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Title

PSYCHOLOGICAL ASPECTS OF MALE AND FEMALE INVESTORS TOWARDS MONEY MATTERS

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Abstract:

Financial sector is the backbone of any healthy nation. In finance theories it is assumed that people behave rationally and predictably when it is economic/financial matter. In several recent studies it is found that male investors are more overconfident than female investors. When it comes to our financial lives, however, our endearing human emotional biases can have a very serious negative effect on our long-term financial health. The study of how emotion affects investing behaviour is called behavioral finance,

Present paper is an attempt to understand psychological aspects in attitude of gender investing and analyzes whether concern about investment in men and women are homogeneous or not. Using data for 200 households form Delhi working professionals it has been analyzed that males will trade more than females. The reason found that female investors appear both to be more risk averse and to have less confidence in their investment decisions than male investors.

Key Words: Investors, behavior, risk aversion, security, risk funds, secured funds.

Introduction:

According to investopedia behavioral finance is a relatively new field that seeks to combine behavioral and cognitive psychological theory with conventional economics and finance to provide explanations for why people make irrational financial decisions. In the classical and neoclassical Western economic literature, human beings are described as rational, making the right decisions in a situation of complete transparency. This perfect human being--frequently referred to as homo economics--always succeeds in optimizing the intended benefit. Homo economics gets complete information that has an impact on his or her alternatives and decisions--an ideal situation that certainly does not exist in most investors' real lives (http://findarticles.com/p/articles/mi_m1094/is_3_36/ai_78177931)

Most popular theories used are capital asset pricing model (CAPM) and the efficient market hypothesis (EMH).these theories has been serving for financial matters about prediction and explanation of certain events. Traditional economics as well as finance assumes that people want wealth maximization so emotions and other factors are not taken into consideration for this purpose. But it is assumed that gender issue plays a significant role in investing decisions. Women behave in more conservatism manner than men in investing decisions.

Behavioral finance is nothing but the study of why otherwise rational people take some really dumb investment decisions. And it is being argued that an in depth knowledge of the subject can help one avoid a majority of investing mistakes. So far, so good we believe. However, does the study of the subject give you the necessary fixes in real life? May be not. It does give deep psychological explanations of investor mistakes but doesn't necessary tell you what to do in practical terms. Thus, there remains this huge gaping hole in the theory that is behavioural finance and its practical application When it comes to our financial lives, however, our endearing human emotional biases can have a very serious negative effect on our long-term financial health. The study of how emotion affects investing behaviour is called behavioural finance,

In the present paper known and unknown factors have been studied about male and female investors. authors have observed saving and investment habits of male and female investors as part of their income had tried to find out their interest in terms of risky vs. secured funds and how much they are satisfied with their decisions about investments. The field of behavioural corporate finance is a growth area. The theory appears to be plagued with assumptions that could be viewed by some as ad hoc, and it appears that its modelling rigour could be improved. A basic question that arises from the literature is whether managers dealing with an irrational market, or whether a rational market dealing with irrational managers, or both. The papers adopt one approach or the other, but some synergistic approach would appear to be valuable. The paper discusses the important issue of how to budget capital in a world where investors are irrational. In his model, investors mis-assess the cash flow of the firm by a random amount. investors's goal is to maximize the current stock price, then the discount rate should not be the CAPM rate but a rate that adjusts for the error made by the investor (which can be obtained from misevaluation proxies such as book/market). On the other hand if the goal is to maximize long-run value, the hurdle rate equal to traditional CAPM cost of capital, with the proviso that the beta used in the CAPM formula uses the unobserved rational beta that can be measured using accounting numbers and cash flows, as opposed to returns.

Review of literature:

There is insufficient data available for comparison for necessary control variables. The data typically collected by banks, financial institutes, stock exchanges etc. are limited to their plan specific information only.

Present article explores some of the issues in financial decisions that have been observed from male and female investors “behavioral finance," of psychological factors that are excluded from conventional analysis. "Modern Portfolio Theory" (MPT) are recognized even in introductory economic literature such as Samuelson and Nordhaus (1995), who say about Sharpe's work that, "every good portfolio investor will use these techniques to bolster his or her intuition in choosing stocks and bonds."

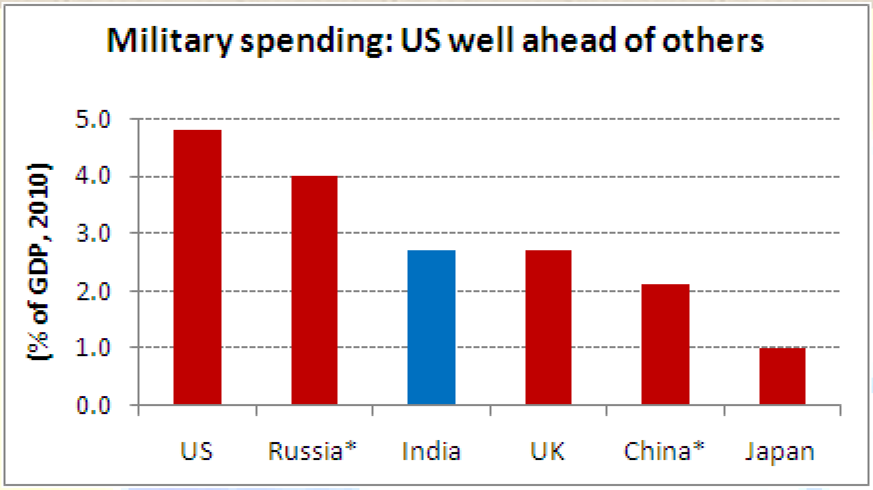
The evidence on portfolio choice of individual investors is rather scant at this point. However, Goetzmann and Kumar (2003) show that individual investors who are young and less wealthy hold more under-diversified portfolios, suggesting that they may exhibit stronger behavioural biases.

