By nature or nurture, are women worse investors?

Studies show men are more likely to take risks while women are conservative investors, but the genders could learn from each other

CLIONA O'DOWD

A new report from NAB claiming women investors are likely to lose large amounts of money because they are too conservative has backfired with a range of high level critics — men and women — questioning a range of controversial findings.

"Australian women are missing out on tens of thousands of dollars in savings during their lifetime because of their tendency to shy away from taking appropriate levels of risk in their portfolio," NAB says.

"We believe this is the first major study in Australia to demonstrate that women's lower super balances are not only impacted by career breaks and lower pay, but also investment preferences," the report's author, Kajanga Kulatunga, says.

As part of NAB's research, Kulatunga looked at whether anatomical differences in the male and female brain influenced investment decisions.

"Our research shows there are three regions of the brain that are anatomically different in men and women, which may have a major impact in financial decision-making," he said.

Not so, says one of Australia's most prominent female investment analysts, Giselle Roux, chief investment officer at Escala Partners. "I don't think there are any biological differences between men and women, it must be behavioural," she argues.

"I don't think people are born to invest differently because they are male or female. Society's expectations mean people are treated differently."

Like Roux, Steve Macdonald, head of investment at Evermore Money Management, sees the differences as more behavioural than biological. "I think women are conditioned to think that their role is to be stewards and nurturers. Whether that accounts for all of the difference, perhaps not. Some of it may be biological, but that's out of my pay grade."

Macdonald, who co-founded investment advisory Infinitas Asset Management, released a white paper last year detailing why women's conservatism can help generate better returns.

Meanwhile, Trish Power of www.superguide.com.au, who has penned books on superannuation and investing, believes we need to look to the past to gain a better understanding of women's conservatism.

"Historically, women haven't been the ones to invest," she says. "Men earned and invested the money, so it's a fairly recent trend that women are investing."

Perhaps women are more cautious when investing — yes, that's a very broad generalisation — but is conservatism really such a bad thing?

Better returns

Contrary to NAB's findings, numerous studies have shown the more conservative approach often favoured by women delivers higher returns over the long term. "Research shows women are doing the right thing by being more conservative and favouring defensive assets and men should follow them," Macdonald says.

Women tend to be more dispassionate than men when investing and trade less, reducing the risk of losses. Studies also show that while men tend to invest with the goal of achieving capital growth, women generally focus more on the income an asset will produce.

'Research shows women are doing the right thing by being more conservative and favouring defensive assets.'

STEVE MACDONALD
EVERMORE MONEY MANAGEMENT

For Roux, even the idea that men and women invest differently doesn't sit well.

"When it comes down to whether women have a different investment style to men, the answer should be absolutely not," she says. "Investment markets are investment markets — they don't have a gender bias."

Despite not being comfortable with the notion, Roux concedes there are differences that arise when men and women invest.

"Whether we like it or not — and this is a very broad generalisation — women have generally not exposed themselves as much to investment market decisions as their male counterparts," Roux says.

"Women perhaps treat investing in a slightly different manner. They're probably a little more patient; they tend to not want to brag as much about their latest winner. I'm not saying all men do that but to be honest men seem to have more of a desire to point to the big wins in their portfolio."

Whether men's and women's investing preferences come down to nature or nurture, one key takeaway from the study is that men and women would do well to try to emulate the opposite sex when it comes to investing.

"Women need to be on guard about not becoming too cautious and fall victim to inertia, while men need to be on guard that they aren't overconfident about investing, that they don't trade too frequently and that they don't take excessive risk," Macdonald says. "If they each became more like each other a blend of the two would work well."

Another takeaway is that planners have some work to do when it comes to dealing with women.

"What's happened in the past with the financial planning industry is they've told people what to do, rather than taking them on a journey. I don't think women respond well to that."

Roux says the focus should be on giving women an environment in which they can talk about investment markets in a collegiate manner, "where they don't feel there's some man who's going to look at them and say 'oh what a stupid question'."

NAB shows you can still bank on its dividends

TIM BOREHAM
CRITERION

The mooted demise of the banking sector has played out like an old-fashioned gramophone stuck in the same excruciating groove of Max Bygrave's *Tulips from Amsterdam* or *Jingle Bell Rock*.

