HBS | FINANCIAL ADVISORS

WOMEN AND INVESTING

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A Financial Guidebook for Women

Women investors face many challenges to building wealth and securing their financial futures. We developed this resource as a guidebook for women who are seeking perspectives on how to take control of their financial lives. We hope you find useful information that helps you make the most of your financial well-being today and every day.

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Women and Investing

A FINANCIAL GUIDEBOOK FOR WOMEN

Did You Know?

- Women represent **53.2%** of professionals in the American workforce.[1]
- **57%** of women participate in the U.S. labor force.[2]
- American women who turn 65 this year have a life expectancy of **86.6 years.**[3]
- American men who turn 65 this year have a life expectancy of **84.3 years.**[4]
- Median weekly earnings for full-time female workers are **81%** of their male counterparts.[5]
- Median annual income for mother-only families with minor children in the household is **$20,900.**[6]

INTRODUCTION

Where men once dominated financial affairs, the growing presence of women in the workplace and as heads of households continues to be a paradigm shift. As women have taken more responsibility for their long-term goals and financial health, they have become a force to be reckoned with. This brings an array of unique financial needs.

Women investors face special challenges that make financial literacy and advanced planning especially important. For example, women are more likely to outlive their husbands or have divorce disproportionally affect them, making long-term financial strategies especially critical.

We developed this guidebook as a resource for women who are seeking perspectives on how to take control of their financial lives. We encourage you to take notes as you read, and we hope you will find the information useful as you look to the years ahead.

CHALLENGES WOMEN INVESTORS FACE

Women face particular challenges in investing and managing their financial lives that you should acknowledge and explore with your family and a trusted financial professional. Determining the right solutions to your unique financial situation is critical. That way, you have an effective long-term strategy and can pursue a comfortable, secure retirement.

While every woman and every family is different, research shows that American women face many of the following challenges:

In the United States, 57% of people aged 65 and older are women. By age 85, 65% are women.

Source: "Why Men Often Die Earlier Than Women," Harvard University. http://www.health.harvard.edu/blog/why-men-often-die-earlier-than-women-201602199137 [Accessed January 4, 2017]

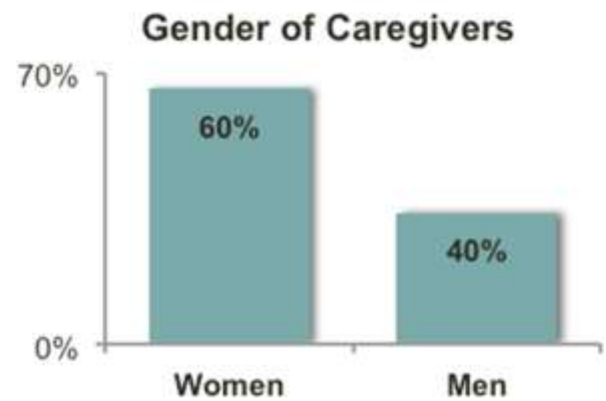
Women Are Likely to Outlive Their Husbands

Based on research about life expectancies, on average, women outlive men. Losing a spouse is heart wrenching, and in a family where the husband manages the finances, a widow might need to quickly take control of family accounts. Without planning, this transition can worsen an already stressful situation and lead to costly errors.

Families can prepare for this eventuality by ensuring that both spouses are involved in managing family finances. However, research shows us that many women are not as involved in their financial preparations as they should be. In fact, an HSBC report showed that many women are not prepared for retirement; just 24% of women in their 50s claimed to have a financial plan in place.[7]

A report by Fidelity Investments also found the following statistics:

- 72% of women are not comfortable making financial decisions on their own.[8]
- 53% of women are not confident enough to talk to a financial professional on their own.[9]



Source: Caregiving in the U.S. National Alliance for Caregiving and AARP. http://www.aarp.org/content/dam/aarp/ppi/2015/caregiving-in-the-united-states-2015-report-revised.pdf [Accessed January 4, 2015]

Lack of involvement in financial affairs can put women in highly vulnerable positions, if anything happens to their spouses.

Women Earn and Save Less Than Men

Women might have fewer earnings and fewer savings than men. While there are many contributing factors, smaller paychecks and more time out of the workforce are two major causes of this disparity.

Women earn less than men in virtually every occupational category, making it more challenging for women to build wealth. Census data shows that despite the important strides women have made in the workplace, women's median annual income for full-time employment is still only 81% of men's — a difference that can add up to a lifetime loss of hundreds of thousands of dollars.[10]

Research also shows that women are more likely than men to be caregivers to their parents, children, and other relatives. This reduces their time in the workforce and the time they spend earning a living.[11] Increased time out of the workforce results in lower lifetime earnings, less retirement savings, and less pension savings, compared to their male counterparts. These factors contribute to the earnings and savings gap between men and women, and can affect women's financial well-being in retirement.[12] In fact, women who leave the labor force early to serve as a caregiver can lose an estimated $324,044 in combined wages, Social Security benefits, and pensions over the course of their lives.[13]

Conservative Investing Can Be an Asset for Women

- Women investors beat men's portfolio performance by 12%.
- Men are 25% more likely to lose money in the market.
- Women churn their portfolios 50% less than men.

