



INSIDE TRACK

Maya Fisher-French | 03 August 2009 08:51

Buy women cheaply

Female CEOs make a great value play.

Graham Boustred, the infamous ex-Anglo executive, is justifiably angry at comments that he hasn't moved with the times. The man remains very much with "the times"; it is rather that the times have not moved much in 40 years. The hornet's nest that Boustred has disturbed is that of social convention. He has dared to state publicly what many men believe privately - that women and business just don't mix. The good news is this creates an opportunity for the astute value investor.

Justin Wolfers, an associate professor of business at the University of Pennsylvania, has done research which demonstrates that female CEOs are underrated by the market. When asking people to imagine a CEO, they describe a tall, white male wearing a pin-striped suit. Women and non-whites (and short people) don't fit the bill. He then tested his hypothesis in the market place. His research showed that analysts continuously underestimate the earnings of companies managed by female CEOs. "When I look at the largest positive earnings surprises, women are dramatically overrepresented, and when I look at the largest negative earnings surprises, women are dramatically underrepresented. This finding implies to me that market participants systematically underestimate the value of companies directed by women. Not only that, but further analysis of the data shows that female CEOs have a tremendous propensity to surprise male analysts".

This perception error clearly creates a great opportunity for the astute value investor. If you are looking for companies that are mispriced by the market, you may want to make your portfolio a little more feminine.

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