Finally, it looks like investors have moved the stylus after Thursday's full-year results from the **National Australia Bank (NAB)**, which defied the song book of remorseless margin and capital pressures and creeping bad debts. A feature of the result was the bad and doubtful charge of $800 million, down on the previous year's $823m and much better than the expected $871m.

The numbers — which inspired a two-day share rally — were treated with the sort of critique reserved for long-running Broadway musicals.

"Solid and relatively clean," enthused Macquarie Equities.

"Buy thesis intact," chirped Deutsche Bank.

"This was again a clean quality result largely underpinned by very strong contribution from the NAB's flagship Australian banking business," said Bell Potter.

NAB, for the record, generated cash earnings of $6.483 billion, 10 per cent up on the previous year and 1.7 per cent higher than broker "consensus" expectations. Second-half earnings — which in effect are the "new" numbers — were up a more sedate 2.5 per cent (to $3.263bn) on flat revenue.

The NAB board saw fit to maintain the final dividend at 99c a share, whereas analysts had expected the payment to be trimmed to 95c. The full-year payout also stands at $1.98, steady for the last two years.

Stretching the payout ratio

Of course, holding dividends is one thing and sustaining them is another. This year, NAB paid out 80 per cent of its earnings in dividends, compared with its targeted dividend payout ratio of 70-75 per cent.

Like an elevated temperature gauge on an ageing European sports car, increasing the DPR is often the harbinger of a meltdown. But NAB chief Andrew Thorburn insists the 80 per cent rate is justifiable even in the context of changing local and global rules that demand banks carry more capital.

Short of a housing apocalypse, NAB is also confident about loan delinquency levels. "We still think there will be some correction, but if the overall economy goes as we expect we can expect, pretty benign conditions," Thorburn says.

The erstwhile ugly duckling of the sector, NAB has streamlined itself by finally shedding its British operation (Clydesdale Bank) and 80 per cent of its life business.

What's next?

Attention now turns to the two other big four banks with September balance date — **ANZ Bank (ANZ)** and **Westpac (WBC)** — which show their full-year wares next week.

(Commonwealth Bank, which has a June balance date, reported in August).

For ANZ, the focus is on the pace of its orderly retreat from its once-hyped Asian business, which is producing more than its fair share of impairments. ANZ is also keen to lighten its capital-intensive and low-margin institutional exposures.

"Those businesses are challenged by margin compression complexity, the credit cycle and capital intensity," ANZ Shayne Elliot lamented at half-year results.

ANZ is tipped to report cash earnings of $6.167bn, 15 per cent below the previous $7.215bn. The full-year div is expected to be shaved 12 per cent, from $1.81 share to $1.60.

As with its fellow Melbourne "pillar" NAB, if ANZ can refocus attention back to its jewel-in-the crown domestic retail business, a positive rerating may ensue. For stay-at-home Westpac, the market's gaze will be on bad debt performance given CEO Brian Hartzer's half-year utterances.

"If we look at the portfolio overall, stress levels are essentially stable and we don't see a broadbased deterioration in credit quality," he said.

"If anything, it's the opposite as companies are using low interest rates to pay down debt."

Westpac is tipped to report flat cash earnings of $7.8bn, with its div creeping up 1c to 41.88 a share. Beyond the banks' financials, there's a swirling toxic stew of regulatory and reputational threats stemming from poor practices on the advisory and life insurance side.

As a fresh report from Australian Securities & Investments Commission highlights, this includes charging clients for advice that was never given. (Given the quality of some of the CBA's recommendations, these customers should count themselves lucky).

Royal Commission or not, the vinyl is not cracked. That's because bank dividends — the main reason for buying our oligopolists — remains intact in an era of puny revenue growth.

The Australian accepts no responsibility for stock recommendations. Readers should contact a licensed financial adviser. The author owns big gour bank shares.

Don't write off ol media just yet

RICHARD HEMMING
UNDER THE RADAR

You might have seen the highly paid domestic TV bosses thundering into Canberra in recent weeks, pleading with the government to modernise longstanding regulations which have been in place well before the internet and subscription TV.

