2013 Global Survey of Individual Investors

Risk, return and the investor information gap

As an ESOMAR member, CoreData Research complies with the ICC/ESOMAR International Code of Marketing and Social Research Practice.

Disclaimer

Contents

Executive Summary

Our 2013 study revealed that investors showed signs of optimism, on a global basis – however not in the purest sense of the word. A blend of need and coerced action contributed to investors wanting to be proactive and seek portfolio growth.

Investors were less concerned about stability (or at least more willing to put this concern aside) in 2013, despite discomfort levels towards volatility remaining high.

Investors remained vigilant of protecting their principal levels of wealth and, despite being somewhat confident of achieving a reasonable living standard in retirement, remained very aware of their vulnerability to 'macro shocks'.

The research suggested investors remain fearful of more serious global economic instability and the subsequent volatility such events trigger across markets, however individual investors were less spooked by smaller 'pockets' of volatility in 2013, even if these events tend to be more frequent.

This could be due to a combination of investors 'numbing' to the effects of numerous jolts to their confidence and a growing acceptance that inactivity will not result in them meeting their investment goals.

In 2013, there was a greater desire to 'do more' (and take on more risk in the process – 44% of investors said they were willing to take on more risk) and this creates a sense of increased optimism for the future. But it is optimism by default.

A choice conundrum existed for investors – put simply individuals were being forced to make tough decisions.

The numbers of people willing to take more risk sat against a backdrop of the fact that globally, two thirds of investors had diminished faith in markets following the turbulent journey they had been on in recent times – yet at the same time, this near exact proportion realized they had to take action and brave the storm!

Worldwide, retail investor investment knowledge was low. Approximately only one-in-five investors, globally, classified themselves as having strong investment knowledge.

Investors were looking for growth and there was significant demand from investors across the world to access investments that are not broadly correlated.

The big challenge facing the industry was how to bridge the gap?

Understanding was critical. People knew what they needed to do – take more risk (in a risk-adjusted sense), diversify and consider new, or at least broader, ways of reaching their goals.

For instance, globally, over 50% of people believed it was *very important* to hold a variety of investments in their portfolios – a figure which was higher in Latin America (58%) and the US (64%).

In addition, two-thirds (66%) of people, globally, concurred that traditional approaches to portfolio allocation (investing primarily in equities and bonds) were no longer the best way to manage their investments and meet their goals.

A challenge for the industry, from both a manufacturer and an advisory perspective, was how to build bridges to facilitate investors crossing the Rubicon and to marry products and strategies with the aimed outcomes they have, as well as the changes investors were increasingly becoming aware of.

Investors were typically only prepared to invest in products and strategies they understood and were comfortable with.

And while they were generally satisfied with their investment approach as far as it helped them to achieve a relatively stable value for their portfolio, they were concerned about recouping losses and generating returns, and keen to grow their investments but without sacrificing too much security.

Investors, globally, overwhelmingly claimed to be interested in investment products that were unrelated to the performance of broader markets (with 77% agreeing).

Could alternative investments play a diversifying role?

When asked if they were willing to invest in alternative investments, 51% of investors, globally, said they were willing to; although only 29% of people currently did invest in alternatives in some way, shape or form.

There were a number of possible reasons people, although willing, did not invest in alternatives. Largely, it seems these stemmed from a lack of knowledge and understanding of alternatives. People who were unwilling to invest in alternatives also may have been in this position for similar reasons.

Most people have discussed alternative investments with their financial advisors – nearly 70% of people, in fact – and this number was especially high in the Middle East (87%).

However, there was an issue of understanding: 29.3% of people claimed not to *understand them well at all*, and a further 40% only understood *a little*. Given the vast majority of people claimed only to invest in products they understood (83.9%), this suggested investors will have a natural disinclination to invest in alternatives.

There were a number of misconceptions about access to and fees associated with alternative investments. Over half of the global investor population believed retail investors cannot typically have access to alternatives (53%).

70% of people believed that alternative investments were riskier than most other investments, and more than 60% of people believed alternatives have high fees.

These findings suggested advisors have a vital role to play in helping clients diversify (something investors have a strong appetite for) and to inform them of the many ways in which alternatives can be accessed.

Despite the fact many investors discussed alternatives with their advisors, the former held a number of misconceptions about them.

There did seem to be awareness among investors that one of the major obstacles to investing in alternatives was a lack of knowledge – 85% of them say they would need to learn more about alternatives before investing in them.

Interestingly, over 65% of people, globally, said that they would consider investing in alternatives if their financial advisor recommended them. This provided some indication investors may overcome their trepidation of alternative products if their advisors supported them.

Alternative investments were at present a misunderstood option among both advisors and investors, yet could prove to be the very solution they are searching for; whether for income, volatility and/or risk management purposes.

Background

This Natixis Global Institutional Research 2013 study was based on fieldwork conducted in 14 countries from Asia, Europe, the Americas and the Middle East. The breakdown of individuals by region is as follows: Asia (total: 950) includes Hong Kong (350), Japan (250) and Singapore (350), Europe (total: 2,000) includes France (500), Germany (500), Italy (500), Spain (500) and Switzerland (350), Latin America (total: 600) includes Chile (200), Colombia (200) and Mexico (200), UAE (250), UK (750) and US (750). Globally, we surveyed 5,650 individual investors.

Interviews were conducted throughout June and July 2013 with more than 5,000 active investors and affluent individuals.

Respondents were drawn from mass market (36), mass affluent (208), emerging high-net-worth (169), high-net-worth (337) and other (750).

Investors finally appeared to be putting the nightmare of the financial crisis behind them and softening their attitudes towards risk in a bid to bolster their long-term financial goals.

The crisis temporarily changed the entire landscape of financial services, with many investors opting to preserve capital and batten down the hatches rather than target higher returns and in the process take on more risk.

However in 2013, 46% of investors, globally, said they were able to endure higher levels of risk compared to only 33% in 2012.

It seemed a range of direct and indirect interventions by governments for encouraging people to hold riskier assets beyond simple bonds and cash was working.

In the UK for example, where the post-crisis downturn has hit hard, 43.9% of investors now said the level of investment risk they were willing to take was increasing in 2013 – up from 31.8% 12 months ago.

In 2011 and 2012, the influence of volatility on investor outlook was stark – with fear of taking action the notable by-product.

However in 2013, and despite a reasonable level of volatility in markets over the past 12 months, investors were behaving differently.

The financial services sector has been subject to continued bouts of volatility in the past five years – and the past 12 months have been no exception, for example, with fear over developments in Europe and the US remaining.

However, could it be that investors were finally adjusting to on-going market volatility or could it simply be a case of numbness? Were the scars from the financial downturn finally starting to heal?

The past few years have seen investors hide away in the likes of bonds, cash and gold to negate market turmoil but could we be at the tipping where investor sentiment moves from crisis to recovery?

This change in attitude comes at a time when there has been a significant mispricing of risk over the past couple of years; this is because people have focused on the troubled macro-picture when the corporate picture has been much stronger globally.

One theme that has developed over the past 12 months was that more investors were now willing to accept losses in the market during volatile periods. This could be the result of seeing markets grinding through this uncertainty in more recent times and continue rising afterwards.

Investors were now more willing to wrestle with the idea of chasing returns than simply preserving capital.

Given the varying events that have impacted on markets over the past five years, it would probably require a major negative global event to push investors back into full capital preservation mode, such as war in Asia for instance.

This is because many of the assets that traditionally fall into the 'preservation camp' have performed strongly and were now perceived as too expensive and risky in their own right.

The past year has been good for markets with strong returns – albeit mixed with some volatility – and the move has also seen many reassess the confidence they have in the current state of their portfolio.

Many investors globally were questioning whether their investment portfolio was positioned for a recovery and potential bull market. All of this could mean a big change in portfolios over the next 12 months with a greater focus on the long-term picture.

Data Highlights

- Globally, two-thirds (67%) of investors said that asset growth was increasingly a priority over simply protecting their principal, suggesting the ability to stomach more risk.
- 44% of people, globally, claimed that the level of risk they were willing to take was increasing.
- 68% of people had diminished confidence in markets following the turbulence of recent times.
- Only 17% of people globally (figures are lower than 20% everywhere except in the UK, Middle East and US) believed that their investment knowledge was strong.
- Nearly eight in 10 people globally (77%) were interested in investment products which were unrelated to the performance of the broader market.
- 43% of people said that they prioritize the stability of their investments; this figure has fallen by 14% over the past 12 months.
- Traditional approaches to investment such as investing in a combination of equities and bonds were no longer thought to be the best way to manage investments by almost two thirds of investors, globally (66%).
- In an ideal world, people hoped to retire between the ages of 61 and 65 years old.