Source: "Gender and Investing: Let's Set the Record Straight." SigFig. http://blog.sigfig.com/wp-content/uploads/2015/02/SigFig-Report-Gender-and-Investing-2015.pdf [Accessed Jan. 5, 2017]

Women May Be More Conservative Investors

Research suggests that women are more reluctant to accept risk in their investment portfolios.[14] Risk aversion — pursuing extremely conservative investments or not investing at all for fear of risk — can cause women to end up with returns 10% less than a traditional male investor.[15] In fact, 11% of women are willing to take risks and invest aggressively when saving for retirement, versus 25% of men.[16] But, women also tend to invest in less risky investments and not churn investments as quickly as their male counterparts; as a result, their investing habits have the potential to generate a 12% higher yield overall on a long-term portfolio.[17]

Investing conservatively can be a helpful strategy, but women must be aware they should not be overly conservative. Due to the strong correlation between risk and reward, behaviors such as not taking enough risk can inhibit your portfolio's ability to keep pace with inflation while meeting your income needs. Finding the right balance of risk and reward is key for successful investing. With strategic guidance and proactive choices, women can be very effective investors.

- Women can see their incomes drop by 20% after divorce, with or without children.
- Men can see their incomes increase by 30% after a divorce with children.
- Separated women have a poverty rate of 27% — nearly 3 times more than separated men.

Source: "The Divorce Gap." The Atlantic Monthly. http://www.theatlantic.com/business/archive/2016/04/the-divorce-gap/480333/ [Accessed Jan. 5, 2017]

Women Are Disproportionately Affected by Divorce

Divorce is a painful transition for a family to endure, and switching from a dual-income to a single-income household brings many financial challenges. Women also face an additional challenge: after divorce, a typical woman experiences a 73% drop in her standard of living largely due to the fact that women more frequently raise children alone and take on the time-consuming financial obligation. Meanwhile, the husband's standard of living improves by 42%.[18]

In addition, divorced women might become solely responsible for their earnings, savings, and retirement planning, and they are much more likely to be the sole custodial parent; fathers account for only 1 in every 6 custodial parent (17.5%).[19] Whether or not women have children, they can see their income drop by 20% from divorce. Their potential for entering poverty is also nearly triple that of men.[20] As many women have found, there is life after a divorce; however, it is critical to anticipate and plan for its potential effects on their savings and retirement goals.

There is no doubt many women face unique obstacles to growing their wealth. Having a realistic perspective on your financial needs and proper planning can help you overcome these challenges and build a long-term strategy.

THRIVING DURING LIFE'S TRANSITIONS

Preparing for the future is one of the most important aspects of financial management, and a lack of involvement leaves women potentially exposed to financial hardships later in life. **Don't expect your spouse, partner, or other family member to ensure your financial security. You must take an active role in your financial future.**

While designating one partner to take the lead in financial research or planning might seem logical, it can greatly disadvantage you. We suggest you and your spouse discuss your financial needs and decisions, and move forward together on a fully informed basis. This approach will help ensure you and your family better prepare for the future — and that, overall, women become less financially vulnerable. Thinking about and planning for unpleasant events, such as the loss of a spouse, can be difficult, but doing so can help you protect yourself and secure your future.

Women have a 26% larger retirement savings shortfall than men:

- Median 45-year-old male's projected savings shortfall for retirement at 65: $212,256.
- Median 45-year-old female's projected savings shortfall for retirement at 65: $268,404.

Source: "2015 Gender Gap in Financial Wellness." Financial Finesse. http://www.financialfinesse.com/wp-content/uploads/2016/01/2015-gender-gap-report.pdf [Accessed Jan. 5, 2017]

We often meet with prospective clients who are divorced or widowed and are unaware of what they actually own, where their money resides, or how to access it. For this reason, we created our "Peace of Mind Checklist" as a simple tool for organizing important financial documents. We encourage you to complete this checklist and to share it with those who might need to help you deal with an unexpected situation.
Please contact our office at (336) 524-9010 to receive your personal copy.

Source: "2015 Gender Gap in Financial Wellness." Financial Finesse. http://www.financialfinesse.com/wp-content/uploads/2016/01/2015-gender-gap-report.pdf [Accessed Jan. 5, 2017]

Engage your husband, partner, spouse, or other family members in regular discussions. This way, everyone is kept informed of important financial plans and future goals. These discussions don't have to revolve around worst-case scenarios. A fun activity can be to dream together about future goals or retirement plans. To help foster financial wellness in future generations, we encourage you to bring your children into the conversation. Ideally, they will openly talk about and understand the family legacy and your estate plans.

4 INVESTMENT PITFALLS TO AVOID

Mistake #1: Failing to Plan for Longer Life Expectancy

As we have shared, women generally live longer than men. For that reason in particular, women should consider using investment strategies that balance a sustainable withdrawal rate with the right measure of risk — and consider inflation. Balancing these factors will help you have the income you need for the rest of your life.

