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Exploring Overconfidence Bias Among Women Investors: A Behavioral Finance Perspective

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Abstract
In recent years the female participation in the workforce has dramatically reshaped the financial landscape with more women actively participating in investment and financial decision making. An increase in the economic independence and financial literacy to women paves way to understand more about the behavioral aspects that influences their investment decision. Among the various behavioral factors; overconfidence bias -a cognitive tendency to overestimate one's knowledge and underestimate the level of risk have found to be significant while taking investment decisions. While this bias is more prevalent among male investors an attempt is made to understand how it affects women investors, particularly working women as to how it affects their investment strategies.

Keywords: Financial landscape, Economic independence, Financial literacy, Investment decision, Overconfidence bias, Working women, Women Investors.

Introduction:
The past few decades have shown a significant increase the percentage of female workforce. According to the International Labour Organization (2022), female labor force participation has steadily increased due to greater access to education, changing societal norms, and supportive gender policies. As women gain financial independence through employment and entrepreneurship there has been a shift in the role of women from caretaker to care provider. By gaining confidence through financial independence women has started actively participating in the financial markets. With rising incomes and improved financial literacy, more women are entering the investment space. Although traditionally underrepresented in financial markets, women investors are becoming more active in managing personal wealth, contributing to retirement plans, investing in mutual funds, and utilizing digital platforms (Baker & Ricciardi, 2014). Reports by Fidelity Investments (2021) and UBS Global Wealth Management (2020) also indicate that women are increasingly confident in their investment choices and tend to outperform men by focusing on long-term goals and disciplined strategies.

The Emergence of Behavioral Finance from Traditional Finance: A Focus on Women Investors
Traditional finance is based on the assumption that investors are rational actors who make decisions to maximize returns and minimize risk, as outlined in foundational theories such as the Efficient Market Hypothesis (Fama, 1970) and Modern Portfolio Theory (Markowitz, 1952). However traditional finance failed to consider factors like market abnormalities and irrational behavior of the investors which led to

the emergence of the branch of behavioral finance. Behavioral finance gathers insights from traditional finance, economics and psychology to explain how cognitive biases and emotions influence decision making. This approach considers the fact that the investors are not always rational and they may deviate from optimal financial choices due to the presence or the existence of biases such as overconfidence, loss aversion, herding, mental accounting etc. (Kahneman & Tversky, 1979; Thaler, 1999).

Behavioral finance offers a more sophisticated understanding of the gender specific financial behavior that the traditional theories often overlook. Studies have shown that women, on average, tend to be more risk-averse, trade less frequently, and are more goal-oriented in their investment strategies compared to men (Barber & Odean, 2001).

Overconfidence bias is one of the most popular and widely studied cognitive bias in the field of behavioral finance. Overconfidence bias refers to an individual’s tendency to overestimate their knowledge or abilities in understanding the financial information in the context of behavioral finance. Overconfident investors often feel that they are able to predict market conditions or select better performing stocks which may lead to excessive trading or bad financial outcomes (Barber & Odean, 2001). While it is a human trait, its impact in financial decision making is considered very important. Investors who exhibit the signs of such bias may take higher risks without considering the warning signs of the financial markets.

Literature Review

Overconfidence among investors can lead to several suboptimal behaviors. Overconfident investors tend to overestimate their ability to interpret financial data, leading to an illusion of control over market outcomes (Master Class, 2022). This often results in excessive trading, poor portfolio diversification, and increased risk-taking (Barber & Odean, 2001; Sharma & Prajapati, 2024). Studies consistently show that higher trading frequency, a hallmark of overconfidence, correlates with lower net returns due to increased transaction costs and poor timing (Barber & Odean, 2001; Schwab Asset Management, 2024).

A significant body of literature in behavioral finance highlights consistent gender differences in the manifestation of overconfidence, particularly in investment contexts. The seminal work by Barber and Odean (2001), titled "Boys Will Be Boys," empirically demonstrated that men trade nearly 45% more frequently than women, attributing this to higher overconfidence among male investors. This excessive trading by men resulted in lower annual net returns compared to women (Barber & Odean, 2001). While the literature generally suggests that women investors are less prone to overconfidence than their male counterparts, its implications for their investment behavior are crucial. Women are often characterized as more cautious, risk-averse, and less likely to engage in excessive trading (Lusardi & Mitchell, 2008), (Sharma & Kota, 2019). This relative lack of overconfidence can paradoxically lead to better investment performance for women, as they incur fewer transaction costs and make more measured decisions (Barber & Odean, 2001; Professional Adviser, 2024).

However, recent studies challenge the overly simplistic binary view of male overconfidence and female risk aversion. As more women participate in the workforce and gain financial autonomy, their investing behavior is evolving. A study by Barber, Odean, and Zhu (2021) reaffirmed the persistence of overconfidence in retail investing but noted a narrowing gender gap as access to financial tools and literacy improves. Bhattacharjee and Goel (2021) examined gender-based behavioral biases in Indian investors and found that while women still displayed relatively lower overconfidence than men, the gap diminished with increasing financial education and employment status—particularly among working women. Similarly, Zhang and Zhang (2022) found in a Chinese context that financial literacy and digital financial inclusion significantly reduce gender differences in behavioral biases, including overconfidence. Moreover, Rahman and Hossain (2023) highlighted that among millennial investors, particularly in developing economies, professional women exhibited levels of overconfidence similar to their male counterparts, influenced by self-perception of competence and peer comparisons. This finding emphasizes that overconfidence is not strictly gendered but shaped by contextual and psychological factors, including exposure to financial technologies and socioeconomic status.

