



Gender Diversity Of Investors Of Mutual Fund And Factors Influencing Their Decisions

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Abstract: Investing is a vital component of wealth-building, allowing individuals to harness the power of compounding and navigate the delicate balance between risk and return. While many people understand the importance of saving, the potential growth through investments significantly outpaces mere savings, provided that informed decisions are made. In this context, understanding the nuances of risk tolerance, financial literacy, and the strategies used in investment decisions becomes crucial. However, there remains a persistent question about the role of gender in the investment process, particularly with the continued presence of gender disparities in many sectors, including finance. This research explores the gender dynamics of investment decision-making, seeking to uncover whether men and women approach investing differently, particularly in terms of risk tolerance, financial literacy, and overall investment strategies. While historically, men have dominated financial decision-making spaces, women are now more actively involved in financial markets, becoming financially independent and increasingly knowledgeable. Despite this, studies show that women tend to adopt more conservative investment strategies compared to men. This paper delves into these differences and investigates the implications of such trends, aiming to understand how societal expectations, financial literacy, and gender-related factors shape investment decisions. The findings will contribute to a broader understanding of how gender influences the financial landscape and inform strategies for more inclusive and equitable financial education and advisory practices.

Index Terms - Savings, Investment, Investment decisions, Mutual Funds, Gender Dynamics

I. INTRODUCTION

Saving money is important, but it's not the whole story. The first step for prudent savers is to invest in money market accounts or set aside a sufficient amount of money in a savings account for emergencies. However, after building up four to seven months' worth of readily available funds, investing in the financial markets brings a variety of potential benefits.

Investing is a significant step toward allocating your funds and potentially boosting your wealth. Your money may increase in value and surpass inflation if you make astute investment decisions. The strength of compounding and the trade-off between risk and return are the main factors impacting an investment's potential for higher growth.

“Compounding is the eighth wonder of the world. He who is able to understand it, earns from it ... he who doesn't ... pays for it”- Albert Einstein

To put it simply, compounding is the process by which dividends or profits from an investment are reinvested. Further gains are then produced by these revenues or dividends. Therefore, it is also possible to say that compounding proceeds occur when our investments earn money from previously generated income. To take

advantage of the potential power of compounding, for example, you can consider reinvesting dividends on stocks you invest in.

"In investing, what is pleasant is scarcely ever profitable." — Robert Arnott

The market risks and possible returns of various investments vary. Risk is the possibility that an investment will perform less well than anticipated or even lose value. The amount of money you receive from the assets you invest in, or the rise in the investment's overall worth, is known as return.

You may spasmodically need to make an effort to come out of your comfort zone in order to make major progress. Pinpoint the boundary of your comfort zone and try taking unpretentious steps outside of it.

Knowing one's financial needs and making specific financial decisions are necessary for an investor to be basically right. The investor must be aware of his or her investment style in order to do this. Yet, selecting an investment solution can be particularly challenging because the available options come in a large range of return measurements.

Individual stock purchases can be a way to attempt and increase your wealth in the market, but they come with a lot of risk. Also, selecting the companies to invest in necessitates thorough pre-research.

Mutual funds are a wonderful choice for consumers who desire a more convenient investment method with fewer charges, less risk, and more diversity. Mutual funds function by merging the funds of a bunch of investors. Following that, stocks, bonds, and other securities are acquired with those funds. Mutual funds give investors meteoric diversification because they invest in a collection of businesses. Investors in mutual funds participate in the fund's gains and losses.

While knocking the market routinely over the long term is strenuous to achieve, actively managed mutual funds typically strive to do so, whereas passively managed index funds try to mirror the market's performance. With mutual funds, investors have many options for trying to increase their money, including funds that offer both bond and stock investments. The choice between equities and mutual funds is a challenge for most investors. The issue is purely arbitrary. According to recent research, 31% of Indians invest in mutual funds, whereas only 3% do so on the stock market.

