November 2018

SAGE
INVEST WITH WISDOM™

ESG Perspectives

Women & Investing

It Starts with a Gap

In 2015, Chief Personnel Officer Cindy Robbins decided that, after months of deliberating Salesforce's pay gap issue with a colleague, it was time to tell someone who could do something about it. Robbins brought the issue to CEO Marc Benioff, who subsequently had the $10 billion company spend $6 million over two years to raise its female employees' pay to be on par with their male counterparts.[1]

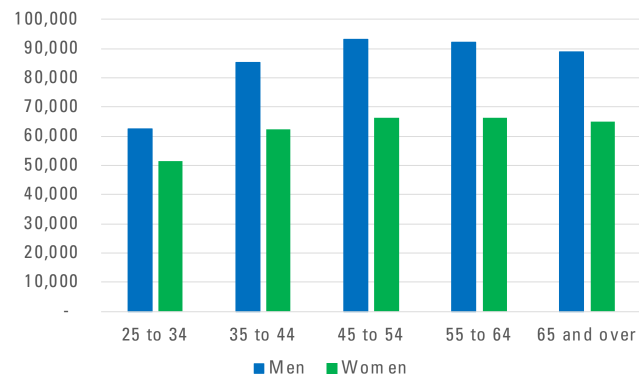
The gender pay gap is a well-known issue — with women making in the ballpark of 80 cents for every dollar a man makes.[2] But this twenty-cent difference is likely to add up to greater than one million dollars over a woman's lifetime -- and that's only income; it doesn't include potential investment returns.[3] This inequity, which often begins in a woman's early 20s (one could argue it starts earlier), has more implications for her life than simply income loss. It affects the way she invests, her family planning, and her retirement needs (it's a well-known fact that women married to men are likely to outlive them).

Are Advisors Ready for Women to Control U.S. Private Wealth?

In just two short years, women are projected to control two-thirds of private wealth in the U.S.[4] Investment advisors, the majority of which are men, cannot afford to be complacent about women and their investing needs. On average, women live four to seven years longer than men, and studies show that 70% of new widows fire their financial advisors.[5] It seems like an obvious opportunity. So why isn't it? One explanation is that men have traditionally been the financial decisionmakers (men are still financial advisors' primary contact), the breadwinners, the partner to continue working while their wives temporarily leave the workforce or drop out altogether to raise their family. But this is changing.

In the U.S., 49% of women say they work because they are their family's breadwinner, up from 37% in 2000.[6] One explanation for this is that the rate of single motherhood is on the rise, having nearly doubled from 1974 to 2015, from 14.6% to 26.4%.[7]

Median Earnings in 2017*



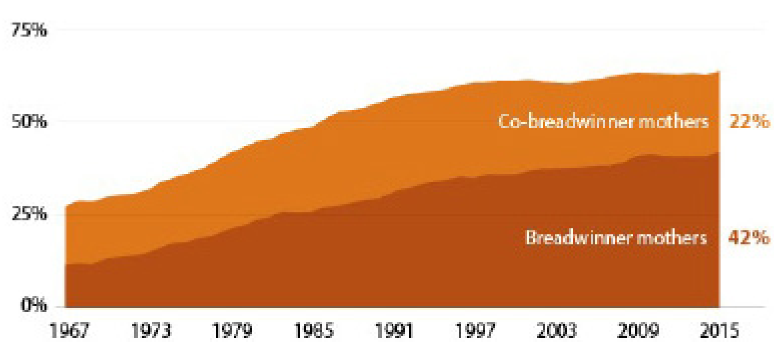
Source: U.S. Census

* For workers with at least a bachelor's degree who worked full-time, year-round.

