



## BUSINESS DAY

# How women can invest smarter

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Women do invest differently from men, says Manisha Thakor. They have some inherent advantages — including a sceptical tendency to ask questions about investment ideas they don't understand, and a tendency to gravitate toward "buy and hold" investing that saves on the trading cost of higher churn.

Still, as a group, women are way behind where they should be financially, says Thakor, a Harvard MBA who gave up a successful 15-year career on Wall Street to launch a second career as an expert on women and money. She's written two books on the subject and founded the Women's Financial Literacy Initiative, which is now offering an online financial course taught by Thakor.

It's well known that women work fewer years over their lifespan, earn less for their work, and live longer than men. Women start to save for retirement on average 2 years later than men according to TransAmerica's Center for Retirement Studies – which shaves off a remarkable 15 per cent of their retirement nest egg over the life of an average career. \*

The good news is that women are expected to continue to grow as an economic force, and as an investor class. Boston Consulting Group has estimate that \$5 trillion in new income will be earned by women globally over the next five years.

So how can women do a better job saving for their own future goals — whether it's a child's education or their own golden years?

Thakor teaches that:

\* A woman needs money of her own if she's going to really have choices, so even if they are more interested in other topics (careers, children, etc.) they need to spend some time on their financial health.

\* Women need to be less conservative with their investments, partly because they're prone to take too little risk, and partly because they are likely to live longer than they may expect.

"If you plopped on your bed for 20 years and didn't move, when you stood up finally you would fall over because your muscles would have atrophied. It's the same thing when you put your money in cash," says Thakor, who compares the impact of inflation on long-term investments to "termites eating away at the foundation of your house."

\* Women need to start saving smart younger. "If Jane starts saving \$,000 per year in her 20s and gets 7 per cent return, and Joe starts at 40 and gets the same return, Jane will have almost five times more money than Joe at retirement," notes Thakor.

\* After paying off any double-digit student loan or credit card debt, you should begin to split your free cash putting half into paying off lower-interest debt and half into your investments.

"Otherwise it's like saying I'll start exercising when I lose weight. When you go to the gym and start lifting weights and you first see that first cut of muscle, it's motivating. (When you start putting money into investments) It's building that saving muscle," says Thakor.

Unless you are committed to spending 15-20 hours per week on research you should not buy individual stocks or bonds or actively managed mutual funds. Though she spent years building portfolios for a living, Thakor herself now puts all her savings into Target Date Funds.

"It's the financial equivalent of the chicken rotisserie: 'set it and forget it.' I'd rather focus on my work than

research individual stocks or think about tactical risks. I'm giving up the possibility of some potential upside, but would rather give that up for the simplicity of knowing I'm getting 90 per cent of that anyway."

Lessons learned: mothers need to start educating their own daughters (and sons). Thakor herself started thinking about saving at the kitchen table. When she was 11 or 12, she remembers her father, an accountant who later worked as a corporate chief financial officer, sitting her down with a Hewlett-Packard calculator to show her the power of compounding. If she could save \$2000 a year into a managed fund from her lawn mowing and babysitting businesses, he argued, she could have a huge jump on building a nest egg.

Thakor didn't quite get that much saved as a teen, but she did open managed fund and gain a taste for finance that stayed with her through her college years at Wellesley. While spending her junior year at Oxford, she remembers reading Virginia Wolf's *A Room of One's Own*.

Thakor describes her own mother as "a bra burning feminist" but it was Wolf's argument that women can't have "the mental space to create if they don't have money of their own" that finally sealed her path. Three years after graduation she went to Harvard to study for her MBA.

Thakor's own smart savings allowed her to leave her traditional Wall Street career and pursue a new path that leaves her "happy as a clam."

For those curious about the math behind some of Thakor's examples:

\* "Say Joe starts saving \$5000 a year for retirement at age 28 (average for men to start retirement savings per TransAmerica study) whereas Jane starts at age 30. Say they both get 7 per cent returns.

At age 65 Joe will have \$801,687 while Jane will have \$691,184. So simply starting a mere 2 years later can shave off 15 per cent – and that assumes the woman saves every single year whereas many women opt to take some years out of the paid workforce to raise kids or tend to elderly parents, thus making the impact of that two year delayed start even larger than 15 per cent if there savings stop at any point along the way."

\*\* "Say Jane starts saving \$5000 a year at age 21 and gets 7 per cent returns, she will have \$1330,604 at age 65. Say Joe starts saving \$5000 a year at age 41 and gets a 7 per cent return, he will have \$290,993 at age 65. So Jane has 4.57 times more money."