II. THINGS TO BE THOUGHT ON, BEFORE MAKING AN INVESTMENT DECISION

i) Drawing a personal financial course of action

The first step in making an effective investment is determining your goals and risk tolerance, either by yourself or with the help of a financial professional. There is no guarantee that your investments will provide a return. However, if you understand the reality of saving and investing and you stick to a sensible strategy, you should eventually be able to attain financial security and reap the rewards of prudent money management.

ii) Estimate your comfort zone in taking on risk Every investment has some level of risk.

It's important to keep in mind that if you want to purchase assets like stocks, bonds, or mutual funds, you could lose all or part of your money. The advantage of taking on risk is the potential for a higher investment return. Investing in riskier asset types, such as stocks or bonds, would probably yield a higher return than sticking to safer assets if your financial goal has a longer time horizon.

iii) Consider a suitable mix of investments.

By including asset classes with fluctuating investment returns in a portfolio under different market conditions, an investor may act as a defender against significant losses. Additionally, since they won't be affected by the same events, selecting assets that are negatively linked may help the investor reduce risk.

- iv) Consider rebalancing portfolio every so often
Returning your portfolio to its original asset allocation mix is known as rebalancing. Rebalancing will bring your portfolio back to a manageable level of risk and ensure that one or more asset classes do not collapse out of proportion.

Also, it is very important to start investing at a young age because it allows young investors to take more risks and have an opportunity to earn better profits. Starting young also makes investors more aware about their investing style and helps them gain more knowledge about the financial markets with time. That is why it is said that it is important to start investing while we are in our 20's because we will have a long time to make up for our losses.

III) Investors are drawn to mutual funds for a variety of reasons

- i) Liquidity
The investor might find the ability to get back units at any moment the most attractive advantage of investing in a mutual fund.
- ii) Diversification
Diversification lowers down the risk that is associated with creating a portfolio, and it further lowers down the investor's risk. Since mutual funds are made up of a bunch of securities, investor interests are barricaded by chance if one of the other securities they purchased declines.
- iii) Knowledgeable Management
An investor who is a beginner might lack professional knowledge and information about investing. There are professionals who run and manage mutual funds. The professionals gather funds from clients and distribute them among various securities, sanctioning the investors to make a profit.
- iv) Springiness to invest in lesser amounts
A very important benefit of mutual funds includes investing in smaller amounts also. For stocks a person might need minimum of thousand bucks but guess what for mutual funds you can even start investing with rupees ten only. This makes it accessible for everyone who wants to enter the world of investing.

IV GENDER DYNAMICS IN INVESTMENT DECISIONS

A very strong woman made a very strong message. Despite the fact that we are in the twenty-first century, there are still some professions where men and women are not treated equally. I want to know if this difference exists in the world of investing through my research.

The choices we make today will determine how the world will look tomorrow. People making investing decisions on a daily basis is a fascinating topic since the choices they make today will determine their profits or losses tomorrow. Indeed, not every investment will result in a profit because the investor is not always assumed to be sensible.

The investor is influenced by a variety of things, including overconfidence, framing effects, poor judgement, or just a general lack of understanding. If a person learns how, where, and when to invest, it can actually have a big impact on their future. Being financially literate is crucial for an investor's success since it allows him to select the investment that best suits his needs. In essence, everyone makes investments at some point in their lives, whether it be through bank deposits, pension plans, savings plans, or the acquisition of various sorts of insurance. Every investment entails risk and a potential return.

The investor must determine the level of risk and return, and for that, he needs extensive expertise. Since men and women are almost equally involved in financial decision-making in the majority of industrialised and developing countries, gender differences have changed. Compared to a few years ago, when the gender gap was wider in many nations and males dominated the financial industry and dominated the decision-making process. Considering that both men and women are employed in many regions of the world in the current age, it can be appropriate to examine their innate tendencies to determine whether they behave differently while making investment decisions.