On the other hand, the perception of women working has changed and is becoming more accepted. In 2000, less than half of all Americans viewed women working while raising children as a "positive development." Now, 78% of Americans view working moms as a "positive development."[8]

The financial advisor community should take note that catering to the male-only financial decision-making is an antiquated practice, and it will simply no longer work

Mothers as Breadwinners, 1967 to 2015



Source: americanprogress.org

for their businesses. Increasingly, America's billionaires are self-made and women. Last year, roughly a quarter of new U.S. billionaires were women.[9] Women are not only going to be in control of the majority of private wealth dollars going forward, but also in control of how these dollars are invested. This change will be a missed opportunity for those advisors who don't actively engage with the women that are currently within their client base and for those who don't work to understand how women investors think and what is truly important to them.

What Women Want

This all leads to an important and fundamental question: when it comes to investing, what do women want? Advisors who understand and acknowledge the differences between men and women's investing habits can tailor their approaches to each. Numerous studies have corroborated the age-old Mars/Venus guide from an investing angle, and the result is a collection of noteworthy takeaways. A study from Fidelity confirms that "although only nine percent of women thought their investments would outperform those of their male counterparts, on average, women performed better than men by 40 basis points."[10] One explanation is the notable difference in the level of risk appetite that women tend to have versus men.

Study after study suggests that women tend to be more risk averse than men. This risk aversion often leads women to invest in conservative funds, such as target date funds, as opposed to investing in riskier asset allocations. Although this might be viewed as a potential damper on return outcomes, studies also found that women tend to be less likely to be overconfident in their level of financial knowledge and less likely to trade in a volatile market. On average, men trade 45% more than women, thus significantly effecting their net return outcomes and leading to much higher volatility in their portfolios.[11] Additionally, women are more likely to seek advice and research their investments; in fact, studies have found that 17% of women spent more than a month researching their investments, versus only 13% of men.[12] The bottom line is that women are more careful in their selection process and tend to take a more steadier approach to managing volatility risk.

Advisor Corner: Observations & Opportunities

Be Inclusive

Women live on average 4-7 years longer than men. (NIH), and 70% of widows fire their financial advisors. Encourage women to be involved in the investing succession plan, so that they feel confident when they're the sole decision-makers.

Be Supportive

Women tend to have more financial experience and savvy than they give themselves credit for. Ask your female clients what their investing goals are and what causes they care about. Ensure them that they're making the right investing decisions.

Be Thorough

Women are more conservative investors than men and tend to stick to an investment plan; however, women also tend to underinvest as compared to their male counterparts. Present thorough scenario analysis (solving for time, risk, and resources), so that women know how much risk/reward exists in various investing strategies. If women thought themselves so risk-averse that it would inadvertently cause them to fall short of retirement savings, would they change their strategy?

Be Sensitive

Women earn less than men. (For every dollar a white man makes, black women earn $0.63, Native American women earn $0.57, Latina women earn $0.54, white women earn $0.79, and Asian women earn $0.87.) Differentiate by offering women investments they care about. ESG investments are a vehicle by which women can invest in equality. The "S" in ESG encompasses gender diversity and equal pay.

Women investors also tend to be long-term, goals-based investors. Women's financial investments are often based on non-financial goals, including lifestyle improvements, security, and independence, as well as values-based investing. Studies show that women are twice as likely as men to consider sustainability alongside return when investing.[13] This points to the fact that sustainable investing is not a short-lived trend, but one that is likely to keep growing in demand, as women control more of U.S. private wealth. Needless to say, sustainable investing should be something that advisors become much more versed in.

Investing in ESG is Investing in Women

Cindy Robbins' 2015 blog post about Salesforce's equality initiatives not only included closing the pay gap, but also outlined how Salesforce was putting a minimum quota on the number of women who attend executive management meetings and speaking engagements, and ensuring the company interviewed at least one female candidate or underrepresented minority for every available executive position.[14] As a result of these efforts, this past July, Salesforce was named No. 1 for the second year in a row as the top U.S. company to "Level the Playing Field Regarding Pay Equality" as part of "50 Companies that Care."[15]

Pay equity and employee diversity are two of the most visible and identifiable "social" issues within environmental, social, and governance (ESG) investing. When we say that women are more likely to consider sustainability when investing, these are the issues we're talking about. Companies that are closing the pay gap – companies such as Salesforce, Apple, Starbucks, and Adobe – would garner high Social Scores.[16]

It is not enough to simply invest in companies that are investing in women by closing the pay gap, employing more women and minorities, and improving community relations and labor standards. As fiduciaries, we have to see these efforts translate into higher returns. We cannot simply lead investors to ESG investments without proving that the return is equal to or greater than the non-ESG investment alternative. And we see these higher returns when there is diversity at the managerial and executive levels of an organization.

