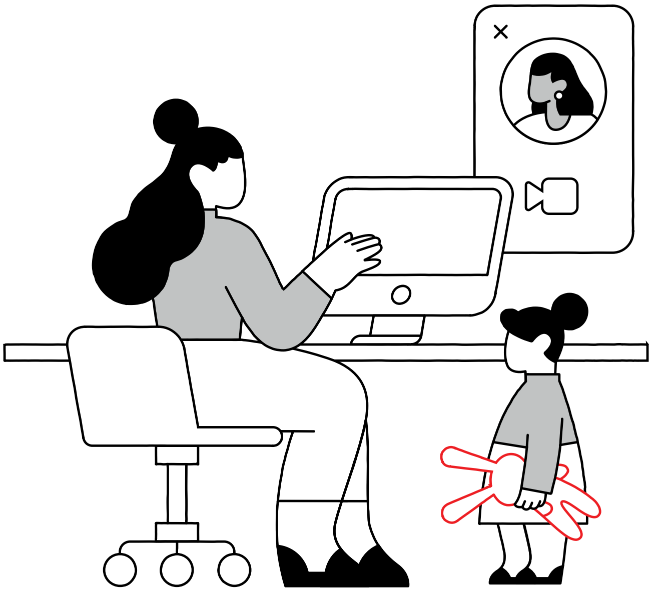
See references on page 12.

What makes women's wealth journey different?

1. Life events and situations

Many women's life events and situations raise barriers to the creation of wealth. Apart from pay differences, career breaks and the greater need to work flexibly for childcare can also have a detrimental impact upon wealth.[1] On average, women also tend to live longer than men, so their wealth-planning needs must often span a longer time horizon. In the US, women outlive men by an average of five years, and heterosexual women on average marry partners roughly two years older than they are.[1,6] These circumstances affect women´s financial situation and create specific needs, such as the need to address pension gaps.

According to a February 2021 survey from the National Institute on Retirement Security, around 60% of women (versus 51% of men) in the US stated they were concerned that they would not be able to achieve a financially secure retirement.[6] In addition to long-term goals, research suggests that women also want more help with cash management and other day-to-day finance needs.[6]



2. Investment risk tolerance

Often women are more reluctant to take financial risks than men, according to various research papers.[1,15] This can also be seen in women's pension allocations, which often favor bonds versus equities.[1] According to a recent Nutmeg survey, just 3% of women are comfortable taking risks to achieve a good return, compared with 26% of men.[3] Men's favorite asset class is stocks, while that of women is real estate.[16] Men also are twice as likely as women to hold crypto currencies.[17]

In our paper in 2017 we illustrated the difference between men's and women's wealth journeys. We showed that if women take less risk in their investment portfolios, they actually could be at greater risk of falling short of their goals. It is important to appreciate that in an effort to take less risk, women could actually end up facing a high risk of not meeting their objectives.

Some research has suggested that women tend to underestimate the probability of gains, and that this pessimistic view could contribute to their higher risk aversion.[18] Another study has suggested that women tend to prefer investing with certainty over uncertainty of outcome.[19] This could explain why women are much more likely than men to hold annuities.[20] Furthermore, women's greater uncertainty about cash flows given career breaks for caring for children or parents could lead them to focus on shorter-term investment horizons, affecting the perception of risk.

Financial confidence is very closely associated with risk tolerance, which in turn depends on risk perception. Perception of risk shapes the expected utility curve and underlies the rationale for a person's choices. Recent research has confirmed that greater familiarity with risk is associated with reduced risk perception.[21] This suggests that more experience with investing should reduce risk aversion, and that if women do not gain investing experience, they will continue to perceive investing as riskier or more daunting. Knowledge also helps increase risk tolerance, most likely as it affects the perception of risk.[21] Younger women are more financially literate, which makes them more financially confident.[7] In a BCG survey, 70% of millennial women stated that they take the lead in making financial decisions versus 40% of baby boomer women.[7]

See references on page 12.

Interestingly, research has also suggested the opposite appears true for men.[21] Perhaps this is because men appear to be more overconfident.[22] This highlights the importance of experience and familiarity with the topic. Men tend to be more exposed to conversations about investing, even from a young age.

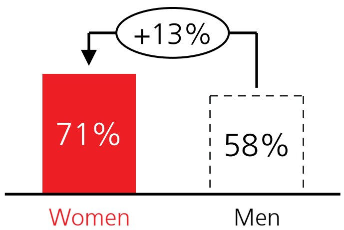
But this does not necessarily mean that women are more risk averse. Our take is that women are not per se risk averse, but rather they tend to be calculated risk takers. This suggests that for women, increasing risk tolerance depends on understanding how a product helps them meet their objectives and they have done proper due diligence and research to understand its characteristics.