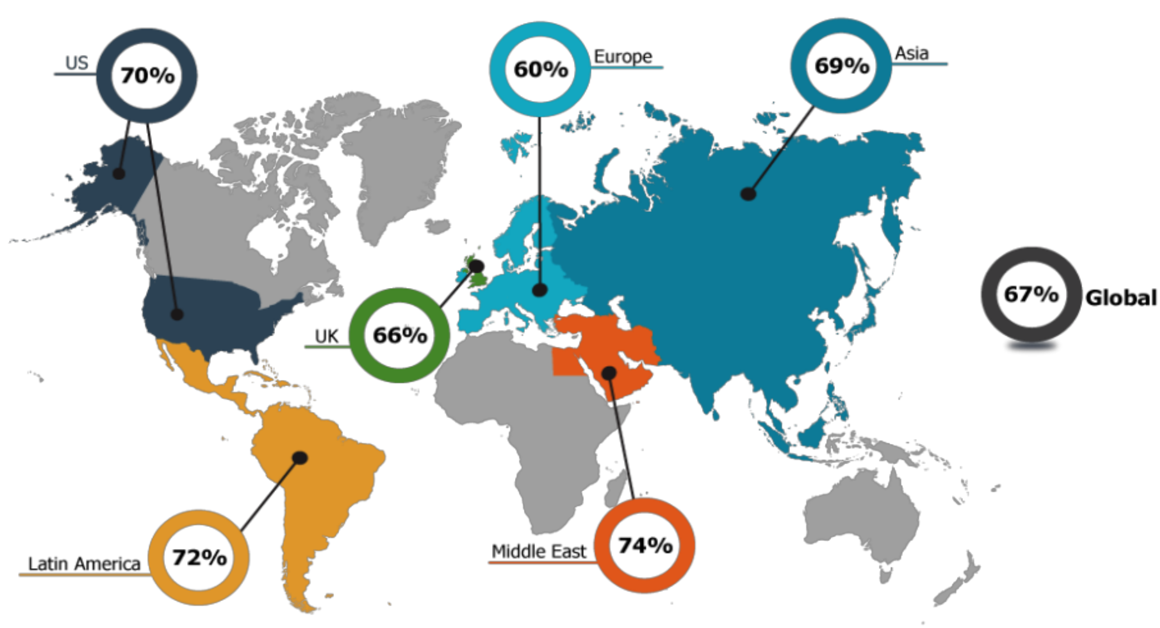
- However, in reality, most people believed they will actually retire much later, with Europeans leading the way with 43% believing they will retire after the age of 66; this contrasts with only 16% of people in the Middle East who believed they will retire after the age of 66.
- US females underestimated how long they will live by approximately a year on average, although this increased to two years for baby boomers.
- In the US, as an example, females retiring in 2050 will have almost 22 years to fund if they choose to retire at the pensionable age – 3 years more than those currently at retirement age.
- For US men, as an example, an additional year of funding will be required beyond what they anticipate – a lesser gap than US females, partly due to the planned increases in male retirement age to 67 by 2050.
- On average, Europeans suggested they will need 67% of their final pre-retirement salary, this compares to people in the US who believe they will only need 61%.
- The mean replacement rates reported by the OECD indicate a 13% shortfall in the UK and a 12% shortfall in the US between what is actually experienced by average British and American citizens and what respondents in this study deemed they will need.
- Asian investors said they will rely more on savings and investments to fund their retirement compared to their global peers (32%).
- In the US, the largest part of funding for retirement was expected to stem from a mixture of pension and other saving vehicles, such as IRAs.
- Almost half of investors in Latin America (49%) cited market conditions as negatively impacting on their retirement savings and investment, much greater than the world average at 37%.
- Middle Eastern investors were most concerned of inheriting less wealth than expected with two fifths worried about this – nearly double the global average.
- Globally, 52% of people claimed that they will be reducing the proportion of cash investments in their portfolios, and 44% believed that investing too much in cash was one reason they failed to take advantage of the rally in stocks.
- In terms of confidence, over 80% of people were *moderately* or *very confident* their investment approach will be able to prevent their portfolio from experiencing dramatic swings in value, except in Asia where the figure was 70%.
- 68% of people cited volatility as undermining their confidence in the market.
- 37% of investors were concerned about the effect a 'significant reduction in retirement savings/investments due to market conditions' was likely to have on their portfolio, with similar proportions worried about the impact of unemployment (35%) and of their retirement funding falling short (34%).
- 80% of respondents were *moderately* or *very confident* of their current investment approach in achieving their retirement savings goals.
- 42% of people had financial goals, and 30% had planned how they were going to meet these goals. Both of these figures were higher than in 2012.
- If there were a shortfall in funding for retirement, 35% of investors planned to turn to government programs for support; in Asia this figure was higher (44%) and it is lowest in Latin America (10%) and the Middle East (21%); in these regions, people were more likely to turn to their children for support.
- Over 90% of investors in the UK and US were *moderately* or *very concerned* about their government's financial situation. Similar numbers of people were concerned about global uncertainty – 93% of those in Asia for instance.
- More than half of investors in the US, Middle East, and Latin America expected their financial situations to improve over the next 12 months.

- Globally, optimism outweighed pessimism with more people in every region expecting their financial situation to improve over the next 12 months, compared to those who expect it to get worse.
- Only one in five (20%) of investors globally were confident their investment approach will achieve diversification among asset classes.
- 56% of people questioned the merits of a 'buy and hold' strategy.
- Most investors in all regions lacked confidence in the ability of their investment approach to take advantage of bull market periods; 58% of those in Europe and 57% of those in the US said they were *not confident* about this.
- Investors were polarized as to the appeal of alternative investments with just under half (49%) unwilling to invest and 51% saying they were willing to do so.
- Globally, only 29% of investors had a direct exposure to alternative products at present – although this figure was as high as 56% in the Middle East.
- 68% of people had discussed alternative investments with their financial advisors (as many as 87% in the Middle East).
- 53% of the investor population globally believed individual investors cannot access alternative investments – 70% believed alternatives are more risky than other investments.
- 85% of investors said they would need to know more about alternatives before investing in them, and 65% said that they would invest in alternative products if their financial advisors recommended them.

Forced Optimism & Volatility Adaptation

Globally, investors were showing signs of optimism – however not in the purest sense of the word. In 2013, a blend of need and coerced action was contributing to investors wanting to be proactive and seek portfolio growth.

Percentage of regional respondents who agreed that "Asset growth is increasingly a priority over simply protecting principal."



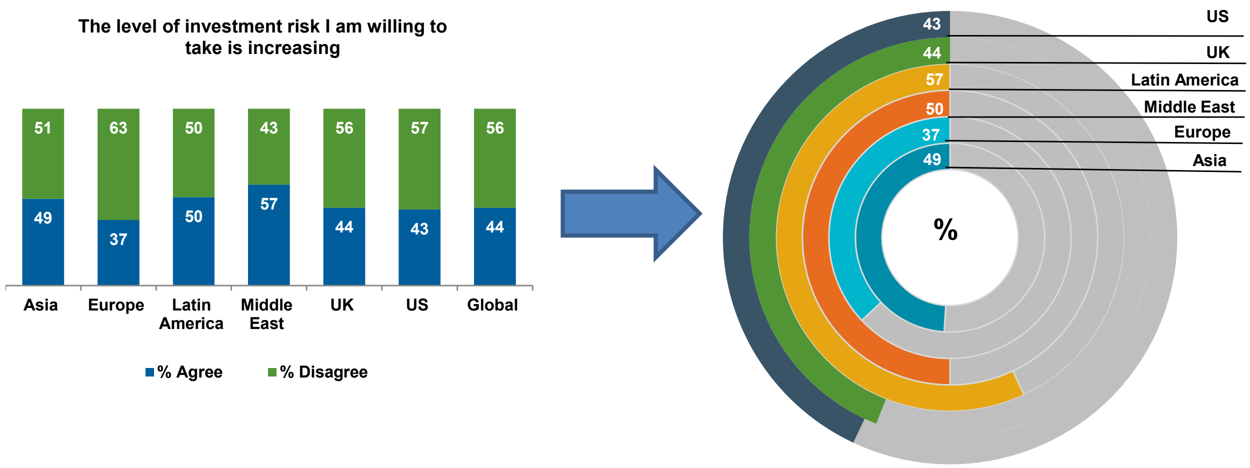
Investors were less concerned about stability (or at least more willing to put this concern aside) in 2013, despite discomfort levels towards volatility remaining high.

Meanwhile investors remained vigilant of protecting their *principal* levels of wealth and, despite being somewhat confident of achieving a reasonable standard of living in retirement, remaining very much aware of their vulnerability to ‘macro shocks’.

The research suggested investors remain fearful of more serious global economic instability and the subsequent volatility such events trigger across markets, however individual investors were less spooked by smaller ‘pockets’ of volatility in 2013, even if these events tend to be more frequent.

This could be due to a combination of investors ‘numbing’ to the effects of numerous jolts to their confidence and a growing acceptance that inactivity will not result in them meeting their investment goals.

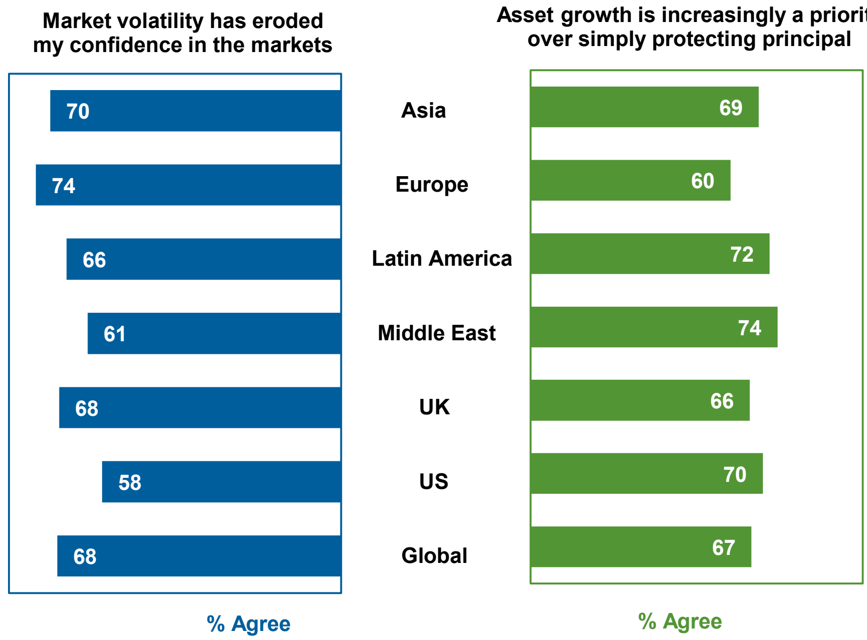
In 2013, there was a greater desire to ‘do more’ (and take on more risk in the process – 44% of investors said they were willing to take on more risk) and this created a sense of increased optimism for the future. But it is optimism by default.



A choice conundrum existed for investors – put simply individuals were being forced to make tough decisions.

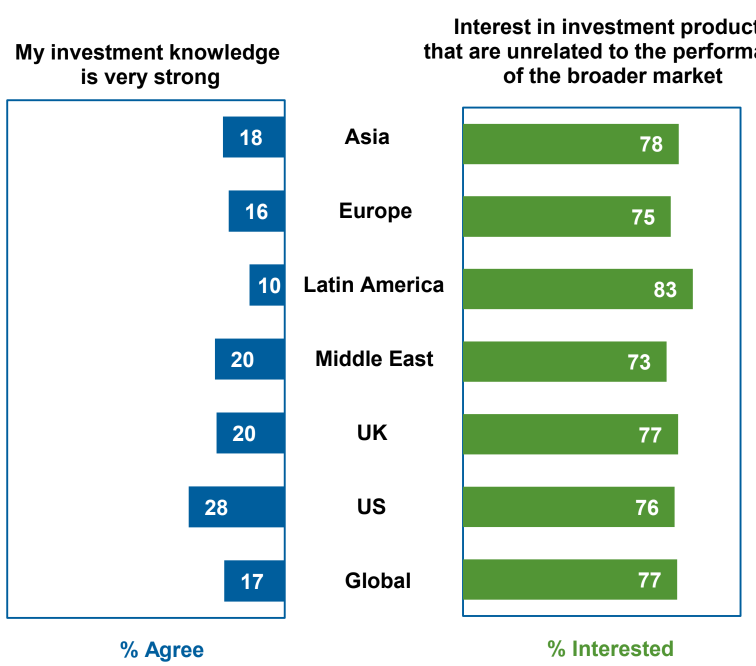
The numbers of people willing to take more risk sat against a backdrop of the fact that globally, two-thirds of investors had diminished faith in markets following the turbulent journey they have been on in recent times – yet at the same time, this near exact proportion realized they have to take action and brave the storm!

