

**DISPARITIES BETWEEN GENDERS IN INVESTING APPROACHES: AN
INFORMATION PROCESSING VIEWPOINT**

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Abstract:

Cites prior studies on the disparities between genders and investment strategies, highlighting two key findings: under similar conditions, female investors seem to be less confident in their investment choices and more risk averse than their male counterparts. Surprisingly little research has been done on the underlying causes of these gender discrepancies, despite the relative consistency of these findings and the possible long-term financial ramifications of these different investment methods. suggests that the tendency toward lower confidence levels and a propensity toward lower risk-taking among female investors may be explained by gender variations in information processing techniques. There is discussion on the implications for financial services industry marketing tactics.

Introduction:

A field that is now gaining a lot of attention is called behavioral finance. The psychological underpinnings of popular investing activities are the main focus of behavioral finance. "To ensure that the psychological aspect of this business gets greater emphasis," stated Judy Lau, the Institute of Certified Financial Planners' president at the time (Eldon, 1997, p. 44). Nevertheless, few research have concentrated on the underlying elements that may cause gender inequalities in investment strategies, despite the present level of interest in this field. Although previous research indicates significant gender disparities in investing risk-taking and confidence, little investigation has been done into the causes of these variances.

The percentage of women working in the financial industry in professions involving professional investments, such as securities analysts and institutional investors, has dramatically increased in

recent years. Furthermore, a growing percentage of individual investors are female; according to one estimate, nine out of ten women will oversee their family's finances at some time (Kover, 1999). Understanding how gender differences in information processing affect investment choices is crucial, especially given the significantly higher representation of women in both professional and personal investing.

Smith (1999) calls for researchers to address the differences in information use based on gender, pointing out that the presentation of financial and accounting information is based on the conventional—and probably incorrect—assumption that this information will be processed similarly by all those who use it. If female investors use distinct.

Given these variations in information processing techniques between female and male investors, it might be necessary to treat female investors as a distinct market. Given that research suggests that women have different information demands and uses, this is a particularly significant issue. Financial services professionals create client communications without taking into account potential differences in information processing, while organizations like the Financial Accounting Standards Board (FASB) decide what information is required to be reported based on assumptions about how investors will use the information consistently. The amount and kinds of information given in financial and accounting papers may change significantly if female investors use information differently than male investors.

Disparities in investing strategies based on gender

Gender is the third most influential factor when it comes to investing, behind age and income, according to a study that was commissioned by a large brokerage firm (Bajtelsmit and Bernasek, 1996). The idea that women are more risk averse than men when it comes to investing is supported by a sizable body of empirical and anecdotal evidence. According to a review of the research conducted by Barber and Odean (1995), women view money and investing differently than do males. They reference research by Barskey et al. (1996), Bruce and Johnson (1994), Jianakoplos and Bernasek (1998), and others that contend that women are more risk averse than men when it comes to investing. A greater proportion of women than males would never take a financial risk. Additionally, they quote a 1977 study by Lewellen et al. showing that men tend to lean their portfolios toward smaller equities and larger betas, whereas women hold less risky portfolios. The same conclusion has been reached by numerous other researchers: women are less risk-tolerant than males when it comes to investing methods. According to an article by Sunden and Surette (1998), who used data from the US Federal Reserve System's Survey of Consumer Finances, women tend to invest more conservatively than men do, especially when it comes to their retirement savings. According to Hinz et al. (1997), a different study conducted in the United States that used data from the federal government's 1996 study of the Thrift Savings Plan found that women are more

likely to allocate their assets toward fixed income alternatives (65% women vs. 52% men) than toward equities (28% women vs. 45% men) and are less likely to hold risky assets. Less than half of women, compared to men, were willing to assume a significant degree of risk in exchange for the possibility of a significant return, according to a 1995 Investment Company Institute study (Kover, 1999).

Gender differences in confidence

The result that women are less confident in their ability to make sound financial decisions is closely tied to the finding that they are less risk-tolerant investors. Women typically have lower confidence in their capacity to make wise financial decisions, according to a 1992 Investment Marketing Group of America study titled "Women Are Different" (Schumell, 1996). Barber and Odean (1999) similarly came to the conclusion that men are more confident than women in financial-related fields.

