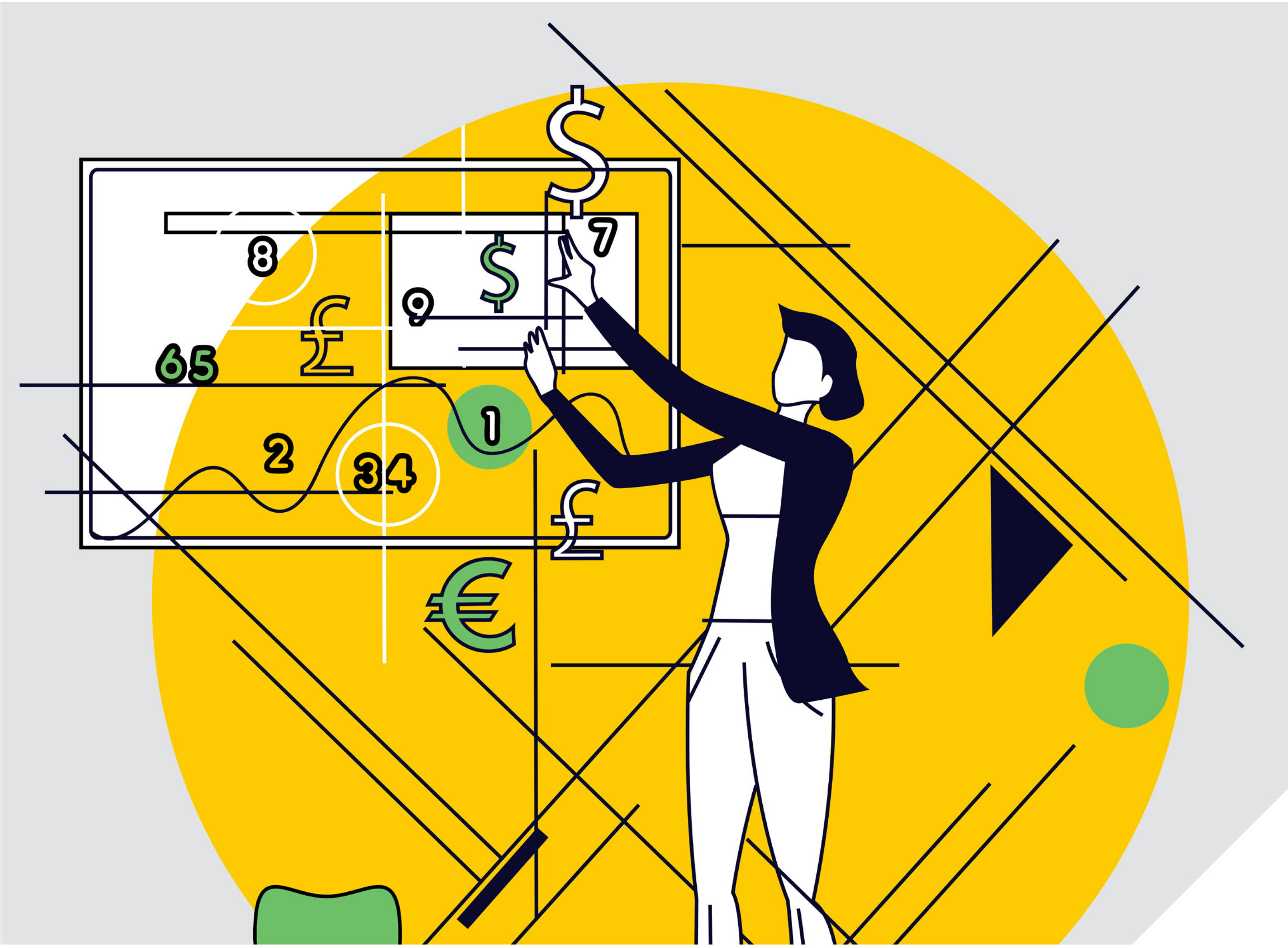
The case for more female financial advisors



In these trying times, many investors are relying on trained professionals to help them understand the markets and stay committed to their long-term goals. While gender should not determine the quality of financial advice, it is noteworthy that eight out of 10 people *giving* the advice are men.[1] Our new societal and economic pressures create a greater sense of urgency for many financial decisions: assessing investment risk tolerance, retirement timelines, college funding, and healthcare costs. Now, more than ever, people need financial "helpers." By increasing the number of female advisors, a greater number of clients can benefit from the unique perspectives and life experiences women bring to help people navigate critical financial decisions. We see "The Great Lockdown" as an opportunity and rallying cry to challenge more women to step into an advisory career.

