

Woman Outsmarts Madoff: Coincidence or Destiny?

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"Will you take my money?" pleads a potential investor to Bernie Madoff in 2007. That prospective client didn't check Madoff's investing process, just his results, which as it turns out, were too good to be true. Madoff made a consistent return of 10-12% even in bad times.

But, not everyone was following the herd. Millicent Holmes didn't. She wanted to know how Madoff got his results. Holmes was working for a fund of funds, a group gathered together to hopefully decrease risk and increase return. She was considering Madoff's fund as a potential investment.

Madoff told her that he was using a split strike conversion strategy. This means he was trying to weigh one option against another to receive a steady return. However, when Holmes checked trading on the options market, she found that transactions as large as Madoff was claiming were not happening. She was suspicious of how Bernie Madoff gleaned his invariably consistent results and chose not to recommend him to be included in the fund of funds for which she worked.

There are few women in Holmes' position in the investment industry, which is dominated by men. Still, she was one of a limited number of investment professionals who smelled a rat. Some might say it was just a coincidence. Others would suggest that it was destiny that a woman did the sniffing.

Science supports the latter. Women have inherent genetic traits that make them more cautious than men. This is because females' prehistoric history has predestined them for certain choices different than men. Early cave women had to protect themselves in order to live so they could procreate. In this way, their genes were passed on. Since women were the physically weaker sex and couldn't defend themselves as adequately as men, caution was a quality that allowed them to better accomplish this. By avoiding danger, they survived. Those women who were more rather than less cautious were selected out. This trait is still exhibited to a larger degree in women than men today.

It was caution that Millicent Holmes was demonstrating when she investigated Bernie Madoff's claims more vigilantly than others, including her male peer investment professionals. This saved her fund investors money and the chance of a major financial decline. Whether or not Madoff's victims would have been fewer had more women investment managers been making the decision to invest with him, we cannot appreciate adequately because there simply were too few females in these positions.

We do know, however, that trust is at the heart of every money interaction. Yet, men and women react to trust during a financial transaction in very different ways. Men make this kind of decision and forget it. Women, on the other hand continue to second-guess their selection. This was demonstrated in a study using functional magnetic resonance imaging scans of men and women while involved in a financial pursuit. The research was performed at [Baylor University](#) and the [California Institute of Technology](#). The scans of men exhibiting financial trust in others showed a quick burst of marked activity in regions involved in calculating numbers and in weighing potential compensation. In women, the response was more complicated. Their reward region was also activated assessing potential return to themselves. What was different from the men, though, was that the worry and error-detection centers of their brains were triggered for an extended time compared to the men. This suggests that women reflect on money decisions longer and differently than men. This quality gives females the potential to be astute detectors of monetary deceit.

What we can glean from this story is that caution when investing can lead to greater returns under certain circumstances. As Warren Buffet says, "Risk comes from not knowing what you're doing." A side corollary could be, "Risk comes from not recognizing it to begin with."