

# **'Female traders can reduce market crashes', research says**

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Researchers in the Department of Economics at the University of Leicester have found that male traders on average earn less than their female counterparts but, as they were more comfortable taking bigger risks, the best performing individual overall was likely to be male. The research also showed that increasing the proportion of female traders makes the market more volatile, but at the same time can reduce the occurrence of the most extreme crashes.

In previous research, [steroid hormones](#), such as testosterone, have been shown to affect risk preferences in humans with high levels leading to greater and even irrational risk taking. Furthermore, hormone levels have been shown to be affected by trading outcomes and males are more sensitive to this effect than females. This has led to policy makers, academics and the press to call for a rebalancing of gender ratios in financial markets to make them more stable.

In this work, researchers from the University of Leicester considered the interactions of traders within financial markets. They created a computer model to study the hormonal effects across the whole market. By using this approach, they were able to show that the physiological effects observed in individuals have surprising effects for markets as a whole.

The paper is entitled 'The role of hormones in financial markets'.

Dr Daniel Ladley, Senior Lecturer in Finance in the Department of Economics at the University of Leicester and Deputy Director of the

Leicester Institute of Finance, said: "These findings have concerning implications for financial firms along with regulators and those wishing to change the gender balance in the financial markets.

"Even though male traders may underperform female traders, reward schemes in financial firms may still lead to large groups of male traders. Financial bonus schemes typically reward the best performers and often lead to large numbers of other traders being let go, potentially even some of those making small profits. It is important to note that the better performing male traders in these experiments were not more skilled, but made larger profits through riding their luck—decreasing their risk aversion, and so increasing their investment, in response to profits. The better performing female traders are less susceptible to these effects and so make extreme profits less frequently, but do lose less money. As such, hormone effects may explain why [financial markets](#) are dominated by men. Trying to rebalance the population of traders to better match that of the population as a whole may require a complete change in how financial firms reward their staff—a movement from large bonuses for the best performers to a system that better rewards consistent profits."

**More information:** [papers.ssrn.com/sol3/papers.cfm ...  
?abstract\\_id=2743087](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2743087)

Provided by University of Leicester

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