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WHAT EXACTLY IS A FINANCIAL ADVISOR?

Regulators[2] make a distinction between "investment advisers," who earn advice-based compensation, and "financial advisors," who earn transaction-based compensation. While these are important differences, for our discussion, we will use the general term "financial advisor" to include the multiple types of professionals because many use more than one fee program with clients: commission, flat percentage fee on the amount of money they manage, or even an hourly charge.

The basic question most people have when considering this field as a career is, "what does a financial advisor actually *do*?" While some financial advisors provide transactional services, many modern day financial professionals have adopted holistic, planning-based practices to help their clients set financial goals and choose investments to help reach those goals. This trend is evidenced by professionals earning planning designations. There are now over 86,000 CFP® (Certified Financial Planner) advisors, compared to only 45,000 in 2004, with women making up 23% of CFP® holders (a similar percentage to the total advisor population).[3] Beyond the objective of improving investor outcomes, planning-based practices can also benefit an advisor's business. According to a recent study by Aite Group, the average CFP® professional generates 14% to 33% more income than non-CFP® advisors, even after controlling for years of experience. Revenue increased even more: 40% for a newer CFP® and 80% if they had more experience.[4]

Dispelling misconceptions about becoming an advisor is one of the most important hurdles to clear in order to help more people understand how rewarding a career choice it can be. Educational background is often assumed to require finance and business degrees (women are now the majority of STEM[5] graduates), but we know many top-class advisors with liberal arts backgrounds in English, education, and psychology, to name just a few. No matter the education, many advisors attribute much of their success to non-financial skills: their ability to translate concepts, actively listen, be aware of client emotional needs, and motivations. The grounding principle in choosing the financial advice career path should be the enjoyment of bridging financial knowhow with problem solving for clients.

WHAT MAKES AN IDEAL ADVISOR?

It may come as no surprise that many clients echo the same sentiments when choosing an advisor. When asked about the most important traits in choosing, and keeping, their financial advisor, the characteristics go well beyond just investment knowledge. They look for personalization, expertise, empathy, education, effectiveness, quality interactions, and trust.[6] While financial skill is imperative, easy access to information in the technology era has caused many advisors to distinguish themselves by how well they manage a client relationship and achieve goals, not just how high the returns are on the portfolio of investments. Of course, the competitive advantage goes to advisors who can deliver on all of the above.

The emotional and empathic support advisors offer can also be helpful skills to keep clients committed to investment strategies when they may lack confidence and, in so doing, help deliver better outcomes. Many investors often *reverse* the basic investing formula, "buy low and sell high," and can find themselves buying into a rising market (buy high) and selling into a declining market (sell low). In 2018, when compared with the S&P 500, the average stock mutual fund investor had annualized returns which trailed the index by -5.88% (over 30 years), -3.46% (over 10 years), and -4.35% (over five years).[7] Note that this is actual long-term data, not a function of recent market volatility causing people to trade more frequently. Even when we account for the additional investment management fees versus a "free" passive index, these numbers are a stark reminder that behaviors can have a wasting effect on investment account balances.

Having a high Emotional Intelligence (EI) may also help identify client objectives and concerns that clients may not see. Numerous skills are measured in EI. However, women typically score higher than men in empathy: cognitive, being able to know how the other person sees things; emotional, feeling what the other person feels; and sympathy, being ready to help someone in need.[8] Advisors who combine EI with quantitative and analytical skills can distinguish themselves in the marketplace.

