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LONG – TERM SUSTAINABILITY OF PORTFOLIO INVESTMENTS – GENDER PERSPECTIVE: AN OVERVIEW STUDY

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Abstract: *Financial market is the place where a supply of financial products and a demand for financial products are crossing. Financial institutions are standing on the supply side, and potential client on the demand side. The mentioned crossing is seen in a financial portfolio. The client is purchasing a product for some purpose (insurance, mortgage, etc.), the financial institution or a financial advisor/broker should be helpful in the phase of creating a client's portfolio. By offering the product to client it is necessary to know his/her needs first. In this article we assume that the needs analysis is the inevitable part of a client's portfolio building process. Firstly to reach the concept of long – term sustainability and secondly that this process should be done by taking into account possible gender based differences.*

Keywords: *Gender, Long – term sustainability, Portfolio Investments, Risk*

Introduction

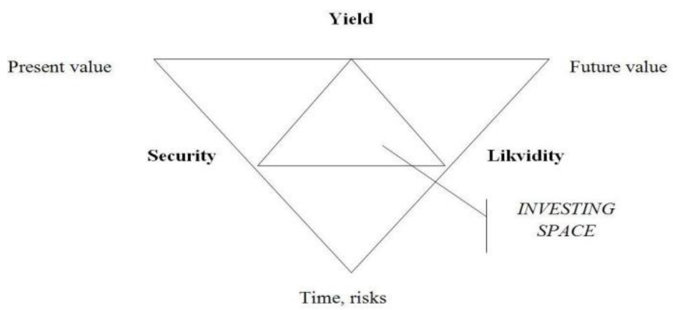
Financial institutions are offering new innovated products in a very short time period, so the customer can easy losing track if he/she is not following every change. The question if there can be a long-term sustainable portfolio build without information about client's needs and goals. Another question is, if we can use one framework to building portfolio across the gender. In this article we consider that the needs analysis is the inevitable part of a client's portfolio building process, if we want to reach the concept of long – term sustainability. We will observe how it is possible to reach long – term financial portfolio and which are the most significant steps in this process. Secondly we will observe if this process should be done by taking into account gender based differences. We focus on risk, stability, flexibility and we will try to find an answer on the question, if there is some differences in building portfolio between men and women.

Financial portfolio

The term portfolio is generally used for a collection or a package of objects with conjoint features. Saying slightly different, every restaurants can call their soups in menu as "soup portfolio" (Cocco, 2005; Bucciol & Miniaci, 2015).
Label "portfolio" is best known with connection to financial products. These portfolios we will call financial portfolios. The financial portfolio of individual client is a collection of financial products owned by the client. We consider financial product such as mortgage, investments, mutual funds etc. Definition of financial portfolio: *"Financial portfolio is a collection of*

different investments, which is composed by some purposes. The main purposes of the financial portfolio is eliminating risks and at the same time finding optimal ratio between yield and risk"(Chovancová & Žofčák, 2013, p. 20, Lewellen et al., 1977, p. 300).

The risk and yield are two of three key variables. The third is liquidity - an ability of financial assets or product transform to money. The most liquidity is of course money, the least for example an assets of some firm. Risk, yield, liquidity and their each to other relations create the thing called an investment triangle. The investment triangle helps us to understand the gold investment rule. Komorník et al. (2011, p. 21) define the gold rule of investing as: *"We have to evaluate all three variables together. There are no investment instruments that can reach a maximum value in all three variables. There is only a way to choose optimal ratio between these three variables"* (Picture 1).



Picture 1: Investment triangle

Source: Komorník et al., 2011, p. 21

The term financial product stands for current personal account, term deposits and deposits, loans, mortgages, mutual fund, pension funds and other financial instruments. Each one of these products have its own parameters. The other significant factor is conformity with our goals and needs. The products in the financial portfolio should be tailored to the clients' goals and needs. Needs and goals are on first sight two different notions, but they are related to each other and it is important to know as much information about client's goals and needs. There is often the question of rationality in finding the optimal portfolio while: *"Rational investors make periodic contributions and withdrawals from their investment portfolios, rebalance their portfolios, and trade to minimize their taxes. Those possessed of superior information may trade speculatively, though rational speculative traders will generally not choose to trade with each other"* (Barber & Odean, 1999, p. 47).

Building client's financial portfolio – gender perspective

"The building of the financial portfolio is a part of process called a financial planning. The financial planning is process of managing financial resources to achieve financial goals and personal economic satisfaction" (Kapoor et al., 2011, p. 2).
"The building of a financial portfolio is planned, goal oriented activity of finding an optimal combination of financial products or parts of financial products. The result of this activity is maximizing profit, eliminating or at least minimizing risks, achieving client's goals and covering his/her needs at the same time" (Ryan, 2009, p. 7).