Need and Significance of the Study

The increasing participation of women workforce in the economy and financial markets has marked a significant shift in the global economic landscape. Despite the progress ,majority of the existing literature focuses on male investors, thus generalizing the behavioral pattern among genders. This creates a gap in understanding the unique psychological and behavioral traits that influence women's investment decisions, particularly in the context of cognitive biases like overconfidence. Overconfidence bias has been extensively studied among male investors, where it is typically linked to excessive trading and suboptimal returns. However, limited attention has been given to how overconfidence affects women investors, especially working women, who may have different levels of financial exposure, literacy, and decision-making autonomy.

Objective of the Study

To review and analyze existing literature on overconfidence bias among women investors, highlighting gender differences in investment behavior and the influence of factors such as financial literacy and professional status.

Scope of the Study

This study focuses on examining the presence and impact of overconfidence bias in the investment behavior of women investors, with particular attention to working women. It reviews literature to identify gender-based differences in overconfidence, the role of financial literacy, professional experience, and socio-cultural influences.

Methodology of the Study

The study is limited to secondary data and published research, making it a conceptual and literature-based review rather than an empirical analysis.

Findings of the Study

1.1 Gender differences in Overconfidence Bias

Multiple studies reveal that men are more overconfident in financial decision making compared to women. This may lead to excessive trading and lower net returns. In contrast existing studies reveals that women tend to be more cautious and deliberate investment behavior which results in long term and optimal results (Barber & Odean, 2001; Lusardi & Mitchell, 2008).

1.2 Financial Literacy as a mediating Factor

Financial literacy significantly influences the degree of overconfidence among investors. As women gain financial knowledge and exposure—particularly working women—their confidence increases, sometimes leading to modest levels of overconfidence (Zhang & Zhang, 2022; Bhattacharjee & Goel, 2021).

However, this is generally more balanced than the overconfidence observed in men. Studies also reveals that financially literate women are more actively participating in investing activities like mutual funds, retirement planning, stock trading etc. (Lusardi & Mitchell, 2014). In many regions, socio-cultural norms limit women's access to financial education and decision-making power. Despite improvements in digital inclusion, factors such as limited mobility, lack of control over household finances, and gender stereotypes continue to affect women's financial behavior and literacy levels (Zhang & Zhang, 2022).

1.3Impact of Employment and Professional Experience

Studies reveal that working women tend to exhibit higher confidence in financial decisions compared to non-working women, especially when they are in financially or analytically demanding roles. This suggests that professional exposure can shape investment behavior and slightly reduce gender gaps in overconfidence (Rahman & Hossain, 2023).

1.4Professional Exposure Increases Financial Confidence

Research indicates that working women, particularly those in finance-related or managerial roles, tend to exhibit higher financial confidence than their non-working counterparts. This has led to an increase in confidence which is often attributed to greater exposure to financial information, routine decision-making responsibilities, and interaction with formal financial systems (Rahman & Hossain, 2023). While this professional exposure generally results in more informed financial behavior, in some cases, it can also contribute to mild forms of overconfidence, especially when women overestimate their ability to predict market trends or manage investment risks. Although an increase in the confidence level among working women increase the women participation in financial markets, its impact is often mixed in nature. Certain studies (Agarwal et al., 2022) suggest that overconfidence can lead to under-diversification or unrealistic return expectations. Workplace environment also plays an important role in the level of confidence of working women. Women working in a male dominated or competitive industries may often ignore certain signs and make investment decisions in a haste which may have lower or negative outcomes in future.

Challenges faced by women investors

Despite increase in financial literacy and workforce participation women investors continue to face certain challenges that hinder their financial decision making and wealth accumulation. Many women still face lack of foundational knowledge in the areas of finance such as understanding interest rates, inflation, investment portfolio, diversification of investment etc.(Lusardi & Mitchell, 2014). This gap may lead to an increase in the level of risk aversion and under confidence among women investors even among women who possess sufficient financial knowledge. Psychological and behavioral biases, including loss aversion and herding behavior, are also more prevalent among women investors, particularly those with less financial experience (Zhang & Zhang, 2022). Although working women may display greater confidence due to professional exposure, this can sometimes lead to mild overconfidence, which may not always translate into better investment outcomes (Agarwal, Chakrabarty, & Prasad, 2022).

Conclusion

The evolving landscape of financial participation has seen a growing number of women stepping into investment roles, yet numerous psychological, educational, and systemic barriers continue to shape their behavior. This study helps to understand that while working women are increasingly confident in financial matters, overconfidence bias can subtly influence their investment decisions—particularly when paired with moderate levels of financial literacy and professional exposure. Unlike men, women's overconfidence tends to be context-specific and tempered by cautious risk perception, though it can still result in suboptimal choices if not addressed through appropriate interventions.

To foster greater financial inclusion and investment success among women, especially working professionals, there is a pressing need for targeted financial education programs, supportive policy frameworks, and inclusive advisory services. Encouraging informed confidence rather than unchecked self-assurance is key to reducing the adverse effects of behavioral biases. By understanding the unique challenges and psychological drivers of women investors, stakeholders can create more equitable and empowering financial environments that enable women not only to participate in markets but also to thrive within them.

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