Advisors should also be aware that some female clients feel they are treated differently from their male counterparts. Boston Consulting Group[9] reported that many women around the world were dissatisfied by a lack of respect by the financial services industry, which could explain why 70% of widows fire the couple's advisor after their spouse dies.[10] Statistically speaking, given that many women live longer than men,[11] they will inevitably have sole responsibility for investment decisions. Advisors should be emotionally aware of how they are engaging with their female clients, especially when working with a male and female couple. Being more inclusive and making sure to check in with both people can go a long way to alleviate people feeling "unheard."

Some studies also point to women seeking female advisors. According to a 2013 Insured Retirement Institute study, 70% of women seeking a financial advisor would prefer to work with a female advisor[12] and another study by State Street Global Advisors found 55% of women aged 25 and 34 would prefer working with a female advisor.[13] While gender should not determine effectiveness, fewer female advisors in the industry does highlight the lack of choice some clients will face.

Advisors should be prepared for the nuances of questions like: "Will I have enough money in retirement?' and "Will I have enough money to cover rising healthcare costs?" Investments may solve these problems, but listening and focusing on a client's concerns and goals first sets up a more rewarding and effective relationship. Financial professionals can distinguish themselves and become trusted advisors by knowing that part of their job is to be a financial "therapist," too.

ARE WOMEN BETTER INVESTORS?

Yes, according to some recent studies. The following research identifies key drivers of this success when gender is factored into investment performance.

According to Fidelity Investments[14]:

- Women performed better than men when it comes to investing by 0.4%.
- Women saved an annual average of 9.0% of their paychecks, compared to an average of 8.6% saved by their male counterparts.
- Women added an average of 12.4% to their account balance (IRA, brokerage) compared to 11.6% for men.
- Men are 35% more likely to make trades than women, and men who trade made an average of 55% more trades.

This last point connects to a 2017 study by The Warwick Business School[15] (UK) which tracked 2,800 men and women investing with Barclay's Smart Investor over three years. The men in the study averaged an average return of 0.14%, but women outperformed the benchmark by 1.94%, beating men by 1.8%.

The study identified three key factors that contributed to this outperformance:

- Women traded less frequently (nine times versus 13 times for men)
- Women chose less speculative investments (more diversified funds versus stocks)
- Women had a more long-term perspective

This good news is tempered by a key risk women often take related to investing- sometimes they take too *little*. Behavioral Finance[16] has identified a number of biases everyone faces when it comes to investing. While the studies above point to examples of women overcoming some biases (overconfidence, framing), one bias to be aware of is loss aversion. That is the idea that losses generally have a much larger psychological impact than gains of the same size.

Too often, women can be on the sidelines. According to BlackRock[17]:

- Only 52% of U.S. women have started to save for retirement.
- Sixty-four percent reported stress when thinking about investing, compared to 50% of U.S. men.
- Only 38% of U.S. women invest in the financial markets.
- Fifty-five percent say investing is not for "people like me."
- U.S. women who do invest take a more cautious approach, with 38% willing to increase their investment risk to achieve higher returns, compared to 56% of men.
- Thirty-one percent of women who chose not to invest "feared losing everything" versus 27% of men.
- Seventy-two percent of women rejected "riskier" equities, bonds, and real estate versus 59% of men.

Benjamin Graham's adage is an important reminder: "The individual investor should act consistently as an investor and not as a speculator." Most clients who seek to work with financial advisors do so to reach goals, not just to maximize profit. Funding college, starting a business, or saving for retirement often are the things that bring clients to an advisor. When women focus on investing, the results can be powerful. These qualities can also deliver a positive impact with clients if they apply these skills.

