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Are women more risk-Averse than men regarding investment decision?

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ABSTRACT

This paper emphasizes the significance of how gender influences the decision of an individual while taking investment decisions. It investigates the possible impact of gender on investment behavior, risk tolerance, and preferred investment avenues. Prior research has investigated of female investors having lower risk tolerance than men and tends to steer clear of high-risk investment options. The study made an effort to highlight the disparities between men's and women's investing options and risk tolerance. Differential gender-based investing patterns have been shaped by cultural expectations and traditional gender stereotypes. In several past literatures women have always been underestimated by researchers in the magnitude of investment decision making as several past papers have shown they have encountered various social stigma and that are the possible reasons which have a greater impact on their investment choices. According to research, women frequently have more risk-averse attitudes than men do when it comes to their financial activities. In our present research paper we clearly get a striking disparity in the investment options and a remarkably distinct tolerance level for risk aptitude for male and female investors.

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1. Introduction

Risk is associated with most of the economic exchanges. So, it is not unexpected that a significant number of researches had been conducted in this field to understand how investors take their final decision regarding investment while considering the factor risk. The popular theory of risk-averse decision-making, expected utility, offers some verifiable empirical predictions. Expected utility, however, leaves the agent's actual amount of risk-taking behaviour as a free parameter, accounting for individual variances. To understand it in the broader perspective let us consider the prospect theory, which are more behaviourally oriented. The widespread belief that female investors are not ready to take risk rather they prefer less risky assets than men; this belief is significant since it may help to explain certain significant economic events. According to several empirical research conducted to analyse how risk taking behaviour changes with gender, it is evident that women prefer less risky assets than men (Eckel and Grossman, 2008; Croson and Gneezy, 2009).

Recently, an increased focus on understanding the ways that gender influences several socioeconomic domains, including finance and investing. Traditional theories about the role of gender and also the preconceived notions have influenced society's expectations a lot, which has resulted in differences in decision-making and economic prospects. The pursuit of greater gender equality has made it imperative to consider the influence of gender on investment choices and its potential impact on economic outcomes. Making complicated and multidimensional decisions regarding investments requires analysing opportunities, determining risks, and allocating

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assets. These choices will have a big impact on people's lives, homes, and the economy as a whole. Gaining insight into the ways in which gender may impact investing decisions and results can help to clarify the fundamental mechanisms at workplaces and promote more equitable and inclusive financial systems. According to a survey conducted by Gneezy and Potters (1997) where they have created a scenario in which, the decision-maker is given $X and asked to determine which amount of it, $x, she wants to keep and how much to invest in a riskier option. With probability p, the invested amount provides a dividend of $kx ($k > 1$), and with probability $1 - p$, it is lost. The investor keeps the money that was not invested $(X − x). Next, $(X − x + kx) with probability p and $(X − x) with $1 - p$ are the payoffs. Since p and k are always selected so that $p \times k > 1$, investing has a higher expected value than not investing; so, someone who is risk-neutral or risk-seeking should invest $X, whereas someone who is risk-averse may invest less. According to Charness and Gneezy (2012) in the previous experiment, the participants simply make the decision to choose x. They presented data from every study that tests risk aversion with this approach. Men chose a higher x than women do, which is a persistent gender difference reported despite the significant environmental variables throughout the sets of tests. This is a stunning and consistent conclusion.[1–8]

It is observed that their lies a sharp gender discrepancies in the investment behaviour, according to multiple research investigations. Several researchers have pointed out men and women approach investing decisions in different ways, displaying differing levels of financial knowledge, investment methods, and risk preferences. The biological, psychological, interpersonal, and cultural factors that influence people's attitudes and ideas around money could be the reason for these variations. Women's non-willingness to bear risk may stem from several factors, including not trusting the financial concerns, a reduced exposure to investment options, or a stern wish to protect wealth rather than pursue larger returns. However, males tend to be bigger risk-takers, which mean that they tend to use more aggressive investing tactics which may lead to produce higher rewards or may result in higher losses. Gender differences also go beyond risk choices. Accessing financial resources, getting investment advice, and overcoming conventional gender barriers in the investing industry create barriers for women. Women's engagement in the investing markets might be restricted by unequal access to opportunities and knowledge, which can hinder their capacity to accumulate money and become financially independent. Policymakers, financial institutions, and researchers are putting more efforts to encourage gender diversity and inclusion in investment decision-making thus addressing these gender inequities. A constant effort is made to bridge the gender gap in financial education, increase women's access to investment resources, and create a welcoming climate for women pursuing professions in finance. By creating more inclusive institutions, we can maximize the potential of diverse perspectives and enhance overall financial outcomes for individuals and society as a whole.[9–14]