There is a common believe, that women are less risky investors, more deliberative and more stable investors than men. Based on the finding form experts and authors we will be focused on if there is need to have specific steps of process of building long – term sustainability

portfolio from the gender differences point of view. This is supported by Charness & Gneezy (2012) they suggest that women tend to be more risk averse in financial investment to risky assets than man do, so the investment behaviour is different among the two groups of potential clients. Women are investing less, and so they appear to be more financially risk averse than men. And they refer, that more information about the participants should be recorded. The study by Barber & Odean (1999, 2001) on overconfidence is consistent with the models of overconfidence. The prediction of the models is that men are more overconfident than women and trade more than women (measured by monthly portfolio turnover). In the common stock portfolios women tend to hold less risky positions, and men are decreasing their portfolio returns by treading more than women do. Their finding also suggest that age and marital status are influencing the willingness of holding more volatile portfolios. Investment decisions are influenced by spouse and are therefore reducing gender differences. They also suggest that: *"however, gender differences in portfolio risk may be due to differences in risk tolerance rather than (or in addition to) differences in overconfidence"* (Barber & Odean, 2001, p. 266). Female participant in a study by Vanguard skew towards less-concentrated risk, which means that women are more likely to hold balanced investment allocations rather to employer stock. So their equity exposure is on par with men (Vanguard, 2015). Ozmete & Hira (2011), Kaur & Vohra (2012) are focusing and explaining how behaviour theories or models can be applied on the financial behaviour. The psychological and sociological theories or models are dealing with the risk averseness of women by investing or selling investments as with their socialisation (can be seen in gender specific roles) and the effect on their decision making. According to findings in analyses of Martenson (2008), in aspects of financial investments there can be several gender specific stereotypes seen. Women feel less certain in their decisions, are not willing to take higher risk, are less involved in the stock market, and they are not monitoring the stock market like men do and have lower subjective knowledge of stock market than men have. Women own mutual funds over a shorter time than men and women think that it is difficult and energy demanding to use information about stock market and make own evaluations about it. Women are less profit oriented and have less knowledge to interpret annual reports. On the other hand, if there is a categorisation of respondents/consumers (in elaboration of information) in groups, by comparison women and men in these groups are not so different. In the group of high elaboration of information women and men think, feel and act the same. As Martenson (2008, p. 80) suggests: "*There are however many more knowledgeable and motivated men than women"*. Gender differences in mutual fund investment were found by Dwyer, et.al (2002) the findings of risk taking suggest that the decision in taking more or less risk is related with financial investment knowledge rather than with client's gender. Our analyses of the Eurobarometer 76.1 data (European Commission, 2014) suggest that a minor correlation between gender and shares of bonds (by purchasing, information about the product, product comparison, and product recommendation) can be seen.
At this point it is necessary to take gender perspective into account in building financial portfolio. It is more complicated if the portfolio have to make some level of profit but client is a risk – aversion investor and prefers the guaranteed profit products. In this case the process of building financial portfolio is more time-consuming a portfolio needs to be more structured.

The Filbeck et al. (2005) study shows a link between personality type (measured by Myers-BriggsType Indicator – MBTI) and individual risk tolerance (Expected utility theory – EUT), but this finding are not linked to the well know introversion or extraversion preferences. Tversky & Kahneman (1992, p. 302) are suggesting that *"in expected utility theory, risk aversion and risk seeking are determined solely by the utility function"*. Booth & Nolen (2012) conclude the findings in their survey as that gender differences might refer more to social learning than to gender specific traits (specially by making choices under uncertainty), and that the methodology of the experiment is crucial for finding out the gender differences in risk aversion. This is supported by Schubert at al. (1999) study in compared to men, female from the study do not make less risky financial choices. Their (female's) risk propensity is according to the data strongly depending on the decision frame. The data also show that the gender specific propensity arise if the participants are dealing with abstract gambles. By choosing an investment or insurance no differences prior risk were found. Authors conclude, that the risky financial decisions are contextual, and also the risk attitudes of women may be just a prejudice.