Forced Optimism – Russian Roulette?

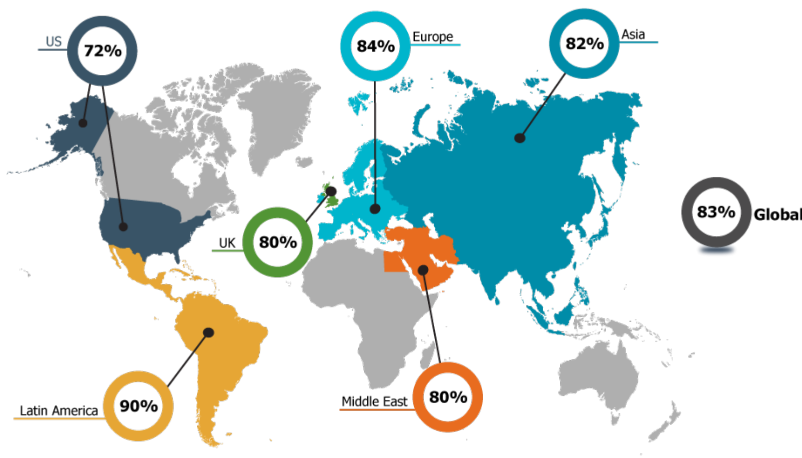


Therefore, how can investors make active decisions and in a way that helps them reach their goals?

The answer is "with great difficulty," as the vast majority of investors lacked the knowledge to make the decisions that could tip the balance in their favor.



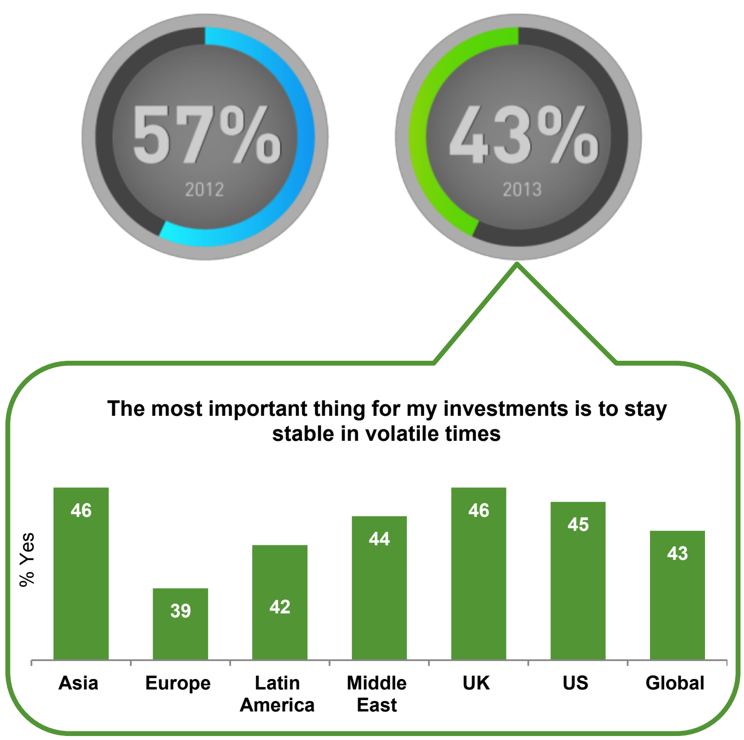
Percentage of regional respondents who said "No" to "My investment knowledge is very strong."



Investors accepted portfolio stability as being not critical – they had grown to realize markets move around. But this doesn't mean that they appreciated or enjoyed the ride along the way.

There was a desire to increase the diversity of their investments, and a willingness to sacrifice stability for the pursuit of growth, but they were hampered by their lack of knowledge about how to go about achieving these aims.

The most important thing for my investments is to stay stable in volatile times



Moving away from what investors wanted to achieve in the abstract, we posed the question of how *do* they want to achieve it?

Understanding is critical. People knew what they needed to do – take more risk (in a risk-adjusted sense), diversify and look to new ways of reaching their goals.

For instance, globally, over 50% of people believed it was *very important* to hold a variety of investments in their portfolios – a figure which was higher in Latin America (58%) and the US (64%).

In addition, two-thirds (66%) of people globally concurred that traditional approaches to portfolio allocation (investing primarily in equities and bonds) were no longer the best way to manage their investments and meet their goals.

A challenge for the industry, from both a manufacturer and an advisory perspective, was how to build bridges to facilitate investors crossing the Rubicon and to marry products and strategies with the aimed outcomes they have and the changes investors were increasingly becoming aware of~~.~~

Retirement

Globally investors envisioned spending 16 years in retirement – just over 20% of their expected lives.

However official Organization for Economic Co-operation and Development (OECD) data showed that, for example, males and females in the US at pensionable age in 2050 can expect 20 and 25 years in retirement[1], a notable gap between how long people are planning to have to fund and the reality of what they will have to fund.

Generally, people globally hoped to retire between the ages of 61 and 65 years old, with Europeans stating they prefer to work the longest and people in the Middle East wanting to retire earliest.

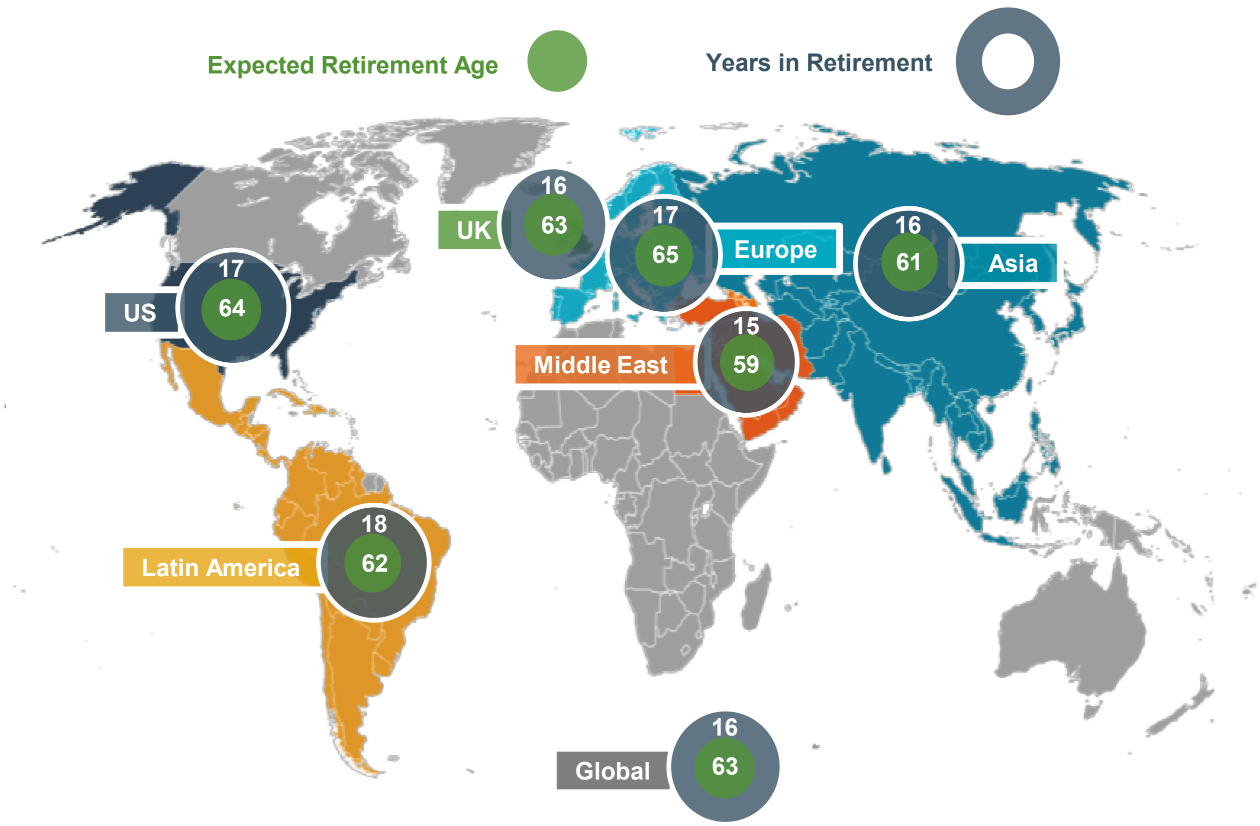
However, individuals anticipated they will actually retire much later, with Europeans again leading the way: 43% of Europeans believed they will retire after the age of 66, followed by the US (41%) and UK (36%), while only 16% of people in the Middle East believed they will retire after 66.

An explanation for this could come from the life expectancy data in the research, which showed that respondents from the Middle East believed they will live on average to only 74 years of age. This was three years less than the next most pessimistic region, Asia.

The remaining regions covered in the study reported between 80 and 81 years as their average life expectancy, and this was perhaps part of the story in explaining why they were willing to work longer.

[1] OECD (2011), Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries, OECD Publishing. http://dx.doi.org/10.1787/pension_glance-2011-en

Regional map: years spent in retirement after age at which people expect to retire



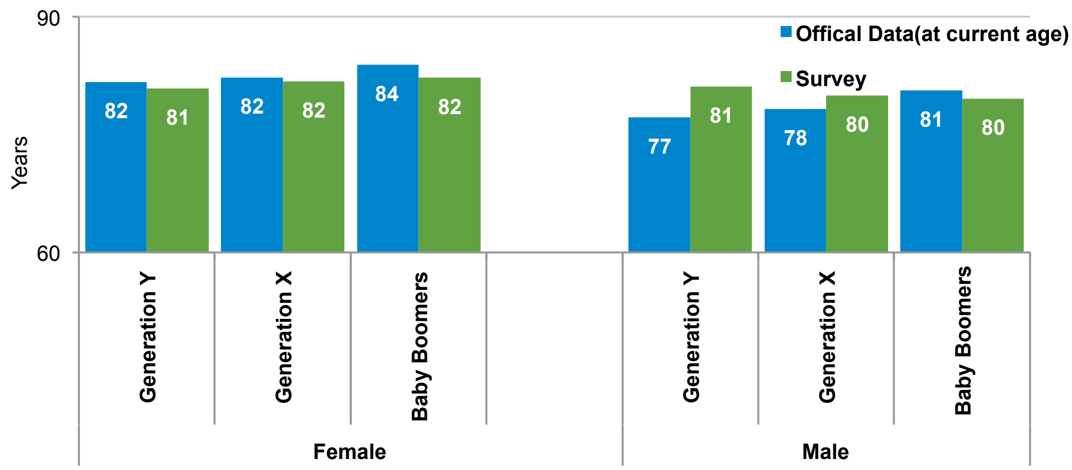
Source: OECD (2011), Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries, OECD Publishing. http://dx.doi.org/10.1787/pension_glance-2011-en

Nonetheless, an interesting question was whether people were over‐ or underestimating how long they will live, a crucial factor in planning for retirement.