2. Literature Review

A report published at The Economic Times (2024) a joint poll conducted by DBS Bank and ratings company Crisil, women earners in the metro areas are generally risk-averse, with 51% of their investments held in fixed deposits (FD) and savings accounts, followed by 16% in gold, 15% in mutual funds, 10% in real estate, and just 7% in stock. The data from DBS Bank India's customer insights indicates that a proportion of 10% of female customers have an active fixed deposit, whereas only 5% of male customers who have opened an FD.

According to Jain (2021) women investors are still only prepared to make investments in the financial sectors that are regarded as safe. More investigation revealed that family investing culture or trend is a major factor while making investment-related decisions. The most popular traditional investment options are gold and bank deposits, but the most favourable are the mutual fund investment as they are well-liked among financial investment options.[15–18]

As per Joseph et.al (2020) women who are employed rarely purchase shares and mutual funds. They invest in banks by means of the conventional methods, such as fixed deposits and savings accounts. A small portion of them make investments based on their husbands' opinions. While selecting different investment modalities women investors are much more concerned than male investors.

Ajabnoor and Faisal (2023) illustrate the investing habits of a broad set of women participants with varying professional backgrounds and a modest propensity for risk-taking. While emotional reasons and market conditions can also influence investment decisions, participants also typically rely on a combination of independent decision-making and advice from others.

Numerous scholarly investigations have explored whether women truly exhibit risk aversion while making investing decisions. According to Powell and Ansic (1997), regardless of familiarity, framing, expenses, or ambiguity, unlike men women have a hostile tendency towards risk taking. In a similar vein, some researchers discover that women in professional finance roles behave more cautiously. Moreover, Niessen and Ruenzi (2007) study of professional mutual fund managers in the United States demonstrates that female managers are more risk adverse investors. According to Johnson and Powell (1994), the stereotype depends on the basis of discrimination against women. Because companies have this confirmation regarding women that they are not as risk-takers as men are, they give them fewer opportunities to advance than they do people.

According to Chen (2008) Clarity brought about by a lack of information may make the perceived risk higher. Additionally, due to limited accessibility to information technology, women are at a disadvantage when it comes to acquiring information. As greater uncertainty arises, this can discourage women from taking risks. Every investor in the financial markets also faces pressure. Recent empirical data indicates that when making investment decision under stress women tends to get much more aware regarding taking risks.

Alemany et.al (2020) While, choosing stocks, investing in venture capital, and making acquisitions, women take fewer chances. As described in previous research and conventional wisdom tend to indicate that women really like to take very less risk compared to men.

Hibbert et.al (2008) contends both are uniformly risk-averse when people have the same educational background and financial literacy. They have discovered factors, such as age, wealth, income, marital status, race or ethnicity, and the total number of child under the age of 18 living in the household, influence the relationship between gender and risk aversion.

Watson and McNaughton (2007) implied that women pick more conservative investing strategies than do males, the crucial reason why women's predicted retirement benefits are lower is because they make less money, which has an impact on the amount they set aside for their superannuation plans.

Croson and Gneezy (2009) explored the differences in risk appetites between genders, which are an important consideration when making financial decisions. They examined how both the genders differ from one another in terms of their willingness to take on financial risks and finds that, women are mostly less risk-tolerant than men. The results imply that risk preferences vary by gender and may have an impact on investing decisions, with women possibly being more cautious investors.

Barber and Odean (2001) Assessed how gender stereotypes and overconfidence affect investment decisions. The study found that men seem to have an excessive amount of confidence in their abilities to invest, which leads to more trading and fewer investment gains than women. The findings suggest that variations in risk-taking and confidence between genders may have an impact on investing performance.

Terjesen and Singh (2008) evaluated how gender diversity influences the investment decision of the corporate boards. The findings indicate a correlation between gender diversity within a company and positive investment outcomes, implying that more women on boards could lead to more deliberate and long-term investment decisions. The research highlights how significant gender diversity is in governing bodies for enhancing investment strategies.

Barber and Odean (2000) monitored the trading patterns and financial results of specific investors. They pointed out men typically trade more often and use speculative investment tactics, which reduce investment returns. And women get better returns when they invest in a more conservative manner. They also analysed in the study, behavioural biases are distinct for male and female investors and it can heavily affect investing decisions and results.