According to the Peterson Institute for International Economics, a survey of 21,980 firms from 91 countries found that having a woman in the C-suite increases net margins by one percentage point.[17] That represents a 15% increase in profitability for a typical profitable firm in the survey. Moreover, companies with women in top management positions produce more patents, are more reputable, and have higher retention rates. Part of the explanation is that increasing diversity leads to more and different perspectives, which can increase innovation and avoid "groupthink."

Gen Xers: The Amicable Divorcées

When Gen Xers divorce, do they divorce their financial advisors as well?

Generation X often finds itself quite literally lost in the middle of the more popular Baby Boomers and Generation Y (Millennials). Born between the mid-1960s and the early 1980s, Gen Xers are roughly between the ages of 38 to 53. A hallmark of this generation is the role that divorce played on them. They are sometimes referred to as the "latchkey kids," as divorce rates were the highest in the U.S. during the 1970s and 1980s. Due to early emotional trauma caused by their own parents divorcing, this generation often has taken a different outlook on marriage and divorce, one that financial advisors should consider when advising their married clients.

Divorce rates of Gen Xers are lower than that of Baby Boomers, with about 70% of marriages that began in the 1990s reaching their 15th anniversary, and even higher statistics for marriages that began in the 2000s. For those Gen Xers that do find themselves facing divorce, some have embraced the notion of "conscious uncoupling," which embraces the idea that divorce no longer has to be a war of the roses; but instead, it can be an amicable parting of ways in which kids are supported throughout the process. It is with this new idea of divorce, that financial advisors should take note. It is no longer always the case that the man and woman split in a fury and leave a pile of dust in the wake. If the divorce is indeed amicable, an advisor who engages both parties in a relationship could have the opportunity to hold onto both relationships post-divorce.

Companies that are actively promoting women to top positions include Apple, General Motors, and Williams-Sonoma. Apple is No. 1 on Fortune's "most admired" companies, with women in 29% of its leadership roles; and of 107 top executives, 19 are women. General Motors has promoted women to four of 17 top executive positions, and the company recently named two women to its CFO and head of global human resources positions, making two of the top executives (CEO and CFO) both women.[18] Williams-Sonoma's CEO is a woman, and women fill 57% of its leadership positions.[19]

Equal pay, board diversity, labor standards, community relations -- these are all ESG issues, and they are all women's issues. For advisors who are looking to expand their client base or be more inclusive of their current clients' spouses, offering women the opportunity to invest in things they care about can be a differentiator. Women investors want to invest in sustainable companies without compromising returns; part of being sustainable is investing in women. One could argue that it's a triple bottom line. Who wouldn't get behind that?

Sources:

1. Bort, Julie . "Salesforce has spend $6 million on pay raises for women – and fired an executive." *Business Insider*. April 17, 2018. www.businessinsider.com/salesforce-6-million-dollars-women-pay-raises-fired-executive-me-too-2018-4

2. Connley, Courtney. "Why the gender pay gap still exists 55 years after the Equal Pay Act was signed." *CNBC*. June 10, 2018. www.cnbc.com/2018/06/08/why-the-gender-pay-gap-still-exists-55-years-after-the-equal-pay-act.html

3. Hayes, Jeff; and Hartmann, Heidi. "Wage Gap Will Cost Millennial Women $1 Million Over their Careers." *Institute for Women's Policy Research*. April 10, 2018. iwpr.org/publications/wage-gap-cost-millennial-women-1-million-over-careers/