Resent survey from Finland by Halko et al. (2012) shows that women are still more risk averse than men even by women which are finance professional and wealthy private banking customers. Results from this survey mentioned by the authors are of importance for the finance services industry in several ways. Especially in the field of financial planning by understanding the individual clients risk aversion and therefore offering investment advice in assets more suitable (tailored) for the client. This can be seen as an opportunity for the financial institutions to acquire competitive advantage on the market. Montford & Goldsmith (2015) according to their findings women are more risk averse by investing to by their lower financial self-efficacy feelings. But if they are more confident with their ability to make the decision with finance they chose similar investment options than men. Enhancing women's feelings of their financial efficacy by an agent can be more effective than encouraging them to make riskier investment decision. This research findings are consistent with Badunenko et al. (2009, p. 23): *"that financial advice should be provided in accordance with individual risk preferences of individuals rather than to be based on the stereotypical believes about behaviour of a "typical" man or woman"*.

In the light of these findings there is a great opportunity in the field of financial consulting for women. This advices would give women confidence to make more knowledgeable and motivated financial decision. It the "long run", this can be a tool to break some of the gender stereotype in which women are seen as less oriented on financial issues.

The activity of building is following by same previous down streaming steps. Janáč (2008) called these steps in his publication like: „*There are some down streaming to each other related steps, which are going before the activity of building. The main from them are four steps such as identifying the goals, delineation future stage, analysing of present stage, which covers need analysis.*"

The process of building the portfolio is a step-by-step process. The first step is to determine future position (dreams, goals) and then analyse present position – financial possibilities which can use to achieve the future position. The next step is to suggest possible alternatives how to reach the future stage. The process of building the portfolio can be compared to building a house.

Main steps of the process of building stable financial planning are (Kapoor et al., 2011, p. 2):

- Detection and analysis of current needs, the state of the budget and the existing financial portfolio.
- Planning the future state, financial goals and needs.
- Development of alternative solutions and selection of appropriate alternatives.
- Regular monitoring and control.

Detection and analysis of current needs, the state of the budget and existing financial portfolio

This phase is collecting data about present financial plan of the client. There is an analysis of client's existing portfolio, revenues, expenses, liabilities, encumbrances. The goal of the observation is to find an optimal solution to achieve client's goals without ruined the existing portfolio. Key information for this phase is information about an every step which client undertook to build the existing portfolio and about his/her life. All information is sorted to three basic individual groups:

- Current state of household budget
- Current needs and goals
- Existing financial portfolio

For analysis is relevant quantity and also quality of obtained information. Banks and insurance companies tend to not make deep financial analysis of the client's current situation. Specific needs of a client are not always fitting into the offered portfolio, which are created by banks or insurance companies, and employees of this institution are offering these portfolios to client as they are.

According to the findings (Martenson, 2008; Halko et al., 2012; Barber & Odean, 1999, 2001) women are less gullible to risky investments and tend to investments with guaranteed returns. Despite this fact, it does not mean that they are somehow protected from the risks experienced by men and therefore their portfolios need to be flexible and stable.

Planning the future state, financial goals and needs

The financial goal means results, which the client wants to achieve (e.g. buying a house or car) by saving certain amount of money or achieve the state of a financial independence (Joehnk et al., 2011, p. 8). This process is called planning. Many authors and specialist wanted to improve process of planning. The result of that are theories and procedures of planning, which are applicable to any planning. These theories are corresponded in the determining a target as a first step. The target has to have specific characteristics, which were summarized under the acronym SMART. Every letter of this acronym expresses one feature of the target. Let's see what is hidden behind these letters: S = Specific, M = Measurable, A = Attainable or Achievable, R= Realistic, T= Timely. The target has to have timeline and if the target is long – term, it has to be divided in shorter targets and they also have to have timelines (David, 2009, p. 166). Reaching personal or financial goals is connected with some forms of specific risks, which are in relation with these goals. Those risks should be eliminated. The elimination of the risks requires paying money so it is necessary to integrate these needs into the financial plan.

Household budget can be defined such as allocation and distribution of specific sums of money (Xu et al., 2003). Determination of financial goals is a simple process in which the client draws up as much detail about the desired target as he can (Fowles, 2008, p. 6).
As mentioned above men trade more actively than women (Barber & Odean, 1999, 2001), this should be considered in the client's portfolio.