However, more and more financial research now come to the conclusion that women invest their asset portfolios more cautiously than males do. This conclusion is generally in line with the "common wisdom" of financial services providers. Women have become more involved in Indian society over time. They participate in investing decision-making just as much as men do, and they are largely financially independent.

Some of the factors listed below are noticed by many researchers and they claim that visible difference is seen when male and female investors are compared based on these factors.

i) Risk tolerance

Men and women have different levels of risk tolerance since men tend to be more assertive and aggressive while women are often more expressive, according to studies. When a person interacts with a rival, their outlook on the future (optimistic or pessimistic), or whether they consider improving themselves are all indicators of their self-efficacy. Even while numerous research indicate that men and women have different risk tolerances, there is generally no solid proof that risk tolerance is a biological attribute. According to Brooke Harrington, a sociologist at Brown University, women are at "demographic risk," which means that because they are mothers, they tend to retire earlier and rely on pension benefits. According to a study, women are more likely than males to choose investments that are less hazardous, less volatile, and exhibit less market activity.

ii) Financial literacy

Financial literacy has a favourable impact on an investor's financial performance and position, according to empirical research. Investors that are financially savvy are far more effective at creating budgets, saving money, and managing their costs. To ensure he will get a good outcome, each person should be able to make an appropriate financial decision. Nonetheless, it has been observed that investors' grasp of financial problems is both objectively and subjectively constrained because they have shown to be unable to acquire a high level of financial knowledge and to be unmotivated in that regard. The gender gap in financial literacy has been the subject of numerous studies in the past. According to empirical research, women frequently have worse financial literacy than males. It is commonly acknowledged in academic research that gender differences in financial literacy may play a role in how differently each gender makes investment decisions. This is mainly due to the factualism that many countries have been inadequate when it comes to financial education since the Asian Development Bank (2013), Australian Securities and Investment Commission (2013), Financial Literacy and Education Commission (2011) have all come up with one strategy: to improve financial literacy via financial education programs. These programs had been premeditated mainly because it was found that women were vulnerable since they had less financial knowledge compared to men.

iii) Causes of Wealth, Income and Employment Differences Discrimination

It has been demonstrated that gender discrimination in the job market affects the outcomes for women in the labour market and can account for their lower pay. A bipartisan federal commission studying discrimination in the workplace (commonly referred to as the "glass ceiling commission") recently released a research study which concluded that the glass ceiling exists. According to anecdotal evidence, women are generally given more conservative investing advice than men, either because it is assumed that they are more risk averse or because the investment advisor feels that they "should" be. In the first situation, counsel is given based on the perception of the average willingness of women to take risks rather than on the individual's desire to take risks, which is an example of statistical discrimination. Managers are said to experience some of the same misconceptions as financial advisers, according to anecdotal evidence. They might try to "protect" women by preventing them from being promoted into more dangerous positions, such commission-based occupations.

iv) Women's responsibility for dependent care

Women's work lives have a tendency to be shorter and, on average, more interrupted than men's because of their obligation for taking care of dependents. For reasons related to childrearing, child care, and elder care, women are more likely to take time away from their jobs, which makes it challenging for them to benefit from long-term investment growth in retirement funds. Women are

still the main caretakers in households, taking care of the young and the elderly. According to the biological viewpoint, women are less risk-averse than men because of their larger biological responsibility for reproduction.

V) REVIEW OF LITERATURE

Vickie L. Bajtelsmit, Alexandra Bernasek (1996) in their study “Why Do Women Invest Differently Than Men?” surveyed the facts that are known and still unknown with respect to gender differences in investing. Factors such as Biology, dependents, discrimination, gender difference in income do have an important role to play in the investment decisions.

Markovich and DeVaney (1997) their research has also shown inconclusive findings regarding the correlation between gender and financial behaviour. It was found gender differences in financial knowledge, as males were more knowledgeable about personal finances and investment options than females.

