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Investing may pose unique challenges for women

Most challenges in investing and planning are shared by all, regardless of gender. But there are several challenges that are particularly unique to women and, as such, need to be addressed in any long-term investment strategy and financial plan.

By the year 2000, studies project that over 63 percent of the total U.S. workforce will be women, up from 43 percent in 1970. Women are starting new businesses at almost twice the rate of men. Fifty-five percent of all married women earn half, or more, of their total family income.

However, U.S. Department of Labor studies also show that women still earn less than their male counterparts and are less likely to have a pension plan through their work.

Women spend an average of 12 years away from the workforce while raising children, caring for aging parents, etc. This tends to reduce the average retirement plan and Social Security benefit women receive.

Statistically speaking, women live longer than men. Seven years longer is the norm; with an average life expectancy of 79. While this may be good news for women in general, it also brings the financial reality that more funds will be needed for ongoing living expenses, healthcare, etc.

A shortcoming of all investors is not having clearly defined long-term goals. A 1997 retirement savings survey by Elrick & Lavidge indicate 33 percent of respondents had no clear fiscal objectives. The same study showed that most women who set goals tend to underestimate their long-term financial needs.

Studies also indicate that women typically have saved a smaller percentage of their earned income than men and that, in general, female investors are much more conservative and risk adverse when selecting investments.

Most effective investment and planning strategies can be applied to all investors. However, given the unique financial challenges outlined, several areas are particularly important for women to emphasize in their personal planning.

• Set clear, quantifiable financial objectives.

Go to the effort of establishing a financial plan with well-defined near, intermediate, and long-term objectives. Write it down.

Your plan should be a roadmap that tells you where you are today, where you want to go, and how you're going to get there. Specifically target dollar goals based on projected needs and current assumptions.

Communicate this plan with your advisors and solicit their input.

• Overestimate your future needs.

Make sure you plan through, not just to your golden years." Given current life expectancy one-third of your lifetime may be spent in retirement. For many women, this means relying on income outside employment for a period of more than 30 years.

Don't forget the impact of taxes and inflation on your investment portfolio during that period. Distributions from tax-deferred vehicles, such as individual retirement accounts and 401(k) plans, will be taxed as the assets are distributed, usually at ordinary income rates.

Likewise, ignoring the potential impact of inflation on your long-term savings would be shortsighted.

For example, though inflation has been low in recent years, the average annual increase for general cost of living expense from 1972-1997 was 5.45%. Your portfolio needed to earn that much annually just to preserve the purchasing power of your original investment. Actual growth was realized only when your return exceeded that percentage.

• Start Yesterday.

Systematically investing dollars on a regular basis is a critical first step. The term "paying yourself first" is often used and is appropriate. To maximize long-term savings, use a company sponsored 401(k) plan if one is available, particularly if the employer matches your contribution.

How much should you be investing on a regular basis? There is no "right" answer. That depends on your individual financial plan and economic situation. If you have no idea, use 5 to 10 percent of pay as a starting point.

Remember; adequately funding for your long-term needs is a priority, not a luxury.

Begin now. The cost of delay is dramatic. As an example, a young woman who starts to invest $2000 per year at age 30 and earns 10 percent a year (ignoring costs and taxes) would accumulate approximately $350,000 by age 60.

If instead, she had started investing $2000 per year at age 25 and earned 10 percent a year, her portfolio nestegg at age 60 would have grown to approximately $580,000, a difference of $230,000.

• Define your investment strategy.

Build your portfolio strategy around the clearly defined goals outlined in your personal financial plan. This will help you objectively assess the level of investment risk that is appropriate to adequately fund your needs.

The investment portfolio of a young, female professional planning for a 25-year career will withstand more risk and volatility than the portfolio of a woman who requires regular income from her investments.

Do not let current market conditions, expectations, or hype dictate your policy. The markets are not always rational, so you need to maintain a disciplined approach to investing. Make decisions based on what is appropriate for your long-term needs and personal risk tolerance.

• Track your progress.

Your needs are dynamic and will change continuously. Your financial plan is a tool to help you in this process, it should not be a once and done endeavor.

Review your planning annually, assess your progress to date, and make the necessary "big picture" adjustments. Any dramatic lifestyle changes should also prompt a periodic review of your planning assumptions.

Likewise, establish benchmarks against which you periodically compare your portfolio's investment performance. Ask the question, "Compared to what?" when evaluating your investment returns.

For example, an average annual return of 19.40 percent for three years ending June 1998 perhaps sounds attractive. Yet, if this return were from a large-cap value mutual fund, its performance would have ranked in the bottom twenty-five percent of its class.

The average annual return of the top 25 percent of large-cap value funds during that period was 27.25 percent. This difference of 7.85% per year would have cost you approximately $35,800 in unrealized appreciation on a $100,000 investment, even though you were taking similar risk.

While many of the financial challenges facing women are unique, proper planning and investment management can adequately address these needs. What better way to start the new year than assuring your future financial well being.

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