Furthermore, risk attitudes are not necessarily the same across all domains. For example, research suggests that women may be more likely than men to accept social risk, i.e. risk associated with human or social consequences. According to research from Harvard Business Review, impact investment firms with a higher proportion of women in the top management team took significantly more risks in their investment decisions.[23] This is in line with studies and surveys suggesting that women show greater interest in aligning their investments with their values as well as in investing in companies with greater diversity and diverse leadership.[24]

3. Investment preferences, investment performance and purpose

Women are twice as likely as men to say that it's extremely important that the companies they invest in incorporate environmental, social, and governance (ESG) factors into their policies and procedures.[25] Furthermore, a preference for ESG investing isn't limited to younger generations of women. A recent report from market researcher Cerulli found that the majority of women in the US under age 60 favor ESG investing.[26] The UBS Investor Sentiment Survey has also highlighted that more women (71%) take into account sustainable considerations when investing compared to men (58%).[27] Women also seem interested in investing in women. For example, in crowdfunding we see more women investors investing in women-led startups.[1]

Once women do invest, they tend to perform better than men. A recent study by the Warwick Business School concluded women outperformed men at investing by 1.8% per annum.[28] This is largely because women trade less often, therefore incurring fewer trading costs, which subtract from market performance.[28] Women also display less disposition bias, i.e., the tendency to sell at lows. During major drawdown events, the data suggests that women are around 25% less likely to withdraw their investments than men.[3] They are also less likely to change their risk profile amid volatility and are in general more disciplined and invest in line with their goals.[3] Women also spend more time researching information, are more likely to follow a plan, and less likely to try to time the market.[1] They also benefit from more diversified portfolios.[6] Thus, while men tend to put more weight on pure performance and make investment decisions based on historical performance, women tend to prioritize risk reduction and positive impact.[7]



Sustainable investing strategy consideration

Female investors appear to be more inclined to invest based on their values.

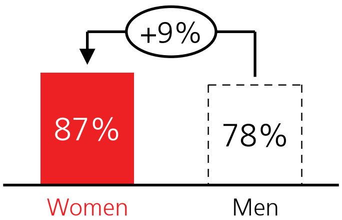
Source: Investor Sentiment Survey, Global Results, years 2020, 2019, 2018; Charts based on 2020 Investor Sentiment Survey results

See references on page 12.

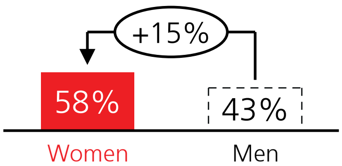
Women are looking for advice and are often happy to pay a premium for an advisor that they trust. Specifically, a recent survey showed that older, affluent women are twice as likely as older, affluent men to favor paying a 1% or higher fee for an account managed by a financial advisor, versus paying 10 basis points for a digital-only service.[6] The UBS Investor Sentiment survey also highlighted that women value the need of expert advice more highly than men.[27] Further, when women ask for advice, they are more likely to be referring to wealth advice to help them meet their objectives and linked to their goals, rather than trading strategies to help beat the market. Younger women are also more likely to invest for specific goals, with two-thirds of young women stating this intention compared with 56% of young men.[29] Women identified honesty, knowledge, and transparency as the top values they sought in advisors and financial institutions.[10]

Women tend to perceive and value wealth mainly as a source of security, not opportunity.[1] They also tend to focus on being financially secure and able to afford certain lifestyles for themselves and their loved ones over the long term. Additionally, for women, legacy often means more than passing wealth down to the next generation; it also means feeling confident their children are safe and content in their lives as well as positively impacting the lives of others.[1]

This suggests to us a tendency of women to invest with purpose, where purpose represents both their goals as well as their values and impact on society.



Importance of expert advice



Need of expert advice going forward

Interest in expert advice

Financial advisors have an opportunity to help female clients achieve even better outcomes, as their interest in getting expert advice seems to be higher than men.

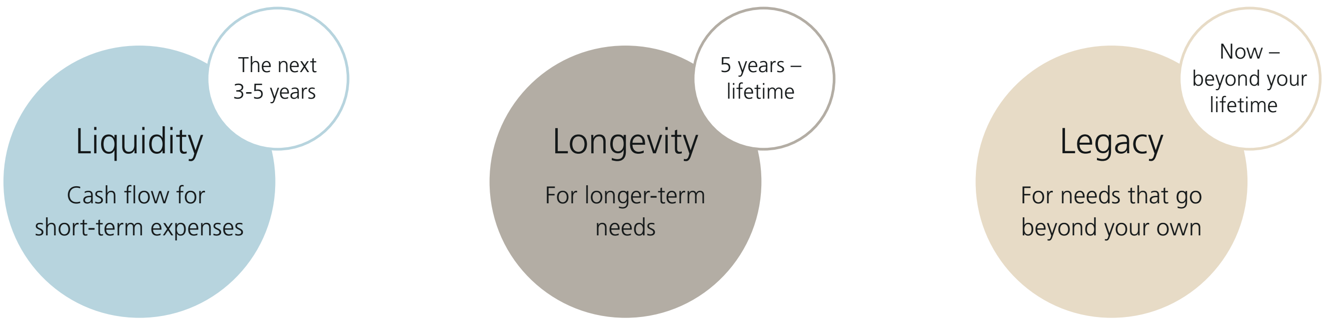
Source: Investor Sentiment Survey, Global Results, years 2020, 2019, 2018; Charts based on 2020 Investor Sentiment Survey results

