The Problem-Solving Solutions to Women's Problems with Investing

By and large, women start investing later in life than men, set less money aside, and invest more conservatively. That has the unpleasant effect of leaving them poor in their old age. Some 80 percent of the elderly people living in poverty are women. So what’s their excuse?

PROBLEM: Emotional spending. Do you shop when you have a fight with your boss or your spouse? Do you find that you “need” to hit the mall whenever you’re feeling down, as a way of boosting your spirits? Letting your psyche drive your spending is a common problem. The bad news is your credit card balance is likely to rise faster than your spirits. As a result, you’re sentencing yourself to a life of servitude—working harder or more hours to pay your debts, which makes you all the more depressed. If you need to get rid of your boss or your spouse, stop spending and start saving. Having money in the bank creates financial independence, which can lead to emotional and physical independence if you want it to. But how do you reverse the emotional drag that you’ve previously shopped away?

SOLUTION: Find a healthier alternative. Ideas:

- Take a walk.
- Go to the gym.
- Play catch with your kids.
- Pull out a board game.
- Ask a friend to come over for wine and whining.

Volunteer—help build a house for Habitat for Humanity; take a foster child to lunch; feed the homeless. The possibilities are endless. Better yet, these won’t cost you much and will make you happier and healthier.

PROBLEM: Matriarchal martyrdom. Some women are natural-born martyrs. “How can I save for myself when Johnny needs a new soccer uniform and we haven’t even gotten close to funding Susie’s college account?” they worry. Is that a gravy spot on your husband’s shirt? He’d be happier and more successful at work if he had a better wardrobe—even if that meant there was no money left to fund your retirement account, right?

Certainly, it would be nice to think of yourself once in a while, you admit, but how can you when you’re so busy being the family caregiver? After all, somebody has to take care of the rest of the family, and no one else has stepped up to the plate to do it. All of your worldly concerns are going to be put on the back burner until you take care of theirs—today, tomorrow, and forever. Right? It’s lovely to take good care of your loved ones, but realize that when you are strong physically and financially, you can solve a lot more problems for your kids than if you’re weak. That’s precisely why young parents need to balance their long- term financial needs with the pressing day-to-day expenses of managing a young family.

SOLUTION: Set some priorities. Make your retirement account one of them. If you are working and have access to a company 401(k) plan, contribute to it. It is, hands down, the best way to save for your retirement needs. If you don’t have a 401(k)—if you don’t even have a paying job—set up an automatic savings account with a mutual fund (see Chapter 12). Even if all you’re saving is $50 a month, you’ll have started taking care of yourself and making yourself financially strong. You owe that to yourself and to your family. But your kids are the ones giving you a hard time about money? They say that you owe them clothes, cars, and a college account? Ask them which one is going to agree to support you in your old age. Draw up a contract and have them sign it. “Since I (Johnny) decided that my Camaro was more important than my parents’ retirement savings, I agree to always have a bedroom in my home where my par- ents can live. I promise to clean their room once a week, and cook their favorite dinners, just like they did for me. . . . ” A notary might be advisable.

PROBLEM: Financial overdependence. Why save and invest for yourself when there’s always been someone willing to take care of you? First there was Dad. Then there was your husband. Both of them are kind and thoughtful and wonderful providers. But what happens if they both predecease you? Women usually live longer than men. Then there’s that other uncomfortable fact of life: About half of marriages end in divorce. Are you prepared to take care of yourself if you’re forced to because of death or divorce? Roughly 90 percent of women are going to need to take care of themselves financially at some point in their lives. Think about it.

SOLUTION: First steps. Not everyone is familiar with the story of Cinder Edna, but it’s one of my favorites. The tale, written by Ellen Jackson, goes like this: There are two girls living next-door to one another, both ill-treated by their stepfamilies. One is Cinderella. The other, Cinder Edna. When Cinderella is done with her myriad chores, she sits in the cinders, by the fire. When Cinder Edna finishes, she takes in odd jobs to earn extra money. When the ball comes around, Cinder Edna doesn’t need a fairy godmother. She’s got a dress on layaway and a bus pass. Guess who ends up the happiest? We women need to do much the same. If you’re reading this book, you’re already taking the first step. Put a toe in the market by joining an investment club or starting a monthly investment program with a mutual fund. You can learn about mutual funds in Chapter 8. If you want to join an investment club, you can find information on the Web at www.better-investing.org. If you find investing too dull or too demanding, read Chapter 14, “The Lazy Investor’s Portfolio Planner”—and follow the instructions.

PROBLEM: Running scared. Multiple studies have shown that women invest far more conservatively than men do, preferring bonds and bank accounts to company stocks. They do this because they imagine that buying stocks is like gambling. They know stock prices can vary significantly over short periods of time, and they don’t want to lose their hard-earned cash. This is an understandable, but a serious—and costly—misunderstanding about how markets work.

SOLUTION: Take reasonable risks. Read Chapter 2 and concentrate on the section “Considering Rates of Re- turn.” It explains how taking reasonable risks can boost your investment re- turns and why being too cautious can leave you poor. Then divvy up your money based on goals—instructions are in Chapter 3. Put your short-term money in safe investments that let you sleep at night; and put your long- term money in stocks and mutual funds. Do your best not to peek at that portfolio too often—look once or twice a year. By not looking too often, you’ll miss most of the market’s volatility—the stuff that makes you nervous—and you’ll get the portfolio growth that can make you rich.