According to a Harris Interactive survey of 900 adults done for Charles Schwab, twice as many women (48 percent vs. 24 percent) than males (24 percent) think investing is "scary" (Bach, 2000). Even after adjusting for background and aptitude and when the predicted returns on the various investments were equal, Estes and Hosseini (1988) discovered that female investors had much less confidence in their investment choices than male investors.

Financial consequences

The fact that women are more risk averse and have lower confidence when investing has important ramifications. Ironically, some of these inclinations also seem to provide female investors with considerable advantages. Nevertheless, some of these tendencies also seem to give female investors major disadvantages.

Disadvantages associated with “female” styles of investing

Obviously, there are risks associated with having too much risk aversion, such as missing out on chances and relying too much on assets with low returns. These are important considerations for every investing plan. Furthermore, women currently live longer than males do, a difference that currently amounts to six to seven years. As previously said, research indicates that 90% of women will eventually handle their family's financial matters (Kover, 1999). Women should be more confident in their ability to manage their family's finances and have less money in retirement if the investment habits discussed in this study persist. Due to their generally lesser confidence, women tend to avoid money concerns. According to a 1992 Oppenheimer study, women typically put off financial planning until a crisis like a death in the family, divorce, or job loss occurs. Retirement planning is the one area where there are more and more substantial variations between men and women investors. According to a Cigna research, 50% of women do not have access to a 401(k) or pension plan. According to a Merrill Lynch research, women are less likely than males to save for retirement, and even those who do typically only save half as much (Schumell, 1996).

The change in retirement plans offered by businesses is another obstacle for women investing for retirement. A generation ago, defined benefit plans dominated the retirement plan market. These plans paid a lifetime pension benefit based on a formula that usually took into account the employee's age, years of employment, and average salary. Furthermore, the employer took on the duty of making decisions on investments (such as the amount and type of investments). But there has been a significant shift in recent years toward defined contribution plans, where employees must choose whether to participate, how much to contribute, and what to invest in. The extent of this transformation is such that, at the moment, defined contribution plans have more assets than defined benefit plans, and ninety-one percent of these plans let participants choose how their money is invested (Hinz et al., 1997). According to one study by the Investment Management Administration, almost two thirds of the employers questioned expressed worry about their employees' decisions regarding how to allocate their assets (Goodfellow and Schieber, 1997). This concern may be warranted given the tendency for female investors to exhibit more risk aversion and lower levels of confidence. Because female investors tend to be more risk averse, a larger portion of their retirement assets may be allocated to more conservative investments, which have lower yields and are less likely to outpace inflation, and a smaller portion to more aggressive investments, such as equities, which have historically outperformed inflation and delivered higher returns. In conclusion, women tend to be more conservative investors, which may result in poorer investment returns, smaller retirement nest eggs, and lower retirement income—even though women's longer lifespans actually increase the demand for retirement income. Lastly, the fact that the US federal government is thinking of changing the social security system to let members choose where to allocate a portion of their payments makes this trend toward conservative investing even more concerning. The inclination of women to be more risk averse than men is particularly problematic as this country begins to face the challenges of the baby boomer generation retiring, the possibility of social security reform and possible privatization, and the ensuing possibility that individuals may be exercising even more control over their retirement money. This highlights even more how important it is to comprehend the factors that lead to the disparate investment patterns exhibited by men and women.

Advantages associated with “female” styles of investing

Thankfully, not all studies on women and investing are unfavorable. Brokers claim that the profile of female investors is unique (Worley, 1998). According to these brokers, female investors are more likely to be detail-oriented, to want to learn more and have a better understanding of their assets, and to ask more questions. To put it briefly, their approach to investing appears to be more comprehensive, taking into account all pertinent investment criteria. Women tend to be more thorough, which could make them more intelligent and conscientious investors.

When it comes to making many kinds of decisions, women seem to be more risk averse. Males were more prone to make snap decisions and take risks, or "shoot from the hip," while females made more deliberate decisions (Maguire, 1999, p. 26). This study examined gender differences among executive decision makers. Mellan (1996, p. 92) observes that in the realm of investment, men are more likely than women to "act on hot tips - impulsive behavior that can cause them to lose substantial amounts of money."