To explore this, and using the US as an example, primary data from this study was blended with life expectancy data from the Actuarial Life Table published by the US Social Security Administration and segmented by generation (age) and gender categories[1].

[1] USA Social Security Administration: Period Life Table, 2009. Available online at http://www.ssa.gov/oact/STATS/table4c6.html

US Life expectancy: Official Data versus Survey Data

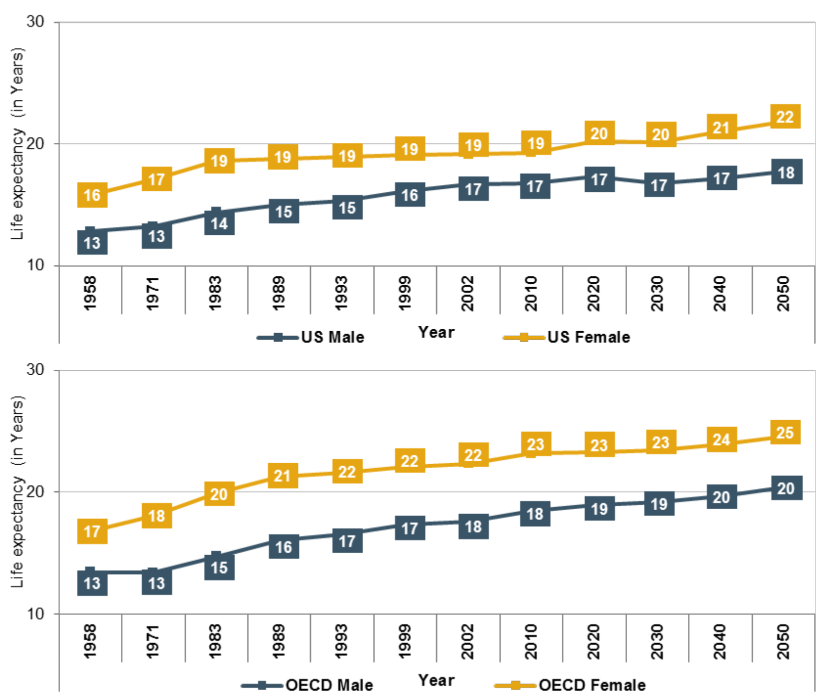


Data source: USA Social Security Administration: Period Life Table, 2009. Available online at http://www.ssa.gov/oact/STATS/table4c6.html

A clear trend that we could see from the data was that women were underestimating how long they will live by around a year, which increased to two years for *Baby Boomers*.

Once people survived to their later years, they had a greater chance of living even longer. On the other hand, apart from *Baby Boomers*, US men were actually overestimating how long they will live.

Life expectancy at Pensionable age



Data source : Life expectancy after pensionable age in the OECD, 1958-2050, men. Life expectancy after pensionable age in the OECD, 1958-2050, women.

However, the problem did not necessarily relate exclusively with current life expectancy differentials, but the length of funding in retirement people will have to do and incorporating the fact that life expectancies continue to increase.

For example, once *Generation Y* reaches retirement, their life expectancy will have risen. OECD data clearly shows the change in life expectancy after the planned changes in the pensionable age, over time.

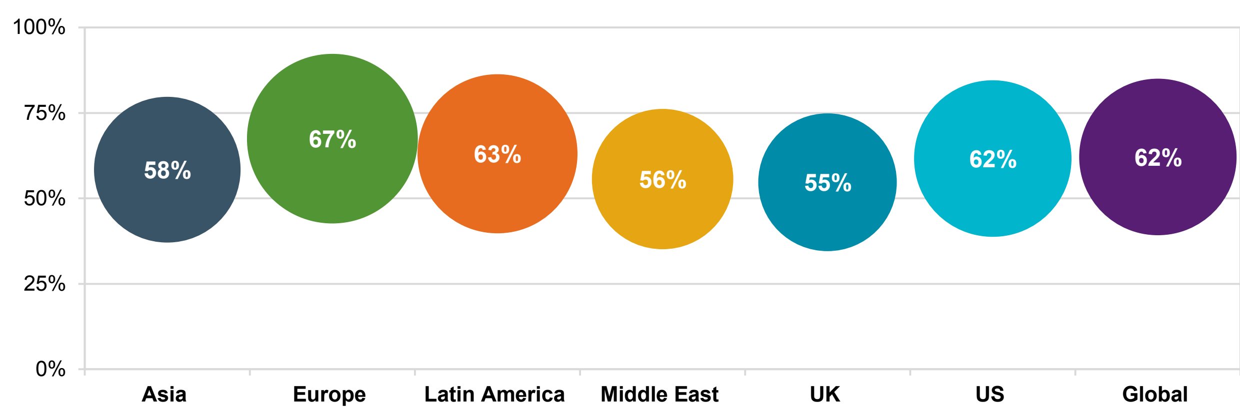
OECD countries[1] reported an average life expectancy after pensionable age of 18.5 years in 2010, higher than the result for any region. For US women in 2050, they had almost 22 years to fund if they choose to retire at the pensionable age, three years more than those at the retirement age currently.

For males there was a less drastic increase but still at least a year's more funding was needed, partly due to the planned increases in retirement age to 67 by 2050.

Level of income needed in retirement

When it came to levels of income needed in retirement, Europeans were the most conservative about the level of pre-retirement income they believed would be needed to fund retirement.

Percentage of pre-retirement income believed to be necessary for retirement (% of final salary)



1 Only 10 of the 14 countries surveyed are members of the OECD. Colombia, Hong Kong (China), Singapore and UAE are non-OECD countries. Please refer here for the full list of member countries: http://www.oecd.org/general/listofoecdmembercountries-ratificationoftheconventionontheoecd.htm

On average, Europeans believed they will need 67% of their final, pre-retirement salary, while people in the US believed they will need only 62%. The lowest single average estimate was found in Asia, which had a regional average of 58% – this was influenced largely by Singapore's low ratio of 52%. The UK trailed Singapore with 55%.

When comparing these figures to actual replacement rates (income from pension pots as % of pre-retirement income) for the UK and US, there was a noticeable difference.

The mean replacement rates reported by the OECD suggested that there was a 25% shortfall in the UK and a 32% shortfall in the US between what was actually experienced by British and American citizens who received retirement income from both public and private sources and what survey respondents deemed necessary[1]. (US 93.9% and UK 80.5% net replacement rates)

Survey respondents in both countries appeared to be too optimistic as the richer one is, the harder it is to match and maintain income to pre-retirement levels, as seen with the net pension placement rates by earning table on page 18.

Those earning over 1.5 times the mean income had lower replacement rates and would need to do more to reach their desired retirement lifestyle and savings target.

Net Pension Replacement Rates By Earnings			
Country	**Median**	**Mean**	**1.5 x Mean**
US	53.4	50.0	46.6
UK	48.0	41.5	30.5
France	60.8	60.4	53.1
Germany	58.4	57.9	57.2
Italy	76.2	75.3	76.7
Spain	84.5	84.9	85.4
Switzerland	66.4	64.1	46.2
Chile	66.0	64.3	62.7
Mexico	46.9	32.2	33.3
Japan	41.4	39.7	34.9
OECD	72.1	68.9	63.5

Data Source: Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries - © OECD 2011 Part II Net pension replacement rates: average earners & Net pension replacement rates by earnings & Net pension replacement rates: Low and high earners

One way of achieving higher replacement rates may be to have a number of pension schemes running simultaneously. When we looked at replacement rates for those with only mandatory public pension schemes against those who partake in both mandatory and voluntary schemes, the results were significantly different, especially for the US and UK.

[1] Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries - © OECD 2011 Part II: Net pension replacement rates from public, mandatory private and voluntary private pension schemes

In the US, those with 1.5 times the mean income were likely to receive only 44% (or in the UK, 27%) of pre-retirement income from mandatory public schemes, but could drive replacement rates to over 92% (and 70% in the UK) with a combination of public and voluntary schemes.

Those investors who wished to achieve their desired replacement rates should perhaps invest in such voluntary schemes.

Net Pension Replacement Rates from Mandatory and Voluntary Pension Schemes				
Country	Mandatory Public Only		Mandatory Public and Voluntary	
	Mean	1.5 x Mean	1	1.5 x Mean
US	47.3	44.1	93.9	92.5
UK	37.4	26.8	80.5	70.3
Germany	56.0	55.6	78.6	78.0
OECD	67.8	62.4	77.0	68.7

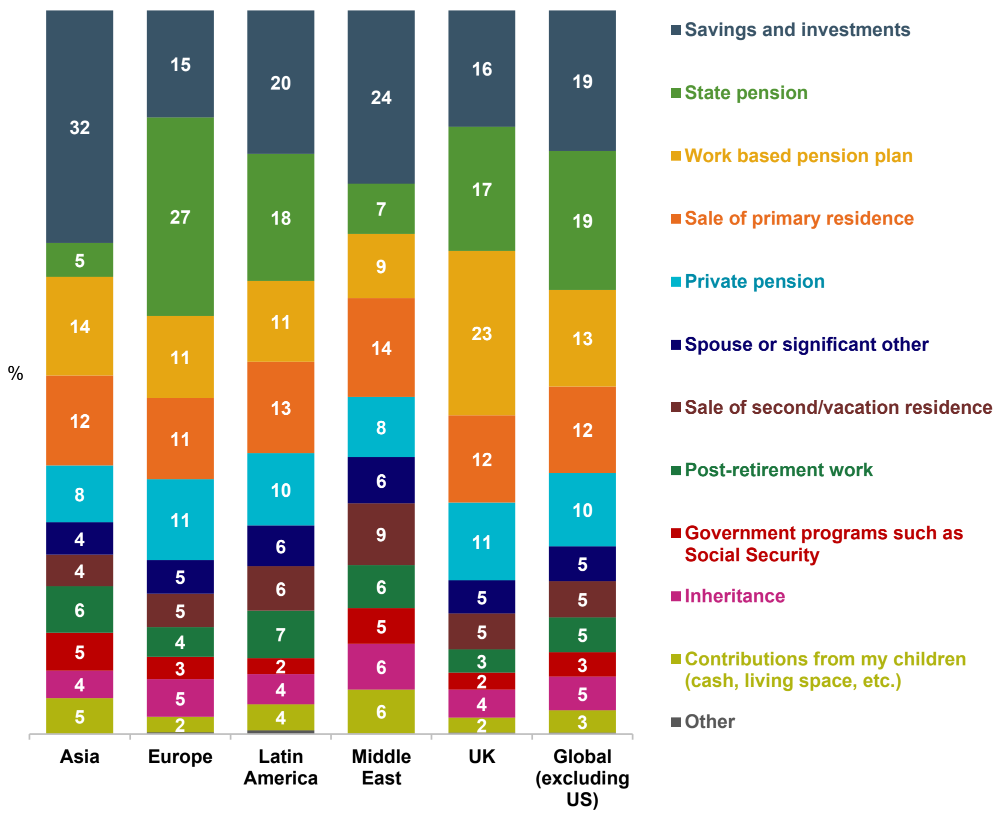
Data Source: Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries - © OECD 2011.Part II Net pension replacement rates from public, mandatory private and voluntary private pension schemes

Funding retirement

Asian investors expected to rely heavily on savings and investments to fund for their retirement, making up almost 32% of their projected retirement funding. This was significantly higher than in other regions, with the Middle East next with 24% of funding coming from savings and investments.