Although men typically have more money than women do, they still make some surprising mistakes with it. Sometimes they invest too aggressively; sometimes they worry too much and second-guess their best judgment; sometimes they get so caught up in saving and investing that they forget what the money is for. By and large, it appears that the bulk of their problems stem from one thought: This is a game. I've got to win, either for the pure competition or for the spoils. Such think- ing sours investment returns—often substantially. Though the following problems are mostly male afflictions, women sometimes fall victim to them as well.

PROBLEM: Competing with strangers. You go to a cocktail party and start talking to some guy. He's wearing a nice suit, he's confident, and he starts telling you that he's making a killing in the stock market. "Yeah, I doubled my money on Google in three months," he brags. "Then I bought this little penny stock and whammo! It tripled in value!" You stand there quietly, wondering why you've been doing it so wrong. Here you are investing in companies with track records, earnings, sales, and supposedly skilled managers, and what is your portfolio earning? A paltry 10 percent, you grouse. "What kind of loser am I? Why didn't I buy that penny stock?" you think. You begin to question your whole investment strategy. You need to be more like that guy . . . that cocktail-party guy. You go home, and you buy some of that guy's stock. Maybe you sell some of your boring stocks and mutual funds. When you lose money on those new investments, you know that it's your fault. You're a loser—not a winner like that cocktail- party guy. In the meantime, you've derailed a perfectly good portfolio.

SOLUTION: Match your goals to your investments. Remember what your mother used to tell you: "If your friends all jumped off a bridge, would you follow them?" Don't be taken in by a big talker. Naturally, what the cocktail-party guy didn't mention was that two weeks before he met you, he was downtrodden because his portfolio had declined in value by half, and he was wondering whether he'd have enough cash to make his mortgage. Why didn't he tell you about that? Well, it's not really cocktail-party chatter, is it? You should know that anyone who makes a fortune overnight can also lose a fortune overnight. Risk and reward go hand in hand in the financial markets. Create a reasonable investment strategy by matching your goals to your investments. You can do that in Chapter 3.

PROBLEM: Tinkering away your profit. You saw it on Tool Time. You do it in your portfolio. Here you have a perfectly functioning item, be it a lawn mower or a stock. But you know that if you just fiddle with it a little bit, you could make it better. When you're dealing with tools, the worst thing that can happen is you'll have to replace them. When you're dealing with your portfolio, the stakes are considerably higher. But now that you can check your stocks on the Web—and trade for just a few bucks a pop—it's tough to leave well enough alone. Tinkerers are particularly apt to sell stocks when they've got a bit of a profit. "Lock that in," they say. Naturally, if the stock keeps rising, they've missed out. Worse still, every time you sell a stock at a profit in a taxable account, you not only have to pay a trading fee, you also pay tax on the gain. If you held the stock for more than one year, that tax will be at capital gains rates, which max out at 15 percent; if you've held it for less than a year, the gain is taxed at your ordinary income tax rates, which are certain to be higher. Either way, to make up for the taxes you pay, you'll have to earn more than a 15 percent return on your next stock purchase just to break even. And few people pull that off.

SOLUTION: Once again, do the math. Read Brad Barber and Terrance Odean's paper titled: "Boys Will Be Boys." Odean is a professor at Berkeley's Haas School of Business. He's done loads of research about investor behavior. This study chronicles the differences in how men and women trade stocks. The short version: By studying the account data for over 35,000 households, Odean found that men trade 45 percent more often than women. What does that do to the value of their portfolios? It depresses their returns by an average of 2.65 percentage points per year. What does that mean in dollars and cents? If you started with $100,000, your tinkering would have cost you roughly $250,000 over a twenty-year period. This may be one of those moments that you really ought to listen to your wife. Do the math. Sell when an investment no longer makes sense—when its prospects are poor. Don’t sell just because you can.

PROBLEM: Forgetting what the money is for. You invest every dime, often scrimping and saving to do it. And thanks to this superfrugality, you have a lot of money saved and invested. But it’s not enough, you theorize. It’s never enough. So you work extra hours; you skip vacations; you urge your spouse to do the same. All the while, your riches are growing bigger, and you are growing older. Before you postpone one more vacation or miss one more baseball game, stop and consider what all this money is for. What are the things in life that you hold precious? Have you saved enough to buy those things? In fact, is your emphasis on saving robbing you of enjoying those things? Too many men work themselves into ulcers, heart attacks, or divorces in a quest to get something that they already had but were too busy working to notice.

SOLUTION: Slow down. Step back. Reevaluate. Figure out how much money you realistically need for your personal goals and how close you are to accumulating that amount of money. (You can answer that by completing the worksheets in Chapter 3.) Once you have enough, relax. Enjoy it. To be sure, you can be more successful at work, if you spend every waking hour there. But do you really want your kids to only remember you through the Jaguar that they bought with the money you left them when you died? Put your wife and kids on your calendar. If that costs you money, take comfort in the fact that if they love you, they might take care of you in your old age. If they don't, your wife will divorce you and take half of your assets; and your kids will end up fighting with your second wife for whatever is left after you’re gone. As your mother used to say, “Be careful what you wish for.”