Mistake #2: Failing to Plan for Health-Care Expenses

Because women have a longer life expectancy, long-term care can become increasingly expensive for them. According to the annual Genworth Cost of Care Survey, the yearly average cost of assisted living in 2016 was $43,539. The annual cost of a private room in a nursing home was $92,378. The average annual cost of having a home health aide was $46,332.[21] These costs are just a snapshot of key retirement health care expenses.

Considering their high costs and unpredictable nature, health care projections should be a part of your long-term financial strategies. Major medical expenses can easily wipe out retirement savings, but there are many strategies to help avoid outliving your money. With our assistance, you can make plans to help ensure you are able to take care of your medical needs without adversely affecting your retirement lifestyle or becoming a financial burden on your family.

Mistake #3: Making Emotional Investment Decisions

When markets swing, emotional decision-making can wreak havoc on even the most carefully designed investment plan. Many investors lost money in the mortgage meltdown of 2008. Some even cashed out near the bottom, fearing the markets themselves were collapsing. Not only did these investors lose money by selling low, but if their money is still sitting on the sidelines, then they've missed out on the financial recovery as well. While the markets have rebounded since the 2008 crash, the importance remains of avoiding irrational, emotional choices.

When major investment decisions are only a click away, many investors give in to their fears or exuberance, and they could pay the price for this short-term thinking. A study by Prudential looked at the emotional behavior of investors who were between five years before and after retirement. Of the women in this group, 80% had a moderate-to-high likelihood of their emotions affecting their investment choices.[22]

Staying out of the markets because of emotional decision making can be very costly in the long run. If you missed the market's 10 best days between Dec. 31, 2000, and Dec. 31, 2015, you would have earned only 1.18% annually — compared with 5.80% if you had stayed invested the whole time.[23]

When retirees were asked for the No. 1 piece of advice they would give to their 30-year-old selves, 34% recommended working with a financial representative or working with one earlier in life.

Source: Gugliotti, Jennifer. "Education, Information Is the Path to Trust and Loyalty from Successful Women Clients." *Life and Health Advisor.*

One of the major benefits of working with our firm is that it is our job to act as the voice of reason when emotions run high. When markets decline, remember that we are always available to answer questions, provide reassurance, and show you the opportunities that volatile markets provide.

Mistake #4: Not Seeking Professional Guidance

Receiving advisory support from a professional can be a valuable tool as it may guide you towards decisions regarding your retirement planning goals. Unfortunately, many professional and executive women say they are too busy to spend time on their financial preparations.[24] This decision, however, could be direly affecting their ability to replace as much income as they need for retirement. According to a study by Putnam Investments, investors who work with financial representatives are on track to replace 82% of their income in retirement. People who don't work with representatives are only projected to replace 56% of preretirement income.[25]

Women now own 51% of the wealth in America.

And they are the primary breadwinners in 40% of US households.

Financial Concerns of Women. BMO Wealth Institute. https://www.bmo.com/privatebank/pdf/Q1-2015-Wealth-Institute-Report-

Having access to the professional insight and resources you need to make sense of your financial life, and support long-term strategies, can make a big difference in your ability to retire your way.

We educate our clients on the opportunities market volatility provides, and we keep those clients focused on their long-term goals — not on short-term fluctuations. As financial representatives, we spend our careers charting courses through turbulent markets, and it's our job to stay on top of ever-shifting economic, financial, and legal issues so that our clients don't have to. By making time to create financial strategies and choosing to have guidance from professionals, women can more effectively overcome the odds stacked against them.

LEAVING A LEGACY FOR FUTURE GENERATIONS

One of the rewards for hard work and effective wealth management is the joy of providing for your loved ones and the causes you care about. In our business, we have found that, as individuals and couples move into retirement, they begin to think more practically about the legacies they want to leave behind. With women commonly outliving their spouses, they are increasingly responsible for the final disposition of family assets. As a result, it is important to discuss in advance your family's estate-planning goals.

One of the greatest gifts you can leave your family is a life well lived — one full of love that serves as an example to others. While you take steps toward controlling your financial destiny, remember that the women in your life will look to you for support in their financial lives. As part of your legacy, you can pass down the awareness of a female's need for building financial wellness throughout life. By setting this example and building a legacy that reflects your values, you can focus on leaving the world and the people you care about a little better than when you got here.

CONCLUSIONS & NEXT STEPS

We hope you have found this guide informative and educational. If there's one thing we hope you take with you from this report, it's that now is the time for you to take control of your financial future. You can start by having a conversation with your spouse or family. Further, continue educating yourself about wealth management, financial strategies, and investing.

We also want to offer ourselves as a resource to you and your family. We are happy to answer questions about your current financial situation and future goals. We provide complimentary consultations at any time. Should you have any questions about what you have read here and what it means for your future, please reach out. We are ready to help you build the financial life you envision.

Sincerely,

John R. Bellingham, CFP

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