See references on page 12.

Wealth management value proposition for women

The current advisory process experienced by women often does not meet their needs. How can wealth managers reimagine their advisory process, and what are the key ingredients to help women achieve their goals? In our view, wealth managers need to reimagine their value propositions in the following ways.

1. Investment plan in the context of goals and needs



The impact of the gender pay gap and longer lifespans on women's wealth can be reduced by:

- Accounting for individual circumstances, including financial goals.
- Defining and recommending portfolios that maximize the likelihood of achieving these goals.
- Helping women feel more confident about investing and understanding the relationship between risk and return.

Personalized and relevant investment advice delivered in a systematic way is key. We believe the advisory process should be based on a purpose-driven framework.

One example of such a framework is the UBS Wealth Way approach, which helps investors develop an investment strategy optimized for their goals and objectives. Using such a framework, women can define investment strategies that help them clearly understand where their money is and why, and as a result invest with confidence.

Liquidity strategy: The Liquidity strategy consists of resources needed to meet a family's short-term cash flow needs, including regular income from employment or a pension, safe borrowing capacity, and investment assets earmarked for this purpose. The aim of the Liquidity strategy is to provide enough capital to give an investor the flexibility for greater risk-return potential in other portfolios. The strategy helps manage cash flow for near-term spending needs, usually for the next three years. This strategy can help women (and investors in general) with cash management and with making sure that budgeting concerns do not affect investment decisions.

Longevity strategy: The Longevity strategy is focused on helping investors meet their goals over their lifetimes. Its aim is to ensure that they're invested in such a way that they have a high probability of meeting those objectives. The risk here is measured in terms of shortfall risk, in other words the possibility of not meeting investment goals. Such strategies should help women connect their investment portfolio to their objective, particularly addressing their concerns around retirement planning. Looking at risk as the probability of not meeting a goal versus volatility allows for investors to measure success in terms of what matters to them.

Legacy strategy: Once Liquidity and Longevity strategies are adequately funded, investors can invest the remaining wealth in a Legacy strategy. The objective of this strategy is the wealth transfer over the generations as well as having a positive impact on society. As outlined above, these goals tend to be particularly important for women.

Using this framework, investments are positioned as solutions to needs and specific problems that are solved within the context of each investor's circumstances. Such an approach should provide the necessary confidence and clarity that women are looking to help them gain control.

UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. strategies that UBS Financial Services Inc. and our Financial Advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different timeframes. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment. Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.

See references on page 12.

2. Sustainable and impact offering

We expect assets invested in these offerings to increase further in the coming years. As mentioned above, women tend to prefer investing in a way that is aligned with their values, and as their wealth increases, they are well-positioned to drive growth in sustainable investments and effect meaningful societal change with their investment dollars. Specifically, based on recent data from RBC Wealth Management, 74% of women claimed they are interested in increasing the share of sustainable investments in their portfolios.[30] Given the transfer of wealth to this investor segment, we would also expect to see continued growth in sustainable investments.