A significant benefit of female investors' heightened risk aversion is their propensity to trade less frequently, which frequently results in higher returns. According to Barber and Odean (1999), single men traded on average 67% more than single women between 1991 and 1997. Thus, while it has been previously highlighted that female investors tend to allocate a smaller portion of their funds to high-yield investments, when it comes to investing in the same vehicles, females may also have a tendency to trade less frequently, which might increase their long-term returns.

From the standpoint of information processing, the selective mode

As previously said, remarkably little study has been done on the fundamental causes of the disparities between the investment methods used by men and women. One potential contributing factor could be the different ways that male and female decision makers interpret information. According to the selectivity model, when processing information, males and females choose distinct cues from their surroundings. The selectivity model states that men tend to be highly selective in their information processing and frequently do not process all accessible information signals. In fact, this perspective holds that men typically do not analyze all of the information well enough to form a sound judgment. Rather, they use a range of heuristic tools that act as stand-ins for more intricate processing. These heuristic tools usually use a single signal or a set of clues that convergently imply a single conclusion. Moreover, a dependence on cues that are highly salient in the focus context and readily available drives males' selective, heuristic method of processing (Meyers-Levy, 1989, p. 220).

Put another way, men are more likely to use a variety of heuristics that simplify situations than to process information in more detail. Instead of processing every relevant clue in detail, this processing technique usually results in a dependence on subsets of available cues. Males also tend to select information cues that imply a single idea of inference rather than processing cues that are contradictory with the cue or cues that they see as most prominent, compared to females. Males are therefore thought to latch onto readily available, frequently solitary cues that supersede intricate and/or inconsistent cues because they are relatively insensitive detail processors (Meyers-Levy, 1989).

On the other hand, it is hypothesised that women analyze information more thoroughly and therefore tend to take into account both more focal and obvious signs as well as more subtle ones. Women engage in "effortful, comprehensive, itemized analysis of all available information" in an effort to process all stimuli. (Page 43 of Darley and Smith, 1995). The

selectivity model postulates that the objective of the female information processor is comprehensive analysis of all available information rather than the use of heuristic devices, even though truly comprehensive processing of all available cues may not be possible due to limitations imposed by the task's context or fundamental human processing limitations.

Research in support of the selectivity model

According to several studies (Benyamini et al., 2000; Gilligan, 1982; Lenney et al., 1983; Pearsall et al., 1997; Poole, 1977), women process information more thoroughly than males do in the same job environment. Female advertising receivers were found to be more complete ad processors than male receivers, taking into account a larger range of product qualities and reacting more quickly to subtle cues, as predicted by the selectivity model (Darley and Smith, 1995). Graham (1994) discovered that female respondents were more likely than male subjects to apply a number of information signals when assessing an advertising source's similarity to self under identical conditions.

According to Chung and Monroe (2001), there is a significant interaction between task complexity and gender. Specifically, male subjects' decision-making performance decreased as task complexity increased (due to an increase in the number and inconsistency of message cues), while female subjects' performance stayed unchanged. The results, according to the authors, validated the theory that men's selective information processing techniques were sufficient in low-complexity decision situations but did not assist efficient decision-making, creating in the context of a highly complex assignment. O'Donnell and Johnson (2001) concentrated on gender variations in information processing as they pertain to the efficiency with which judgments are made, as opposed to Chung and Monroe's focus on the efficacy of decision making. They discovered that while girls showed precisely the opposite pattern, males showed higher levels of information processing efficiency in low-complexity task settings and lower levels in high-complexity task settings. These results, according to the authors, are compatible with the selectivity concept. It was hypothesized that women process information more thoroughly than men do in both low and high complexity task situations. In the former case, this might result in more processing being done than is necessary, which would lead to inefficiency, and in the latter case, a greater ability to process information efficiently because women are more accustomed to using comprehensive processing strategies than men are, and they could call upon them more easily. Males, on the other hand, were less effective in processing high complexity task situations due to their relative (as compared to females) inexperience with elaborative processing, which resulted in greater effort expended to invoke these detail-oriented strategies. This was likely due to males' tendency to use simplifying heuristic devices.