This links to the fact that Asians expected funding from state sources to be less than 5% of their total funding. On the other hand, expectations of state pension contributions were highest in Europe, reaching above 27% of total funding.

What proportion of your retirement funding do you expect each of the following to provide?



However, this was pushed up by *Baby Boomers* who anticipated over a third of their expected funding will be derived from their respective governments, whereas *Generation Y* expects only a fifth of their funding to be provided by this way – a more realistic view perhaps, considering the dire debt situations and demographic 'time bombs' facing many nations.

In the UK, there was a notable gap between Generation X & Y and the Baby Boomers/ Pre Boomers. As people age, they expected more from their work-based pension plans; they figured as a much larger component in their plans to fund retirement. This made sense, as people build up more assets in such savings vehicles as they age.

Generation Y collectively stated that only 13% of their retirement income will stem from pensions, while *Baby Boomers* cited a figure of 30%. Asia also experienced a similar age generation difference, but one that was less stark.

In the US, the largest part of funding for retirement was expected to come from a mixture of pension and other saving vehicles, such as IRAs. The younger tended towards more funding from defined contribution plans while older people planned for more from defined benefit plans and IRAs, reflecting the closure of many DB schemes to younger/new workers.

It is worth noting that although Asians believed that the state pension will only meet 5% of their retirement funding, when funding falls short they are the ones who were most likely to turn to government programs (44%).

This was similar to European, UK and US figures, which hovered close to 40%. Latin American and Middle Eastern citizens were most likely to turn to their children if their funding falls short.

A further potential problem was that around 17% of retirement funding, globally, was tied up in property equity: on average 12% of people's retirement funds were to be provided by the sale of their primary residence, and a further 5% was to come from the sale of a second or vacation residence.

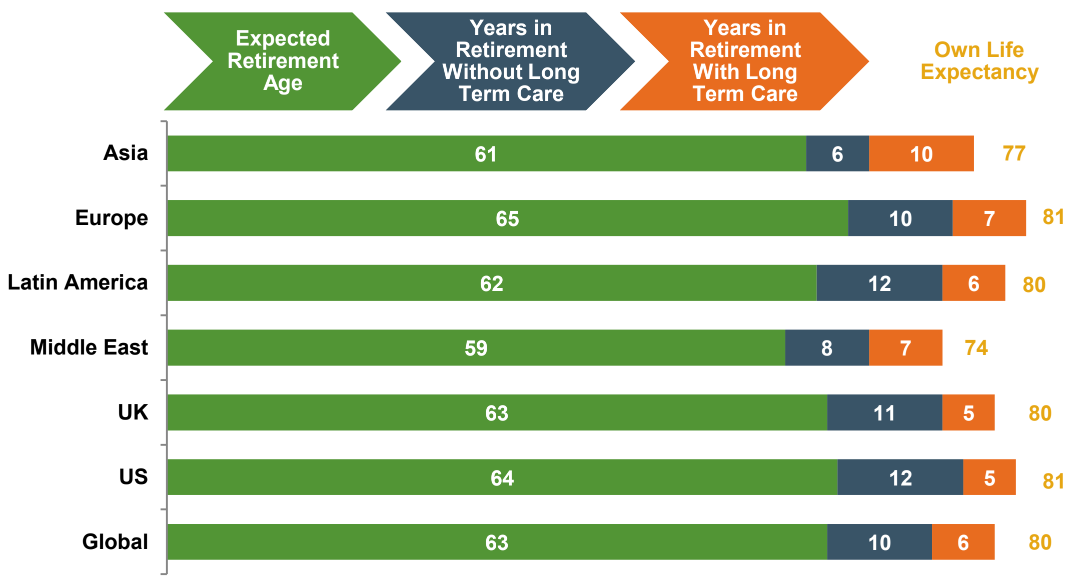
This implied housing market shocks could seriously impact the length of time people are able to fund their own retirement, and the quality of life they can expect to enjoy in retirement.

This scenario was especially possible in the Middle East, where 24% of retirement funding was expected to come from the sale of property.

Threats to financial security in retirement

In terms of threats to financial security, Asian citizens were most worried about long-term care costs not covered by insurance. This was reflected by the fact they expected to require long-term care the longest at 10 years.

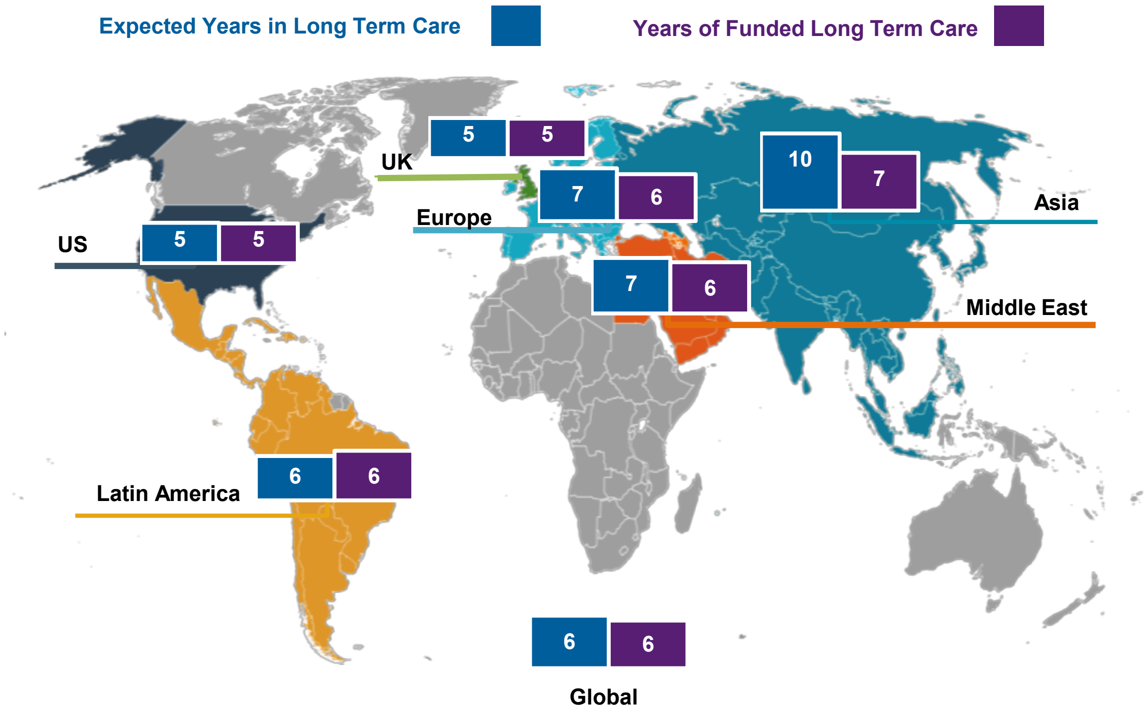
Expected retirement age and need to fund long term care by region



Moreover, they believe on average they will only be able to fund seven of those 10 years, a three year funding gap.

The opposite situation was seen in the UK where only 29% of people saw this as a problem (rightly or wrongly) and was reflected in the fact they believed they will only need to fund five years of long-term care and will most likely be able to fund those five years.

How many years of long term care investors believe they can fund



US citizens were just as confident as UK citizens and expected that only five years of funding will be needed.

However, they were nearly as worried about long-term care costs not covered by insurance as people in Asia, with 40% citing this as a concern.

This can perhaps be understood by the fact that in most of the questions posed about financial insecurity, Asians in nearly all accounts *out-worried* US investors. That is, they were more concerned about a greater variety of different and compounding factors, especially the cost of family, suggesting that they may have more negative projections generally.

Almost half of investors in Latin America (49%) cited market conditions as negatively impacting on their retirement savings and investment, much greater than the world average at 37%. They were also the most worried about insufficient proceeds from both defined benefit and contribution plans (over two-fifths).

Investors in the Middle East were most concerned about inheriting less wealth than expected with two-fifths worried, nearly double the global average.

Investment Approach & Outlook

As one might expect with the global economy in its current state and subject to quantitative easing[1] in a number of regions, about half of respondents were reducing the proportion of low yielding cash investments in their portfolios.

This supported the 'risk-on'[2] nature of activity that was currently driving markets.

Middle Eastern investors were most likely to have turned against holding excessive cash holdings, whereas those in the UK and US (relatively speaking) were most committed to cash still, despite the low interest rates in these countries.

Just over four in 10 (44%) people believed investing too much in cash was the reason they missed taking advantage of the recent rally in stocks; although the number was highest in the Middle East where one in two people felt this way about cash investments – a figure relatively lower in the US (at 36%).