They have a point: These rules include one that prevents a company controlling commercial TV licences that reach more than 75 per cent of the population; while another prevents a proprietor from controlling more than two of three radio, TV and newspapers in one area.

These days you or I could easily set up a subscription video service very cheaply without needing an expensive TV licence. Moreover, media regulations will change, it's simply a question of when.

However, what you might not have seen this week was value manager Allan Gray popping up as a substantial shareholder in one of those under pressure media groups, Nine Entertainment, with a stake of just under 8 per cent.

At 85 cents, Nine Entertainment's share price is a far cry from its $2.05 issue price upon being refloated on the ASX just over three years ago having raised well over $600 million. Nine is not alone in trading at bargain basement levels.

The vast majority of the so-called "old media" organisations with assets in television, radio and newspapers are on single-digit earnings multiples and on close to double-digit dividend yields which suggests the market thinks that those media properties will decline to zero, and never recover.

In common with Allan Gray, I think this is way too pessimistic!

There is still big money to be made in media and Allan Gray know it, being one of the few fund managers to make money out of the sector in recent years from APN News.

Nine Ltd trades on a PE of about 7.5 times and a dividend yield of 9 per cent.

It is a fact that in times gone by traditional media companies such as News Corporation (owner of *The Weekend Australian*), Comcast, and even Channel 9 have made investors lots of money.

The latter for everybody, except Alan Bond and some US hedge funds.

There is potential because the media sector overall can grow at twice the rate of the underlying economy.

The more developed the economy, the more incremental dollars go into media; because products need marketing and marketing needs media.

Because of the high proportion of fixed costs, media companies have more operating leverage than most.

My rule of thumb is that if revenues grow 10 per cent, earnings will grow at 20 per cent. Of course, the reverse is also true.

What's more, many media companies have more in common with the newly invigorated APN News than investors might realise.

The leading media conglomerates like News Corp, Nine Network, Seven West Holdings, Macquarie Media and NZME are sitting on a wealth of assets, which aren't being valued by the market.

Says fund manager Andrew Brown at East 72: "The lesson out of media over the past few years is that individual companies have been able to sell off media properties to people who've paid more for them than the stock market thought they were worth."

Richard Hemming is an independent analyst who edits undertheradarreport.com.au

We're not in Kansas anymore, Dorothy

ROGER MONTGOMERY

It's not the first time I've said it ... we're not in Kansas any more Dorothy! Or to put it another way, in an environment of low interest rates (that will eventually rise), and record high asset prices (that will eventually decline), now is the time to instruct your adviser to investigate alternative strategies such as market neutral funds.

Today, the downturn in Perth is being described as the worst in 40 years, with 500 people leaving WA each month — according to Bank-West's chief economist Alan Langford — and geologists with 10-years experience driving for Uber.

Living on the east coast of Australia you wouldn't know there's a problem, but like beachgoers unaware of a tsunami hurtling towards them, all of Australia might soon be engulfed in something far direr than leveraged property speculators in Sydney, Melbourne and Brisbane would like to believe.

Carmen Reinhart and Kenneth Rogoff wrote the New York Times Bestseller This time is different — Eight centuries of financial folly.

According to the authors, the study of eight centuries of financial crises reveals a standard and repeating set of leading indicators to a financial crisis.

These are;

1) Asset price inflation, particularly real estate,

2) Rising household leverage,

3) outsizes borrowing from abroad and reflected in a sequence of gaping current account and trade balance deficits, and

4) Slowing economic output.

Each of these preconditions now exist in Australia.

danger signs

I have written extensively about bubble-like conditions in Australian property and repeatedly warned investors to eschew leveraging to buy property, particularly apartments which will soon be in oversupply.

Australia residential real estate is some of the most expensive in the world on a House-price-to-income ratio basis and yet supply is increasing rapidly further into oversupply as high rise construction activity rises exponentially. These two conditions simply cannot coexist for very long.

The history of financial crises reveals that borrowing binges precede the crisis.

Prior to the GFC, US policy makers should have noted that the rise in asset prices was being fuelled by a relentless increase in the ratio of household debt to GDP.

