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Women investors: learning to take risks

When it comes to investing, there is a general rule of thumb: the greater the risk, the greater the potential returns. Since risk can sometimes produce deep valleys in between the peaks, the question is: How much volatility can you stomach while you're waiting to capitalize on those returns?

Studies show that many women are more reluctant than men to take on the level of risk required to produce investment returns sufficient to meet their needs. According to a Toronto Stock Exchange study, just 39 per cent of women surveyed said they were willing to take "some risk" for a chance to realize greater returns. In comparison, 58 per cent of men would take some risk.

Playing it safe, however, is not necessarily the best way to go. According to Marc Lamontagne, a certified financial planner with Ryan Lamontagne Inc. in Ottawa, women need to guard against certain factors such as inflation, taxes and longer life spans grinding down their money's purchasing power.

The average woman can expect to live to age 84 – four more years than the average male[1]. That longer life span, says Lamontagne, means you need to include a growth component in your portfolio.

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"While risk tolerance is a very individual thing, at the very least you should aim for an after-tax return that will outpace inflation," he says.

Taking some risk with the growth portion of your portfolio may increase your long-term rate of return, even if that portion is just 25 per cent of the overall portfolio, says Lamontagne. "Remember though, there is no such thing as a free lunch. The larger the growth component of the portfolio, the greater the year to year volatility."

To illustrate this point, compare the theoretical results investors can obtain by taking varying levels of risk. According to Lamontagne, if you had invested $10,000 from 1985 to 2004, here is what would have happened:




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Theoretical portfolios

Holdings	All GIC	Conservative	Balanced	Growth	Aggressive Growth
5 Year GIC	100.00%	65.00%	50.00%	30.00%	10.00%
Canadian Equity Mutual Fund	0.00%	10.00%	15.00%	20.00%	20.00%
U.S. Equity Mutual Fund	0.00%	10.00%	15.00%	20.00%	30.00%
US Small Cap Equity Mutual Fund	0.00%	5.00%	5.00%	10.00%	10.00%
Global Equity Mutual Fund	0.00%	10.00%	15.00%	20.00%	30.00%
Rate of Return	**6.90%**	**8.10%**	**8.40%**	**8.90%**	**9.30%**

Source: Morningstar Canada Average Mutual Fund Returns.

SO WHAT WOULD HAVE HAPPENED IF YOU HAD INVESTED $10,000 IN 1985?

- If you'd gone the all-GIC route, you would have accumulated $37,980
- Opting for just a little risk in a conservative portfolio, you would have gathered $47,480
- Taking a little more risk and choosing a balanced portfolio, your investments would have turned into $50,186
- Turning the risk dial up all the way and investing in an aggressive growth portfolio, your $10,000 would have grown to $59,211

[1]1996 US Annuity 2000 Basic, Male and 1996 US Annuity 2000 Basic, Female

Of course, investing larger sums of cash more regularly – as most investors do over a 10-year time frame – would amplify these discrepancies considerably.

A little education can go a long way when it comes to investing, so read up. Armed with knowledge, you may find yourself becoming comfortable enough with risk to more than meet your goals. Talk to your advisor about ways to learn more.

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