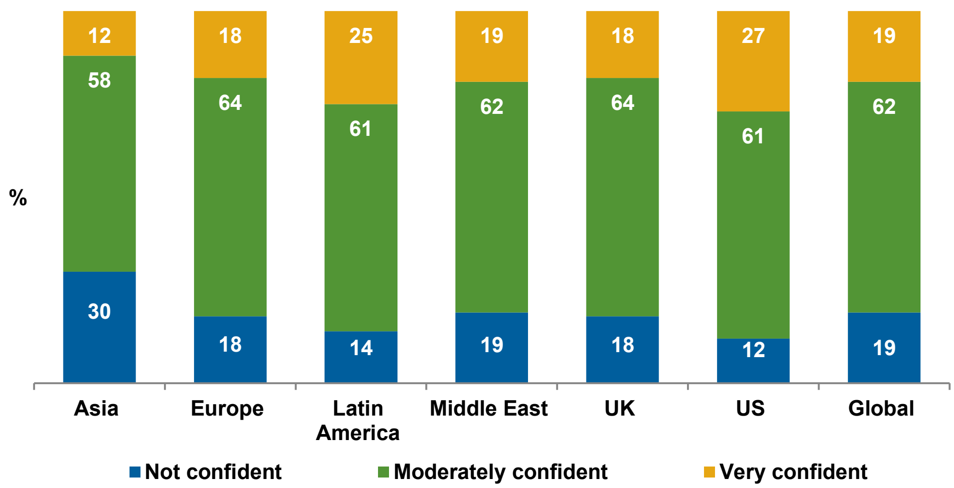
Most people expressed confidence in the ability of their investment approach to buffer their portfolio from experiencing dramatic swings in value: globally over 80% of people were either *moderately* or *very confident* about this.

Investors in the US and Latin America were more confident than their Asian counterparts: 30% of Asians were *not confident* that they can protect their portfolio from dramatic swings in value, and nearly 30% of Americans were *very confident* that they can.

[1] Quantitative easing involved the purchase of Treasury bonds and agency mortgage-backed securities by the central bank to help keep interest rates low.

2 'Risk on' describes a process where investors move to riskier potentially higher yielding investments and then back again to supposedly lower yielding investments which are perceived to have lower risk.

Confidence that your investment approach will protect your portfolio from dramatic swings in value:

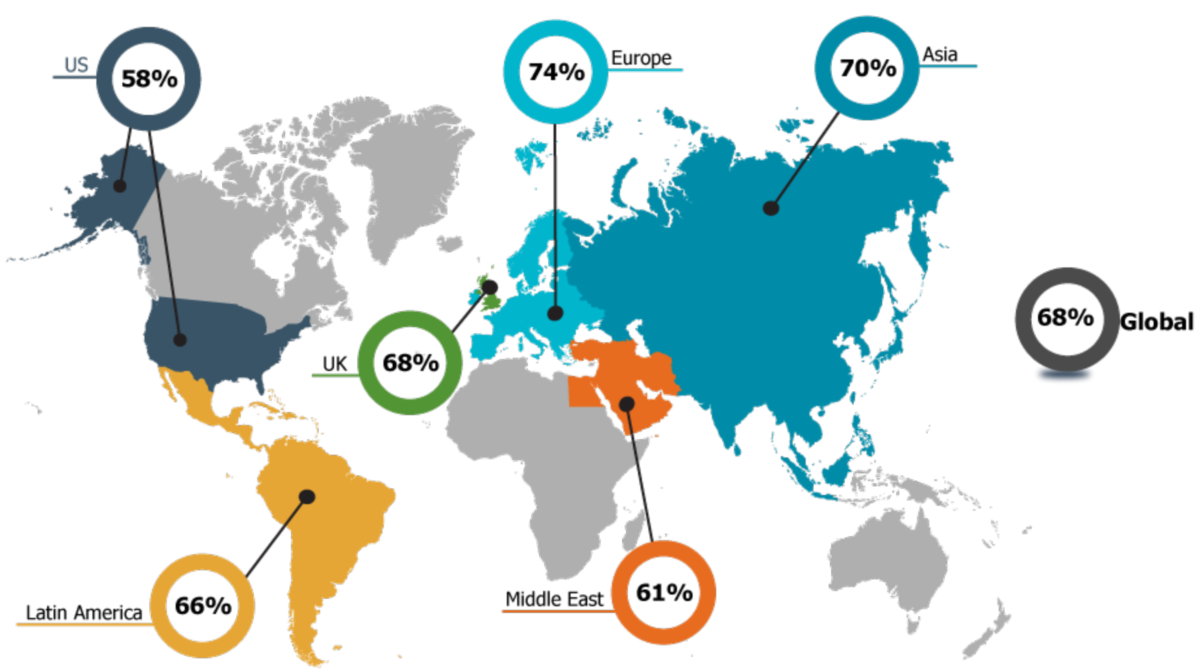


Despite this apparent optimism, investors did retain concerns: they were honest about the fact that market volatility has shaken their confidence. Globally, 68% of people claimed that their confidence has been eroded by volatility.

In keeping with the figures on confidence in their investment approach, 70% of those in Asia claimed to have lost confidence, and only 58% of Americans. Confidence was highest in the US and the Middle East, and lowest in Europe, where 74% of people have lost confidence due to market volatility.

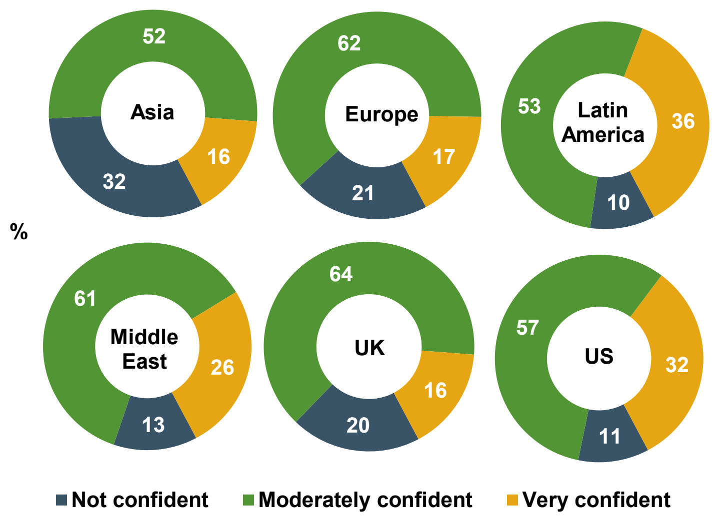
Investors remained concerned – mostly about the possible effect serious volatility could have on their retirement savings. 37% claim they were concerned about a 'significant reduction in retirement savings/investments due to market conditions' which they cannot influence and for which they have not planned.

'Market volatility has eroded my confidence in the market', by region



'Unemployment' (35%) and 'insufficient proceeds from my pension or other benefit plan' (34%) were key concerns, yet 80% of respondents were *moderately* or *very confident* that their investment approach will achieve their retirement savings goals.

Confidence that current investment approach can grow portfolio to meet retirement savings goals



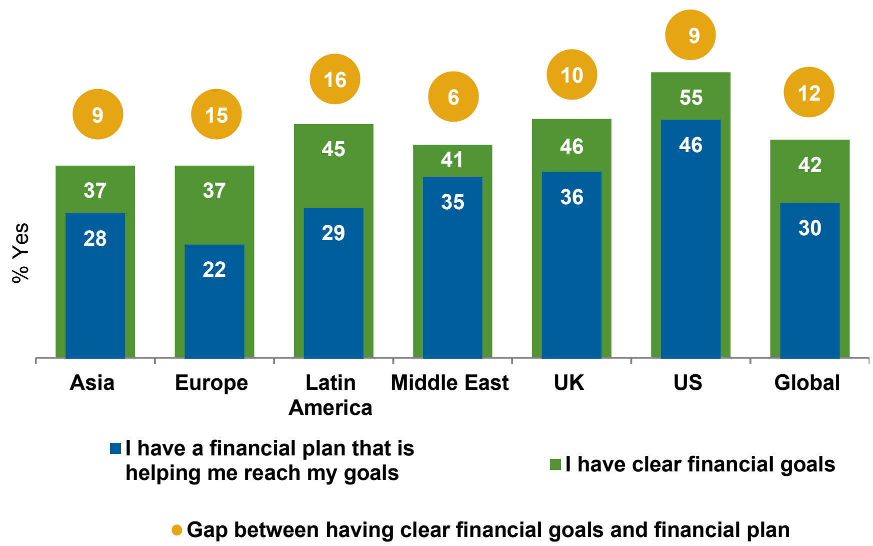
This optimism was quite limited, however, to confidence in their own decisions and the things they can influence. It is natural to overemphasize the positive role played by one's own good decision-making[1].

Although more investors claimed to have clear financial goals than last year, only 42% of people did, with three in 10 people saying that they have financial plans to help them to meet these goals.

This lack of preparedness could catch investors out in the future, especially if it reflects an underlying but misplaced confidence in their own investment approach. What are investors planning to do in the worst-case scenario where global economic shocks result in large losses?

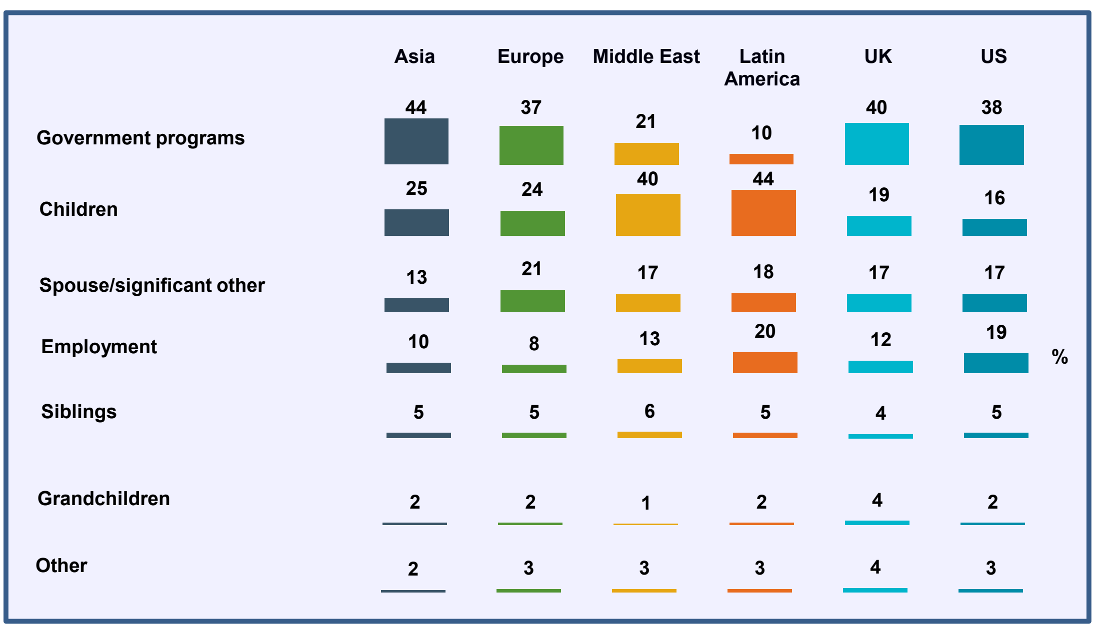
[1] 'For most people there is an attribution bias to [learning about our own abilities]: we tend to overestimate the degree to which we are responsible for our own successes…' Pg.1, Gervais, S. and Odean, T. (2001), 'Learning to Be Overconfident', *The Review of Financial Studies*, Spring 2001, Vol. 14, No. 1.