3. Research Objectives

The prime objectives of the study are as follows:

1. To analyse if there is any significant difference in investment avenues selected by male and female investors.
2. To envisaged the extent of relationship between gender and financial risk taking capability.

3.1. Research hypothesis

1. There is no significant difference between gender and the choice of investment avenues.
2. There is a significant difference between gender and the choice of investment avenues.
3. There is no significant difference between gender and risk tolerance level.
4. There is a significant difference between gender and risk tolerance level.

4. Research Methodology

For the said study the primary data was collected using a survey questionnaire. For the purpose of data collection, the questionnaire was distributed among stock market investors of Kolkata. The questionnaire asked a number of statements about the concerned demographic. The questionnaire was distributed in both offline and online modes to stock market investors who made investments. A number of survey questions were incorporated to assess the pertinent elements. The internal consistency of the data indicates that the total Cronbach's alpha coefficient is.908. Conversely, the item-wised Cronbach's alpha values, which are also at an appropriate level, show that all the variables in question display internal consistency. After gathering all relevant data, the following stage is to analyse the information to identify a solution and address the research questions.

4.1. Data collection

The primary data was collected from September 2023 to December 2023. A total of 200 respondents returned the questionnaire, for an overall response rate of 80%. The questionnaire was distributed to 250 respondents with the intention of reviewing the results.

Table 1: Respondents categorised by demographic variables

Gender		Age				Marital Status			Educational Level			
Male	Female	18-33	34-49	50-65	Above 60	Married	Single	Widow	Diploma	Under graduate	Postgraduate	Others
108	92	82	64	38	16	79	110	11	55	70	61	14

Table 2: Descriptive statistics

Group Statistics	Gender	N	Mean	Standard Deviation	Standard Mean
Investment Avenues	Males	108	3.0918	0.56317	.07187
	Females	92	2.38576	0.96133	.12968
Financial Risk Tolerance	Males	108	3.1708	1.11519	.16274
	Females	92	2.3457	1.15097	.17368

Table 3: Independent sample t Test

Independent Samples Test		Levene's Test for Equality of Variance				t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2 tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Investment Avenues	Equal variances assumed	24.745	.000	4.857	198	.000	.74536	.15075	.45767	1.03292
	Equal variances not assumed			4.856 79	.857	.000	.74536	. 15760	.42232	1.07608
Level of Risk Tolerance	Equal variances assumed	.018	.900	3.260	198	.002	.73147	.22054	.28724	1.17026
	Equal variances not assumed			3.210 85	.259	.002	.73147	.22103	.25463	1.27189

4.2. Analysis of data and research findings

Using SPSS 23.0; the primary phases of the analysis were carried out, including data screening and parametric tests such as t-tests. Table 1 shows the demographic distribution of the collected samples.

Table 2 shows the descriptive statistics for gender differences in investment pattern the results shows a difference in mean and standard deviation for investment avenues between male (M= 3.09, SD = 0.56) and females (M = 2.38, SD = 0.96) and financial risk tolerance level between males (M = 3.17, SD = 1.11) and females (M = 2.34, SD = 1.15).

From the results of the independent sample t-test which was conducted to compare the investment decision making scores for males and females displayed in Table 3 we reject the null hypothesis as it is clear that there is a significant difference in selection of investment avenues between male and female investors. The results also indicate the difference in the level of risk tolerance between the male and female investor of the city of Kolkata so, the null hypothesis is rejected that there is no significant difference between gender and risk tolerance level. For both of our above mentioned hypothesis the null is rejected.

5. Conclusion

The study reveals that male and female stock market investors in Kolkata make different financial decisions. According to the study, there lie the sharp indifferences between the risk taking capacities of both the genders. While men seek higher returns and are willing to take on risk in order to reach their financial objectives, women speculates more when it comes to investing options and prefer risk-free alternatives. The study's findings support previous studies which all pointed out that while taking financial decisions, women are more risk-averse than men.

6. Recommendations

The present study mainly focuses on things classified by gender; researchers who intend to carry out further research are urged to choose objects based on other demographic criteria such as income, age, and occupation as the major emphasis of the object. As several research studies have pointed out that female investors seek for a different kind of interaction with financial professionals than do male investors, the investment industry has recently acknowledged the validity of targeting female investors as a distinct market niche.

7. Source of Funding

None

8. Conflict of Interest

None.

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