Powell and Ansic (1997) found that gender was the most important explanatory factor affecting confidence in investment decisions. Females were less confident about their decisions after controlling for factors such as age, experience, education, knowledge, and asset holdings.

Peggy D. Dwyer, James H. Gilkeson, John A. List (2001) in their research study “Gender differences in revealed risk taking: evidence from mutual fund investors” Investigate whether investor gender is related to risk taking as revealed in mutual fund investment decisions. They found 21 out that women exhibit less risk-taking than men in their most recent, largest, and riskiest mutual fund investment decisions. More importantly, they found out that the impact of gender on risk taking is significantly weakened when investor knowledge of financial markets and investments is controlled in the regression equation.

Hilgert et al. (2003) found that personal experiences about financial matters from different sources were highly correlated with positive improvements in financial behaviors. Research has suggested a financial socialization model that links financial socialization to financial experience, which in turn predicts their financial attitudes and behaviors.

Rosplock (2006) conducted a study to determine the knowledge, involvement, awareness, decision making, attitudes, and wealth transfer intentions of 115 women in their 50s. Obtained through an online survey, telephone interviews, and an online focus group, the findings revealed that women perceived that they had the greatest knowledge of estate planning and the least knowledge of insurance planning.

ALEX WANG (2010) in his research paper “Younger Generations” Investing Behaviors in Mutual Funds: Does Gender Matter?” Four aspects of younger generations” investing behaviors in mutual funds were recorded and analysed and they included frequency of information search, frequency of investing, and performance of investments in mutual funds. This study revealed that gender, income, knowledge, and experience emerge as important personal and social influences on younger 23 generations” investing behaviors in mutual funds. This underscores the importance of financial socialization of younger generations at school and home.

Welch, Steven and Wang, Yunqing(2013) in their research study "Is Manager Gender Important in the Performance of Mutual Funds?" researched and analyzed whether there are differences in peculiarities and presentation of mutual funds produced by the manager's gender and also analyzed production within funds over time in order to evaluate the impact of changes in management's performance. They found some evidence that the percentage of female managers managing a fund is negatively related to the fund's performance over time.

Berk, J. B., & Binsbergen, J. v. (2015) In their study “Measuring Skill in the Mutual Fund Industry” the objective of this paper is to re-examine whether or not mutual funds earn economic rents without possessing skill. In this paper they rejected the Null Hypothesis that mutual fund managers have no skill. We show that the average mutual fund generates value of about \$2 million/year.. Not only do better funds collect higher aggregate fees, but current aggregate fees are a better predictor of future value added than past value added.

Bibi Maryam Jawaheerl & Vikneswaran S/O Manual (2016), in their study “Gender Differences in Investment Decision Making Among the Working Class of Mauritius” attempted to find differences in working women and men who were a part of this research with an objective to find whether gender differences exist in investment decision making. Mauritian women were found to view investment decision making as a stressful process, while the men were more at ease with it.

The lower risk tolerance of women is thought to be associated with the fact that they have lower salaries, therefore, they might be less enthusiastic to invest in high-risk investment options. Moreover, the fact that both men and women do not have a strong knowledge in the financial field might be the reason why no gender gap was detected.

VI) CONCLUSION

In conclusion, while saving money is essential, it represents only part of a successful financial strategy. Wise investment choices are crucial in building long-term wealth and combating inflation, with compounding being a significant factor in maximizing investment growth. However, investment decisions should be guided by personal financial goals, risk tolerance, and informed strategies to ensure a balanced and diversified portfolio. It is also evident that factors such as financial literacy and risk preferences impact investment decisions, with gender dynamics playing an important role. Although there are noticeable differences in risk tolerance and financial literacy between men and women, the growing participation of women in the investment world signals a shift toward more equality. To succeed as an investor, one must carefully consider these variables, continually educate themselves, and make decisions that align with their financial goals, ultimately helping them build a secure financial future.

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