Setting clear financial goals, and planning to meet them



It seems that investors were most likely to turn to government programs for support in the event that they are unable to support themselves in retirement in the vast majority of cases, although in the Middle East and Latin America they were more likely to rely on their children in time of shortfall.

How people expect to support themselves if their retirement funding falls short:



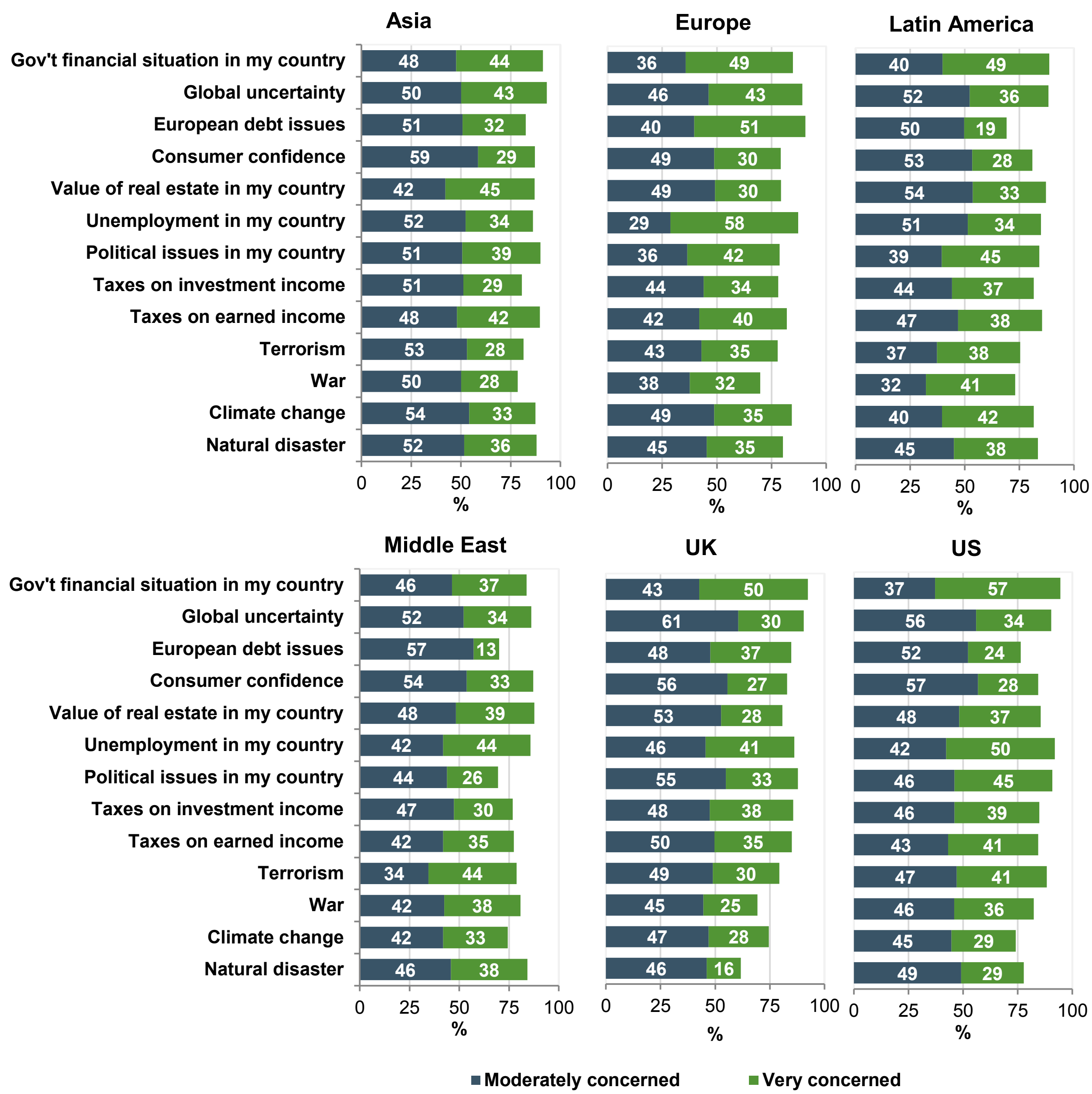
Despite this ultimate reliance on government (or perhaps because of it), it seems that investors lacked faith in governments and in the global economy.

The vast majority of investors were moderately or very concerned about the government financial situation in their countries (94% of Americans and 93% of those living in the UK, for example) in part perhaps because they were aware of their own potential dependency on the government financially?

Another major source of concern for people seemed to be global uncertainty; this was highest in Asia, where 93% of people were either *moderately* or *very concerned* about global uncertainty.

However, it was pronounced in all regions and was clearly a source of at least underlying tension for many investors in all parts of the world.

Investor concerns, by region



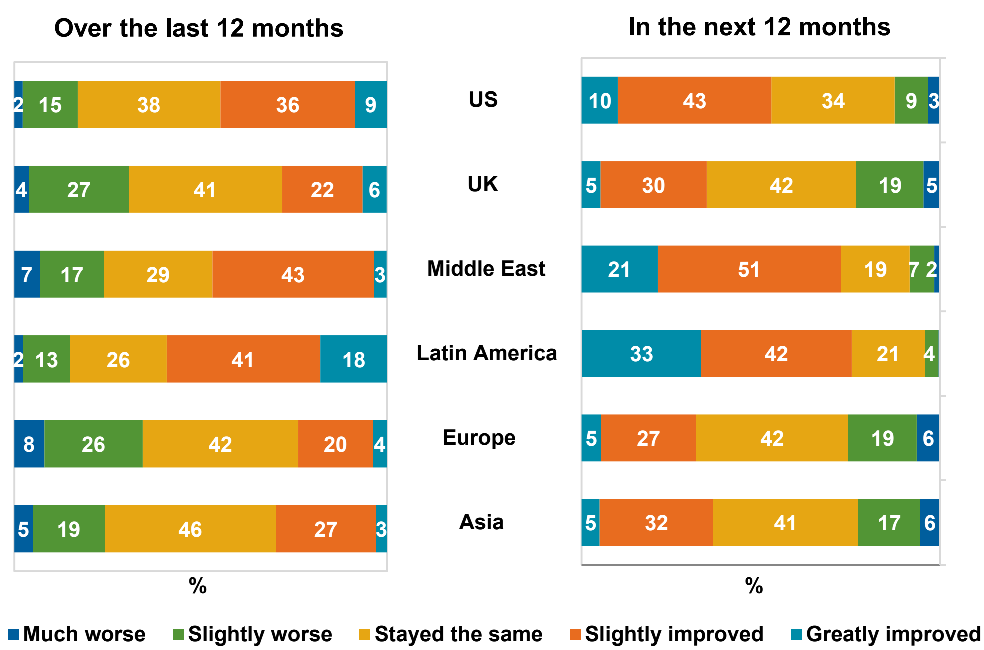
This backed up the idea that people were very aware of factors they cannot control, even as they feel confidence in their own investment approaches – 80% of people globally were confident that their investment approach will help them to meet their retirement savings goals, for instance.

In the face of these concerns, it was impressive that many investors were still feeling at all secure about their investments. However, they remained more optimistic than the above chart might suggest.

More than half of investors in the US, the Middle East, and Latin America expected their financial situation to improve over the next 12 months, with 33% of Latin Americans expecting it to improve 'greatly'.

A majority of those in other regions expected that their situations will either improve, or will stay the same, with less than a quarter in these less optimistic areas (the UK, Asia, and Europe) expecting things to get worse.

Self-reported change in financial situation, by region

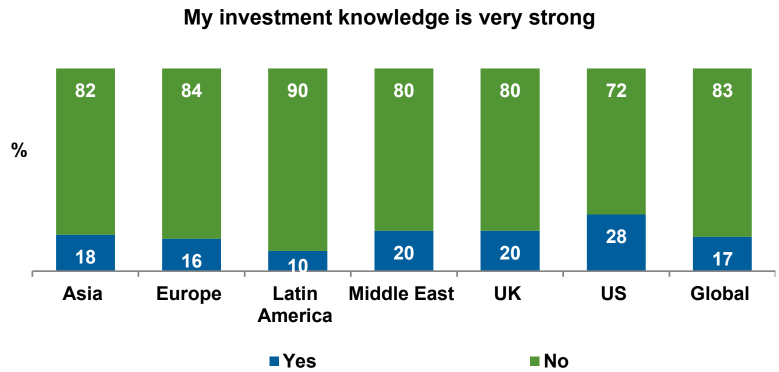


In many cases, as we could see, the projection for growth over the next 12 months was much higher than performance over the last 12 months, suggesting optimism was on the rise and investors sensed their situations will improve.

However, in many cases the problem was not the will to invest or to change their investment approach. It seemed that in an important sense, investors simply didn't know how to determine the best course of action.

Most investors, despite believing in the ability of their own investment approach to weather the volatile economic system, had little investment knowledge. Only 17% of people said their investment knowledge was 'very strong'.

In the US, less than three in 10 people claimed 'strong' investment knowledge – and in Latin America it was as low as 10%.

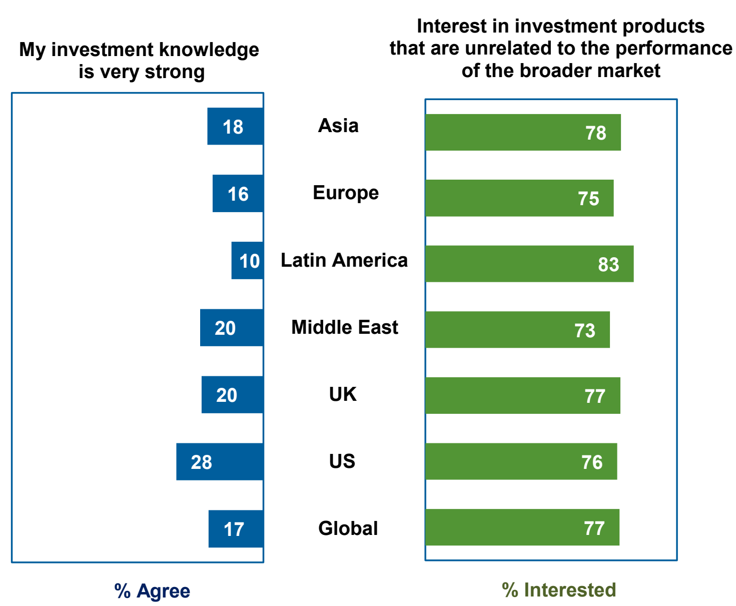


In part this may be due to a general inability people felt about how to exploit the market, even though they were beginning to feel an urgency to do so, having seen how volatility makes traditional investments less reliable.