According to the selectivity hypothesis, women are more likely to process contradictory cues in addition to engaging in more thorough information processing. For instance, Meyers-Levy and Sternthal (1991) discovered that women were more likely than men to absorb information cues that were inconsistent when there was a significant level of incongruity. Males were more likely than females to focus on the overall themes or schemas of messages, and male responses were

more consistent with a processing style that reflected a schema-based strategy, whereas female responses were more likely to use a detailed processing strategy, according to Meyers-Levy and Maheswaran (1991). In a study on accounting students' information processing techniques, Chung and Monroe (1998) similarly discovered that men were more likely to employ a schema-based approach. Researchers discovered that male students used more selective information processing techniques than female students, and they were also more likely to use a schema-confirming technique, in which information cues that support an Initial theories or hypotheses are easier to process than ones that refute them. Male information processors are more prone to incorporate confirming information cues while mainly disregarding disconfirming information due to a phenomenon known as "confirmation bias." However, they also discovered that women were much more likely to take into account both confirming and disconfirming evidence since they are detailed information processors.

Consistency of selectivity model tenets and investor behaviour

Viewed in an investment scenario, the selectivity model may be interpreted to lead to inferences regarding the underlying processes behind previously noted gender differences in risk aversion and confidence.

Aversion to risk

When the selectivity model is used to analyze investment situations, it seems to indicate that male investors will typically concentrate on the most important cue, which is typically the projected return on the investment. Simultaneously, it is possible that men will overlook less salient indications, which could result in different conclusions about investing strategy than the most salient clue. For example, when expected return is high, men could be more prone to focus on expected return and ignore risk information because it doesn't "convergently imply a single inference." According to the selectivity model, female investors will often evaluate most investing indications more thoroughly, even inconsistent and subtle cues. The selectivity model's claims actually align with the traits that female investors are said to possess in Peterson and Rosenberg's (1996) *Every Woman's Guide to Financial Security*. According to the authors, female investors are more likely to look for and consider additional financial investment-related information. Furthermore, as was previously said, brokers describe female investors as being more meticulous than male investors, wanting to learn more about and comprehend their assets better, asking more questions, and generally taking a more comprehensive approach to their investment decisions (Worley, 1998). Moreover, Smith (1999) highlighted evidence suggesting that women are "more proficient at integrating and deciphering signals from alternative, perhaps conflicting, sources" in a study on gender differences in the use of accounting information (Smith, 1999, p. 19).

It may be assumed that female investors would be more likely than male investors to incorporate risk and other secondary information cues in their processing of information related to investments if, as the literature suggests, females are more likely than males to comprehensively

process cues. This is in line with earlier studies that found female investors to be less willing to take risks than male investors. Because, if information about the highly accessible and central cues associated with investment decisions is processed by men and women alike, then the additional emphasis on more subtle and potentially disconfirming cues, which are processed to a greater extent by the female investors, ought to have a substantial influence on the investment strategies that those females choose. Furthermore, studies indicate that negative information cues frequently carry more weight and effect than positive information cues throughout the processing and integration of a range of information cues (Wright, 1974, 1981). Wright connects high levels of participation and, thus, more in-depth processing to the increased significance of negative information cues. Put another way, negative information cues are given more weight when processing is done in detail. One could argue that female investors will be more aware of the potential drawbacks of a given investment strategy because women tend to thoroughly process all information cues, both confirming and disconfirming, while men tend to ignore disconfirming cues. Since male investors are less likely to have processed the disconfirming, or "downside," information cues, female investors would often perceive higher levels of risk than male investors due to their better awareness of the "downside" of a particular investment strategy.

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Self-assurance

The Selectivity Model's premise that women are more likely to pay attention to the full complexity of cues in a decision-making situation may help to explain research that reveals female investors to be less confident in their investment decisions, just as the model's principles predict that female investors will typically be more risk averse. One argument for why men are more assured in their investing jobs is that men prefer to pay less attention to informational cues that contradict or moderate the salient information, instead choosing to concentrate on the information that stands out the most. However, as the selectivity model suggests that female investors base their decisions on a wider range of informational cues, some of which may not align with their final choice, female investors would likely exhibit less confidence in their investment decisions. According to Chung and Monroe (1998), female students were much more likely than male students to perceive a task as "difficult" because they were more likely to integrate both confirming and disconfirming information in a task situation. Male students were less likely to process the disconfirming cues.