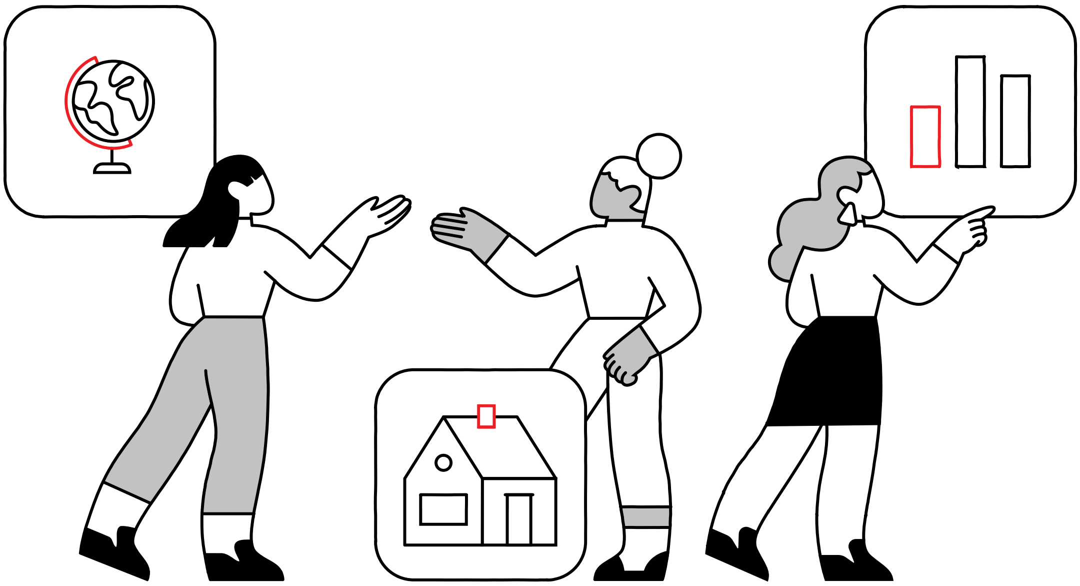
In particular, we also expect a material increase in gender lens-investing. This is a strategy or approach to investing that takes into consideration gender-based factors to advance equality and better inform investment decisions.

As mentioned in the previous section, women tend to have greater confidence in getting their money invested when their values are aligned with their investments and when they see a social benefit. Sustainability-focused advice and solutions offerings can drive positive impact not only by encouraging more women to invest, but also through certain underlying investments' ability to contribute to positive social or environmental progress.

3. Holistic, trusted advisor at pivotal times in their lives

Many women decide to take financial advice at pivotal moments in their lives such as divorce or widowhood. It is key for them to have a trusted advisor to help navigate the daunting task of taking control of their finances. Furthermore, advice should be holistic and reflect the entire financial situation. It should include wealth planning, estate planning, and a life insurance offering.

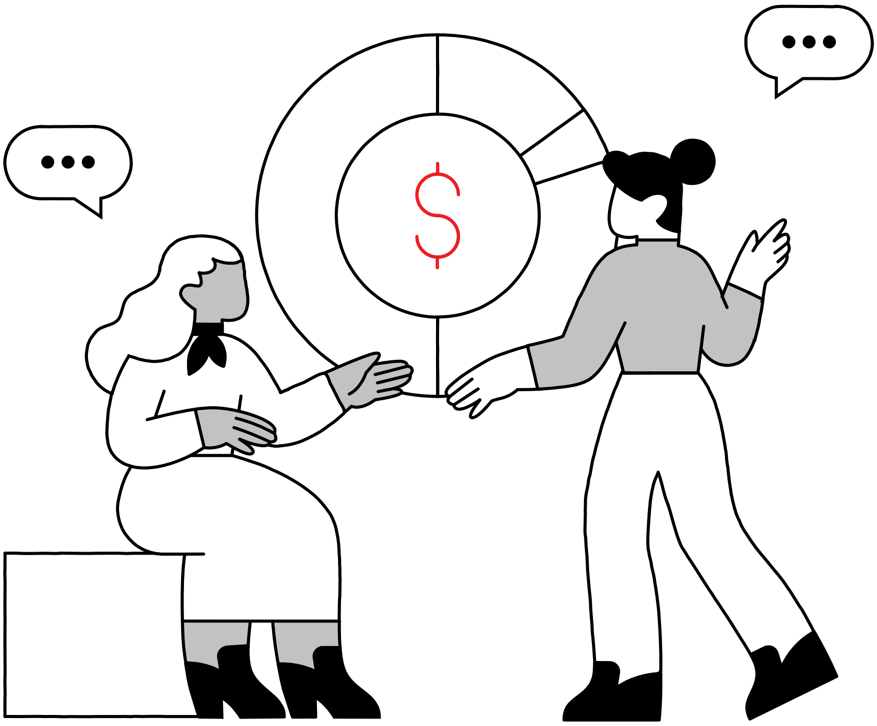
As mentioned previously, women are not a homogeneous group. Goals, experiences, and expectations differ, and advisors should carefully address their respective needs. This includes the needs of widows, next-generation daughters with inheritances, and entrepreneurs. For the latter segment, for example, it is important to understand and incorporate business needs into a wealth plan and offer truly holistic advice.



See references on page 12.

Conclusion

Women´s wealth is growing, and there is a trend toward women wanting and taking control of their finances. Women are not satisfied with the current advice they receive, and they tend to value the importance of expert advice more than men. A 2022 study by BNY calculated that if women invested at the same rate as men, there could be more than USD 3.22 trillion of additional capital to invest globally with over USD 1.87 trillion flowing into more sustainable and impactful investing.[31] To deliver the experience and wealth advice that women are looking for, wealth managers need to reimagine their value proposition.



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