Development of alternative solutions and selection of appropriate alternatives

This phase is a process of finding such as product; combination of products or combination parts of products which cover best client's identified needs and goals. Criteria of choosing is adjusted on the basis of data from the analysis. Combination of products or combinations of parts of products are used because ideal product does not exist and one product does also not cover all client's needs and goals. The target of this phase is to find an optimal combination, which covers client's need and realize it. The previous phases provide us enough information to solve client's situation. But permissive optimal outputs can more than two. It means there are more right solutions. Then we have to choose one, so we have to make a decision. When evaluating alternatives we can follow several models. For most practical model can be considered a viable alternative model of allocating scales to each criterion (Fotr et al., 2010. p. 175 – 196). A manner similar procedure is applied in the evaluation of alternatives to the high number of variables. We first determine priority variables and assign them the highest weight. Then put together a table of alternatives. Then we will identify which alternative meets the variables on scale from 1 to 10 (10 is better). If a particular variable will occur at some alternative we assign value, which is weight multiplied by value from the scale. The sum of all the numbers assigned to the alternatives and the best occurred one will be the one with the highest numerical value. In case that the option won with tight gap and we are confident of the outcome, the solution is to repeat the whole process with added new criteria or reassessment weights of individual criteria. The same procedure can also choose when we are evaluating alternative products to the portfolio. We must take into account the suitability or degree of coverage needs, which has the top priority, then for example the price, stability of company, time aspect, risk, flexibility and liquidity.

Regular monitoring and control

Control and modification is a final phase of identification and selection of the appropriate solutions to the client's expected goals and needs and building portfolio. It is necessary to check and update financial portfolio at least once a year (Kapoor et al., 2012). This requires to periodically review changes in the situation of the client and environment and verify if the changes caused that the portfolio is outdated. The regular monitoring can prevent the occurrence of certain situations. A task of controlling is timely detecting deviations in the controlled process, which are representing the difference between the plan and its implementation. These deviations can be negative or positive. It is certainly necessary to carry out their analysis and then based on the conclusion adopted containing solutions and subsequently also applied them. Control does not closely understand just as some checking activity or as a comparison with the planned and final result (Greenberg et al., 2005).

The role of needs analysis in the context of building a client's financial portfolio

These section explains the reasons why the analysis of needs and goals is so crucial. There are model examples for better imagination. Bank designed portfolio is not objectively and offered portfolio is not optimized for a particular client but for the average of the target group. The reason why this happens is that people are unfortunately not educated in the field of financing to being aware of the fact that the analysis of needs and objectives is essential part of financial planning. The proofs about low level of a financial literacy of the population of the Slovak Republic are researches of Slovak bank association. The result from year 2007 was 0.56, what represents average knowledge of personal finance issues. The last observation was realised by Foundation Partners with cooperation with Focus Agency in 2013 and respondents achieved results 0.625 (Partnersgroup, 2012, 2013). As mentioned above the decision in taking more or less risk is related with financial investment knowledge rather than with client's gender (Martenson, 2008; Dwyer et al., 2002), personality (Filbeck et al., 2005), financial self-esteem (Montford & Goldsmith, 2015) and overconfidence or marital status (Barber & Odean, 1999, 2001). There is also evidence that emotions are influencing via the visceral factors (Loewenstein, 2000). Analysis of needs and objectives is important from the perspective of optimization, exploring possibilities important for the final rational decisions. The result of the whole procedure creation of a portfolio should be rational, specific, measurable, attainable, realistic and time-bound target. A client has to realize the imprudence and the impact of certain decisions in order to achieve its objectives.

Without the needs analysis we are not able to shift to the next step of building portfolio, because the role of analysis is to obtain data (information) which are necessary for the next phases such as planning, developing alternatives, selection appropriate alternative. Thorough analysis is a necessary prerequisite for the building the portfolio, which can avoid the purpose of itself and meets client's objective in due time. The most important starting points for the analysis are information about the clients, their situation, their needs and goals, because only when we know where we want to get, when we want to be there and what are possible threats on this way, we are able to planned to achieve the milestone in specific time and eliminating the possible situation, that can avoid us to achieve that milestone.

Conclusion

We are not able to create a portfolio which has to achieve all client's goals and needs without a congruent analysis. The analysis of goals and needs is a necessary first step to build an optimal client's financial portfolio. Banks have a huge amount of clients, so it is not surprising that they cannot make pre-prepared product portfolios. With the pre-prepared product portfolios, they simply cannot provide individual and careful approach to client. There are also some subjects that provide individual and careful approach to client (financial advisors and financial agents). As we mentioned in introduction, this is the first draft which primary observe the portfolio investments, needs analysis and the possibility of gender differences in investment decisions. This field of our study is so extensive that future observation is needed and has the potential to be implemented in many studies. At this point we can highly recommend by building financial portfolio to take into account that women tend to be less self-confident and need more information by financial decisions and that men are overconfident. Besides this we can also recommend to take time to know the client and try to adjust his/hers personality closer.

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