As per Cummings and Venkatesan's 1976 study, cognitive dissonance theory posits that conflicting beliefs regarding an attitude object lead to feelings of discomfort and ambiguity in an individual. Marketers frequently observe this occurrence in consumers' post-purchase behavior, where purchasers feel conflicted about their choice since they have positive attributes of the brands they did not choose and undesirable features of the brand they did choose. Furthermore, this dissonance is more likely to happen the more deeply the customer is involved in the choice to buy.

Applying the principles of the selectivity model and cognitive dissonance theory to the acquisition of financial investments, it is reasonable to assume that women will be more hesitant about their investment choices than men. Because it has been discussed that, in the same situation involving an investment decision, women are likely to absorb contradicting information more thoroughly than men. In light of this, it stands to reason that women will likely experience greater cognitive dissonance, or uncertainty, when it comes to their investment decision, while men are likely to process fewer disconfirming cues and, as a result, experience less of it.

Implications

The value of female investors in the market has recently come to the attention of investment professionals, who have also partially observed the differences in needs between male and female investors. It hasn't, however, been acknowledged that men and women perceive information in different ways, and that there are repercussions for this when it comes to investing.

Market segmentation

"Research unequivocally demonstrates that women have different perspectives and preferences than men when it comes to financial decision-making." Schuell (1996), page 19. Professionals in the investment industry have recently concluded that because female investors have certain investment characteristics, they should be treated as a distinct market niche with unique needs that call for new and unique marketing approaches. This conviction led Oppenheimer Funds to introduce its "Women and Investing" series, and other financial services firms and marketers to start new initiatives tailored to address the particular requirements of female investors. The market for female investors is sizable and expanding. Investment firms that target female investors stand to gain significantly from the fact that women make up a growing portion of new financial clients. Women make up 43% of Americans having gross assets of at least \$500,000 (Melia, 1996). Women are working and living longer, as was previously said. Women investors are a force to be reckoned with because to the rise in their labor force participation, rising net worth, and trend toward longer lifespans. By all accounts, women are participating in the financial sector far more now. Founded in 1951, the National Association of Investors Corporation, a US-based organization, had a preponderance of male members; today, women make up 70% of its membership. 50% of the investment clubs that are registered with the NAIC are run by women, 10% are run by men, and 40% are mixed (male and female) (Gunter, 2000). According to Barbara A. Steinmetz, CFP, an IAFP (now FPA) board member, "women today are much more into their careers and acting on their own behalf," indicating that women have made great achievements in the investing world (McCabe, 1999, p. E6). She notes that women's observation of the situation of their mothers' generation—who were left alone after divorce or widowhood and had to deal with the ensuing

financial hardships—was a major driving force behind this shift. Today's women understand that improving their level of investment knowledge is essential to avoiding these challenges. Indeed, there is a market niche here that needs to be filled.

Tools for decision support and client communication

The selectivity model's premise about gender disparities in information processing techniques seems to be congruent with the distinctions between investment strategies used by men and women, as previously discussed. While additional research into the Professionals in the investment industry should be aware of gender differences in information processing and how this may affect the processing of client communications and the resulting perceptions of particular investment strategies. There is a warranted link between information processing and choices regarding investment strategies. Although experts in the investment industry have recently acknowledged the benefits of catering to female investors as a distinct market niche, this recognition has mostly been predicated on the idea that female investors seek a different kind of relationship with financial advisors than do male investors. In summary, it has been noted that female investors are more interested in developing long-term financial relationships with their financial advisors based on communication, mutual understanding, and trust, whereas male investors are more likely to be focused solely on the financial performance of the investment recommendations (McCoy, 1996). This recognition of the distinct demands of male and female investors must be expanded to take into account the ways in which men and women perceive information differently. This deeper knowledge ought to bring about changes in the kinds of connections financial advisors want to build with their customers as well as in the kinds of communication and decision support tools they offer.

Advertising messages should be developed with these information processing differences in mind, according to Sternthal (1986), who discussed gender differences in response to advertising messages. Males are more likely to select information that implies a single inference, while females try to process all available information. He specifically advised that communications directed towards women should show a range of disparate product benefits, whereas communications directed towards men should be single-minded and present the conclusion right away. However, the consequences for content and style of communications in this context are not as clear-cut, since financial advisor/client contacts are focused on information distribution rather than persuasion (as in advertising). Vessey (1994) posits that quicker and more accurate decision-making occurs when there is a "cognitive fit" between the information presented and the user's regular processing style. The development of decision assistance systems.