BUSINESS OPPORTUNITY

The financial advice industry is in a period of transition. According to Cerulli,[18] 39% of advisors plan to retire within the next 10 years and succession planning is top of mind for both individual advisors as well as the firms that employ them. For every graduate who comes through a financial planning collegiate program, there will be two advisors becoming eligible for Social Security benefits, creating an anticipated need for over 66,000 financial advisors in the United States this year.[19] Couple this with an estimated $30 trillion[20] dollars transferring from Baby Boomers to the next generations over the next 10 years and you have a very positive business formula for new financial advisors. Demand will outweigh supply. Women looking for either a first career option or, we would posit, especially a career shift, would be wise to consider this opportunity. There is evidence that clients would like more female advisors and someone who has "walked in their shoes" can be a very appealing characteristic. According to Next Avenue contributor Jim Kerr, "The best second-act financial advisers are people with grit who have a history of overcoming adversity and have had a track record of prior success. Integrity, caring and competence are a few other worthy qualities as well. Having had the wisdom of real-life experience, women have an opportunity to be part of the financial advisor workforce in their second-act of life."

As with most competitive industries, the typical challenges still remain: balancing a career, motherhood, and lack of female leaders.[21] However, many firms are taking an active role to find ways to influence companies to improve their diversity, inclusion, and equity programs. Goldman Sachs recently announced that it will not take companies public unless it has at least one "diverse" board member (primary focus will be on women) and the rule will apply for companies in the U.S. and Europe starting July 1, 2020. By 2021, the bank will look for two diverse board members.[22] Awareness and action is driven by a growing body of evidence that this is not only good optics, but also good for the balance sheet. McKinsey's Delivering Through Diversity study reported companies were 21% more likely to experience above-average profitability with gender diversity on their executive teams and a 33% likelihood of out-performance on EBIT margin if there was ethnic and cultural diversity. While correlation does not equal causation, it does indicate that when companies commit themselves to diverse leadership, they are more successful and better able to win top talent and improve their customer orientation, employee satisfaction, and decision making-- and all that leads to a virtuous cycle of increasing returns.[23] In October 2019, The Wall Street Journal reported the 20 most diverse companies in the S&P500 index had an average annual stock return of 10% over five years versus 4.2% for the 20 least-diverse companies.[24] Even more interesting is the fact that the industry leading the way was the financial industry. This lends support to leaders like Sallie Krawcheck, CEO of Ellevest. As she has said numerous times, "The financial industry is in a unique position to improve diversity by supporting women inside the industry and investing in women-owned businesses outside of it. Such efforts can have a wide-reaching impact. People have been socialized to view white men as leaders and everyone else as not. For gender equality to happen, inclinations to homogeneity need to change."

CALL TO ACTION

Advisors are serving a more diverse client base than ever before and, as more women control assets, there is an increasing demand for advisors who can help them with their goals. Investors who want to work with female advisors need a greater supply from which to choose. Companies need to hire more female financial advisors and be accountable in their recruiting, training, and advancement of women leaders.[25] By working together to inspire more women to join our ranks, we can create inclusive workplaces and potentially better outcomes for clients. As the great Maya Angelou said, "Each time a woman stands up for herself, without knowing it, without claiming it, she stands up for all women."

As successful financial service industry professionals with over 75 years combined experience, we believe now is the time for women to claim their rightful share of roles and responsibilities in the field of financial advice. More than ever, clients need guidance to make critical financial decisions. We have found few professional endeavors as gratifying as guiding and empowering others to achieve their own dreams. Skilled financial advisors operate at this level and positively affect clients every day. Our hope is that by raising awareness to the opportunities created by this generational shift in the industry and identifying what makes an advisor successful, more women will consider this as a first career or, perhaps, a "second act." Americans face an unprecedented era of social distancing, market turmoil, and retirement funding challenges. Increasing the diversity of perspective represented within the financial advice industry can only help as our communities determine how best to recover from the economic challenges sure to linger long after "the Great Lockdown" technically ends.

We encourage you to let us know about your experiences as either a client or an advisor regarding this topic. The more we can highlight the benefits this shift will create in our industry, the more likely we can elicit change.

OUR TOP FIVE REASONS WOMEN SHOULD CONSIDER BECOMING AN ADVISOR:

1. Client demand for the skills a female advisor can offer
2. Need for more professionals as incumbent advisors retire
3. Greatest wealth transfer in history occurring over the next decade
4. Industry focus on improving diversity and inclusion
5. Financial planning business model plays to women's strengths

FOOTNOTES

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