4. Malito, Alessandra. "Women are about to control a massive amount of wealth but can't find anyone to manage it." *MarketWatch*. May 15, 2017. www.marketwatch.com/story/women-are-about-to-control-a-massive-amount-of-wealth-but-cant-find-anyone-to-manage-it-2017-05-12

5. Carter, Shawn M. "More women are the breadwinner at home, but most still say men treat them differently at work." *CNBC*. March 23, 2018. www.cnbc.com/2018/03/23/more-women-are-breadwinners-but-are-still-treated-differently-at-work.html

6. Polyak, Ilana. "For some widows, breaking up with an advisor is easy to do." *CNBC*. October 11, 2014. www.cnbc.com/2014/10/10/husbands-gone-widows-part-ways-with-advisors-too.html

7. Glynn, Sarah Jane. "Breadwinning Mothers Are Increasingly the U.S. Norm." *Center for American Progress*. December 19, 2016. www.americanprogress.org/issues/women/reports/2016/12/19/295203/breadwinning-mothers-are-increasingly-the-u-s-norm/

8. Carter, Shawn M. "More women are the breadwinner at home, but most still say men treat them differently at work." *CNBC*. March 23, 2018. www.cnbc.com/2018/03/23/more-women-are-breadwinners-but-are-still-treated-differently-at-work.html

9. Mathews, Jessica. "The changing face of America's wealthiest clients." *OnWallStreet*. October 29, 2018. onwallstreet.financial-planning.com/news/the-changing-face-of-americas-billionaires

10. "Who's the Better Investor: Men or Women?" *Fidelity*. May 18, 2017. www.fidelity.com/about-fidelity/individual-investing/better-investor-men-or-women

11. Barber, Brad. "Gender Differences in Investing: Shifting the Financial Services Industry." *UC Davis*. April 23, 2012. gsm.ucdavis.edu/blog-feature/gender-differences-investing

12. "How Woman and Men Invest Differently." *HSBC Private Banking*. March 1, 2018. www.hsbcprivatebank.com/en/discover/news-room/2018/women-men-invest

13. Reynolds, Jennifer. “Will the transfer of wealth to women take sustainable investing mainstream?” *The Globe and Mail*. June 8, 2018. www.theglobeandmail.com/business/careers/leadership/article-will-the-transfer-of-wealth-to-women-take-sustainable-investing/

14. Robbins, Cindy. “Working Toward a More Diverse Salesforce Future.” *Salesforce Blog*. September 2, 2015. www.salesforce.com/blog/2015/08/working-toward-more-diverse-salesforce-future.html

15. Davies, Emily and Kimble, Lindsay. “People’s 50 Companies that Care.” *People*. July 25, 2018. people.com/human-interest/people-50-companies-that-care-2018/

16. Haglage, Abby. “5 companies that have closed the gender pay gap.” *Yahoo! Lifestyle*. April 10, 2018. www.yahoo.com/lifestyle/starbucks-lululemon-companies-closed-gender-pay-gap-213928226.html

17. Blumberg, Yoni. “Companies with more female executives make more money—here’s why.” *CNBC*. March 2, 2018. www.cnbc.com/2018/03/02/why-companies-with-female-managers-make-more-money.html

18. Trop, Jaclyn. “General Motors Is Leading the Charge Toward Gender Equality in the Automotive Industry.” *Fortune*. October 19, 2018. fortune.com/2018/10/19/general-motors-is-leading-the-charge-toward-gender-equality-in-the-automotive-industry/

19. Burns, Janet. “The Results Are In: Women Are Great For Business, But Still Getting Pushed Out.” *Forbes*. September 22, 2017. www.forbes.com/sites/janetwburns/2017/09/22/2016-proved-women-are-great-for-business-yet-still-being-pushed-out/#27260f4b188b

3143-NLD-1/24/2020

5900 Southwest Parkway, Building 1 • Austin, TX 78735 • Phone | 512.327.5530 Fax | 512.327.5702 | www.sageadvisory.com