In order to maximize the advisor/client relationship's effectiveness, female investors will be crucial. A thorough understanding of the distinct information processing tendencies of male and female processors, as well as an analysis of the best ways to present information that take

advantage of each strategy's advantages while also addressing its drawbacks, are necessary when designing decision support tools and client communications with these differing information processing styles in mind. Every method of information processing has benefits and drawbacks, as was previously mentioned. It has been discovered that female information processors are more effective in high complexity work scenarios, while male information processors are more effective in low complexity task settings. Furthermore, research indicates that men are less likely than women to process disconfirming cues in a task scenario featuring contradicting cues, and that men's decision-making effectiveness declines with task complexity. Since helping customers make decisions effectively and efficiently is the aim of professionals in the investment sector, they need to understand the benefits and drawbacks of each processing type. One possible hazard in both the male and female information processing types is a tendency toward taking risks. In a meta-analysis of men's and women's risk-taking tendencies, Byrnes et al. (1999) discovered that although men took more risks even when it was obvious that they should not have taken them (which the authors attribute to men's inability to recognize information cues), women were less likely to take risks even when they were wise to do so. Financial services advisors ought to stress to female clients the benefits of investing more aggressively for long-term objectives like retirement, while stressing to male clients the necessity of adopting a more conservative investment strategy as these goals draw near. Investment professionals need to be aware of the male investor's propensity to oversimplify information and to overlook or minimize subtle indicators that contradict with more prominent and visible cues. One tactic advisors may find useful to deter impulsive decision making in their male customers is to draw attention to small details. Furthermore, it may be crucial to explain to male investors all aspects of an investment, especially those pertaining to risk, as they are more prone to base their judgments on the most salient investment characteristic, which is typically return. Furthermore, it is crucial to specifically prepare the male investor for these below-market returns if an advisor is advocating a relatively conservative investing plan (i.e., capital preservation), which may fairly be expected to yield a return lower than that of the market. Conversely, while working with female customers, it might be beneficial to actively assist the client in setting priorities for information so that the relative significance and suitability of various information signals become evident. Furthermore, it might occasionally be beneficial for the female client to assist her in identifying situations in which making simple decisions requires detailed information processing; these situations may also be ones in which trying to process all of the available data could backfire because detailed processing can result in the "overweighting" of the previously mentioned negative data (Wright, 1974, 1981). Prioritizing information and keeping the end objective in mind will help female investors become more risk-tolerant and make better use of investment possibilities. Furthermore, the appropriate and focused distribution of information can help boost the self-efficacy and confidence of female investors in the investment space, which in turn could lead to increased involvement in the market. While many male investors could feel at ease making

phone calls and online investments, advisers might want to create more intimate, hands-on methods of working with female investors. Examples of these would include seminars and one-on-one meetings that center on thorough information analysis. Professionals in investments ought to be

variations in financial methods. The well-documented gender differences in investment strategies may be influenced by investor perceptions of risk, which in turn may be mediated by gender differences in information processing, according to available data. Furthermore, these disparities in how men and women perceive information also have significant ramifications for how financial services are marketed to different customer demographics. These implications are pertinent and topical given the growing significance of female clients in the financial services industry.

Some significant questions for further research are brought up by this work. Investment professionals will be able to effectively serve both genders if the role of different information processing methods as a factor contributing to risk perceptions among male and female investors is fully recognized. More broadly, one may speculate that the growing number of women investing will have a moderating influence on the stock market because women digest information more thoroughly than males do, which leads to them trading less frequently. Furthermore, given the previous conceptual argument suggests that women should be recruited more heavily into investment professions like fund management, future study should examine the advantages and disadvantages of gender in professional investing settings. Subsequent research endeavors could explore the variations in the efficacy of funds overseen by female and male fund managers, in addition to scrutinizing the categories of investment decisions rendered by each sex. Finally, future study on these topics should take a cross-cultural approach, since a large portion of the current discussion focuses on data and sources within the USA. Investors should be aware of the potential need to reassure female investors following the purchase of financial services, as they may be more prone to "buyer's regret" or a tendency toward uncertainty after the purchase. In addition to strengthening the client-advisor connection, this post-purchase correspondence will help the customer feel more confident in the investment.

Conclusion and future directions

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