This ratio had been stable at 80 per cent of personal income until 1993 before jumping to 120 per cent in 2003 and 130 per cent in 2006.

In Australia today, household debt to GDP is rising inexorably and has hit 130 per cent again.

Australians have simply debt-funded more expensive houses and now have less money to pay for it all, especially if interest rates rise.

When interest rates on mortgages do increase, borrowers will have more debt to service and less capacity to repay.

The final ingredient that precedes a financial crisis is a slowing economy.

The Australian economy is currently growing at 3 per cent per annum and has been expanding without interruption for 25 years.

Most recently growth has been fuelled by immigration and mining exports, but these are masking an erosion of living standards which are better illustrated by the record high in underemployment of 8.7 per cent — measuring the number of people who have jobs but would like to work more — and weak real income growth.

Globally, The International Monetary Fund has cut its forecast for growth, warning that a "precarious" outlook amid rising protectionism and a lack of commitment to economic reform could bring further growth forecast downgrades next year.

And now WA is demonstrating that Australia is not immune to the impact of a slowing world or a slowing major trade partner.

The East Coast of our country appears to be blissfully unaware of WA's tribulations and yet, when apartment oversupply eventually causes the residential construction boom to end, Australia may find itself looking for sources of growth that don't exist.

And then the final ingredient required to precede a crisis will be in place.

Investors buying assets at today's generally elevated prices are looking in their rear view mirror believing, for example, that the recent and rapid rises in property will be repeated in the future. Remember the simply investing fact; the higher the price you pay, the lower your return.

Like I said it's time to speak to your adviser. After reading today's column you may be asking them to 'speed it up'.

Roger Montgomery is founder and chief investment officer of the Montgomery Fund. www.montinvest.com

Retirees face pension pinch

JAMES KIRBY
WEALTH EDITOR

A home renovation blitz among the nation's retirees, a wave of unexpected gifts to adult children and other unusual investment behaviour can be expected in the remaining weeks of the calendar year.

Why? Because just quietly the government is putting through the second major batch of sweeping superannuation reform announced in the May budget with a sharp reduction in pension entitlements set to be introduced on January 1.

More than 300,000 Australians on full or part pensions are expected to be hit and financial planners are at a loss to suggest prudent moves to avoid the cuts which are primarily based on the value of assets outside the family home.

"We don't think people should start offloading assets that have the potential to create income in the future, but we have to expect people will be reassessing their situation very carefully," says Peter Hogan, head of technical at the SMSF Association.

Unlike the furore over the changes to pension contribution regulations in recent months, the government cuts to existing pensions have gone largely unnoticed. The cuts bring pension levels back to 2006 when they were improved under the Howard government.

Industry analysts suggest retirees with substantial assets who retain a part pension will come under the spotlight while those with relatively low assets should get a better deal.

The access level to the full pension has been raised to an asset valuation of $250,000 (singles) and $375,000 (couples) which is expected to bring another 100,000 people into the system.

However, in a pattern which is now typical from the Turnbull government, it is the middle band of retirees who will be hit hardest.

It is expected the majority of those who will be affected will be those homeowners with part-pensions who control assets of considerably less than $1 million.

The cut-off point for this specific group is going to be (for singles) $542,500 down from $793,750 and (for couples) $816,000 down from $1,178,500.

Once a person exceeds their relevant asset limits, penalties will kick in — for every $1000 over the threshold the pension payment will be reduced by $3 (it was $1.50).

Financial advisers suggest that apart from renovating homes, offering financial gifts to children is a spending option which may bring retirees back inside the pension access bands — however the limit on gifts to children and grandchildren is $30,000 over five years.

Critics of the changes point out that some retirees could be left with a difficult choice:

1. Move up the risk spectrum to drive more income from existing assets.

2. Get total assets down by spending liberally between now and the end of the year.

However, with the changes due to be enforced from January 1, savers and investors at retirement age have little wriggle room with almost all assets counted by the ATO including non-home property, investments, business assets, household contents, cars, boats ... and yes, even caravans.

Wealth editor James Kirby hosts a live investment Q+A every Wednesday at 12.15pm at theaustralian.com.au