Huberman (2001) indicates that investors have localized preferences for stock by documenting their preference for holding stocks in a regional telephone company in preference to other investments.

Frieder and Subrahmanyam (2005) present evidence that individual investors prefer stocks with high brand recognition, supporting the familiarity hypothesis.

The paper by Robert (2001) investigates the risk/gender difference for professionally trained investors. It is found that women investors’ weight risk attributes, such as possibility of loss and ambiguity, more heavily than their male colleagues. In addition, women tend to emphasize risk reduction more than men in portfolio construction. While gender differences appear to influence perceptions of risk and recommendations to clients, these differences tend to be the most significant for assets and portfolios at risk extremes.

Estimates the US may be going through one of the toughest times in economic terms but that has not stopped the world's largest economy from flexing its military might. As today's chart of the day shows, the US was head and shoulders above the rest when it came to military spending for the year 2010. Despite having the world's largest GDP, its spending on a percentage of GDP basis was still the largest in the world. In fact, as The Economist points out, at close to US$ 700 bn, the US' defence spending is bigger than that of the next 17 countries combined. India spends quite heavily on military but in absolute terms it lags the firepower of its bigger, more powerful neighbour China. As per estimates, China spent nearly US$ 120 bn on defense in 2010 as compared to US$ 41 bn spent by India.



Source: http://www.equitymaster.com/5MinWrapUp/detail.asp?date=6/9/2011&story=3&title=Is-this-the-most-rational-way-to-invest

Research Methodology:

An ideal study for above research topic requires detailed demographic information for each individual in the sample, information on investments by males and females on secured funds and risk funds. Moreover the optimal data set would be constructed to be representative of the population so that more general conclusions can be drawn.

The present study is exploratory in nature.

Objectives of the study:

1. To know the opinion of many individual and women individual about saving and investment
2. To explore the views reservations about risk taking in investment in male and female investing

3. To understand psychological aspects in attitude of gender investing
4. To analyze whether concern about investment in men and women are homogeneous or not

Research Design:

Data and sample Size: Primary as well as secondary data has been used for present paper. Secondary data from websites and Journals and primary data from 200 people. Based on deliberate sampling.

Three samples were taken from 100 men and 100 women between 20-50 years of service class having salary more than 2, 00,000 p.a. But below 5, 00,000 p.a.

Implication for difference in male and female investing:

There are 2 different types of investments: either money can be invested in banks, corporations, government, international companies or return is received in the form of interest i.e. Debt or money can be accumulated through purchasing stock as shareholder while investing i.e. Equity

EXHIBIT 1

	Male	Female
Saving part of income	15%	55%
Investing part of income	65%	20%
Long term secured investment	24%	76%
Investing in risky stocks	70%	20%
Investment in bank accounts	37%	63%
Dissatisfaction in money matters	20%	13%

Findings:

55% of women were saving and investing their 20% of income while it was only 15% in men.76% of women had long term objective but 70% of male had invested for getting benefits from fluctuations in stocks 83% of investors are not satisfied with their investments out of which 67% are male and 13% female. female investors were more concerned about their money matters 35% as compared to male counterparts 27%.dissatisfaction with their investment choices were observed as 13% of female and 20% of male investors were worried about their present investment decisions. About 63% of females have investments in their saving accounts in banks and 70% of men were observed financial risk takers which show females are more concerned in saving than investing. Only 20% of female respondents were investing in stocks. To know what psychological aspects work under investments decisions in male and female investors, we found females rarely spent time on this issue. Most of the females only devoted time just as 2-5 hours in a month but male counterparts were busy in these decisions most of the time. Men were found introvert about discussing losses in comparison to women which were found extrovert for the purpose. But males were more rational in investing as they tend to go on researches and indexes available from different sources but women were conservative as they liked to invest after discussing only with their closed ones.

EXHIBIT 2:

Criteria of Investment	Male	Female
Time spent	Most of spare time	2-5 hours in a month
Reaction towards losses	Handling themselves	Talking with family members
Fear about investment	Losing money	Failure noticed by others
Comfortability with	Significant facts	As much information available
Major investing force	Researching indexes and reviews	Discussing with closed ones
Investment style	Innovative	Conservative

CONCLUSION:

Women investors are more conservative than men. A large percentage of women like to invest in secured funds even if return is less. Married women also prefer to less risk securities than married men. Mostly females seem to abhor utilizing wealth in a structured fashion which is less risky more secured. They manage their household budget effectively, also arrange for rainy day different from male investors take risk to get more and more.

This gender difference is due to income, wealth and employment. There are psychological factors working with the matter also. Most male spare their time, exchanging investment matters, while females only devote only 2-5 hours per month. it shows women has less interest the reason may be personal, busy ness or otherwise but they discuss more than men about their investment decisions whereas male don't discuss much but they do more as they are concerned with losing their money but women are more concerned about what other will they if they lose their money so they get information wherever they can but male are concerned with only relevant information for this they observe indexes and researches whereas females discusses only with nearest and dearest. It shows women are conservative in money matters on the other side males are innovative in financial decisions they dare to take risks.

Men mostly like to invest in Equity but women like to invest in Debt.

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