As many people now sense after events of the past five years, equities and bonds were not necessarily the right tools for producing returns, or safeguarding wealth. Nearly 80% of people (77%) said that they were interested in investment products that were unrelated to the performance of the broader market.

However, investors were in a sort of stalemate: their knowledge about investments was low, but they knew enough, from experience, to understand not only that diversification is a good thing[1], but also that non-correlated investments can help them manage risk.

The knowledge shortfall



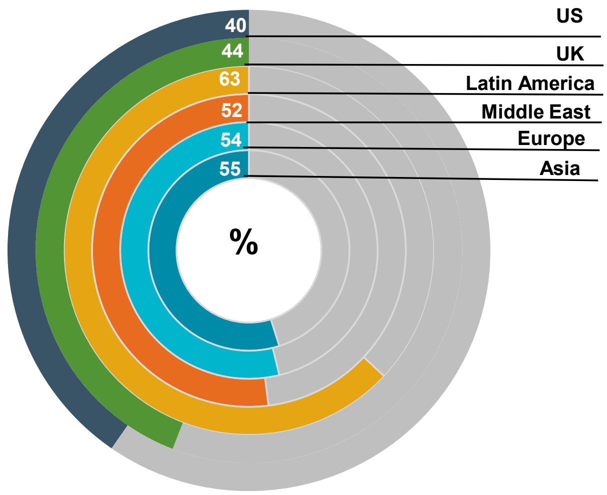
[1] Diversification does not guarantee a profit or protect against a loss.

In summary investors were not sure how to achieve returns, but were clear that they wanted to do so.

Alternative Investments

Over half of investors were reducing the proportion of cash investments in their portfolios (52%) but this was highest in the Middle East (63%) and lower in the UK (44%) and US (40%).

% of people who agree that they will reduce their portfolio's share of cash investments:

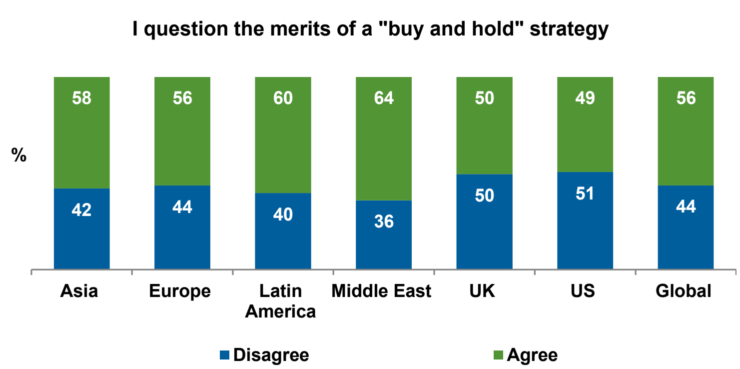


Just a fifth of investors, globally, were confident that their current investment approach will achieve diversification among asset classes (20%), and only 29% of those in the most confident region, Asia, felt this way.

Over a fifth of investors, more notably in the UK and Asia than Latin America and the US, were not confident that their investment approach will protect their investments from inflation.

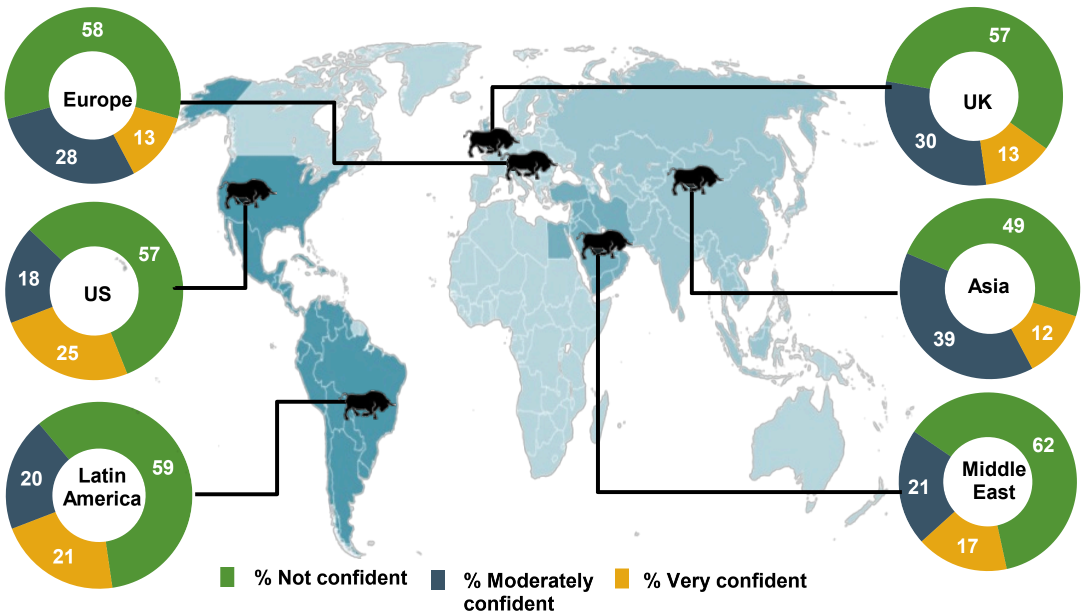
It seems therefore that there were many reasons people might be dissatisfied with their investment approaches in light of changing economic conditions and be looking to find different investment products.

66% of people agreed that a traditional approach to portfolio allocation (i.e. investing in only equities and bonds) was no longer the best way to pursue returns and manage investments for most investors, and 56% questioned the merits of a 'buy and hold' strategy of investing.



Only those in the US felt largely that their investment approach will help them take advantage of bull market periods; most other regions were only moderately confident that their investment approach will achieve this.

Confidence in the ability of their investment approach to take advantage of bull market periods:



This seemed to be at the heart of the trend of investor sentiment: investors were generally satisfied with their investment approach as far as it helps them to achieve a relatively stable value for their portfolio.

However, they were concerned about recouping losses and generating returns, and keen to find a way to grow their investments while not sacrificing too much security.

Globally, over 50% of people thought it was very important to have a variety of investments in their portfolios – this figure was higher in Latin America (58%) and the US (64%), but it was still an important indicator globally. It suggests that people were aware of the need to diversify, and raises the question that if money is coming out of traditional investments and cash, what should it be invested in instead?

As mentioned earlier, people overwhelmingly claimed to be interested in investment products that were unrelated to the performance of the broader market, with 77% of people globally saying they were.

This suggested that there could be a possible opening for alternative investments[1].

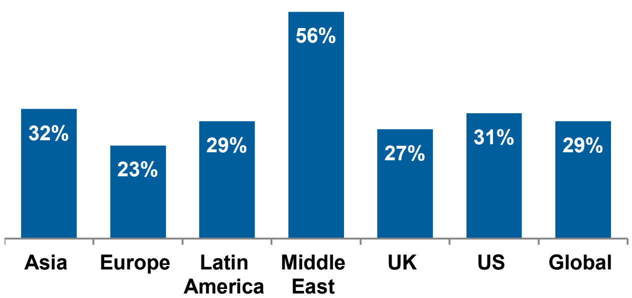
[1] **Alternatives** is an investment that is not one of the three traditional asset types (stocks, bonds and cash). Most alternative investment assets are held by institutional investors or accredited, high-net-worth individuals because of their complex nature, limited regulations and relative lack of liquidity. Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives contracts. Alternative investments involve specific risks that may be greater than those associated with traditional investments and there is no assurance that any investment will meet its performance objectives or that losses will be avoided.

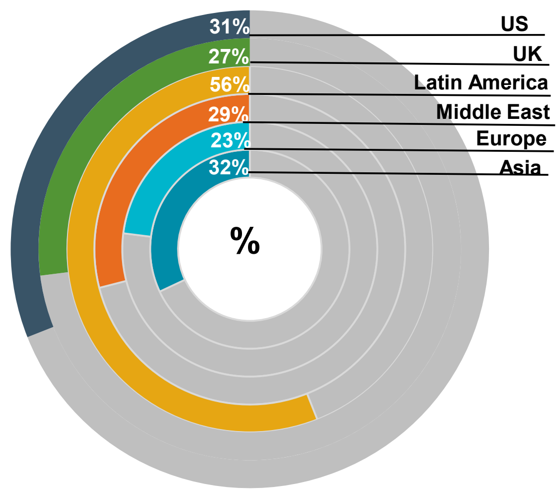
However, when asked if they are willing to invest in alternative investments, around half said they are unwilling (49%), suggesting that 51% were willing to. Nevertheless, only 29% of people currently did invest in alternatives in some way (except in the Middle East, where nearly double this proportion did).

Even the gap between these two global figures suggested that around 20% of investors might be convinced to invest in alternatives.

If just this additional 20% of investors globally were to be willing to pursue alternative investments, it would mean an additional 91,405,000 people (of those who are over the age of 18 and in the top 10% of the US, by wealth).

Do you invest in alternative investments?

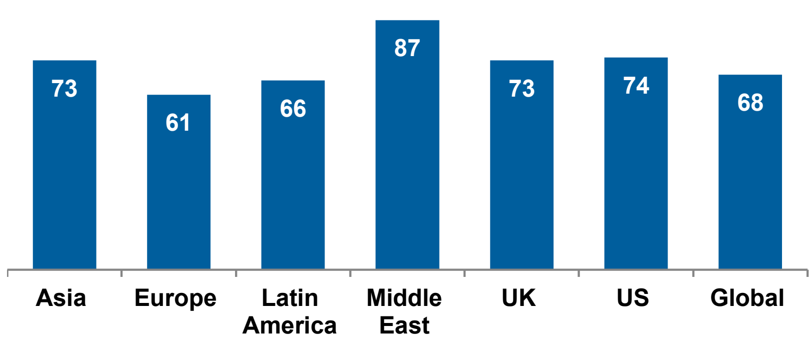




There are a number of possible reasons people, although willing, do not invest in alternatives. Largely, it seems these stem from a lack of knowledge and understanding of alternatives. People who are unwilling to invest in alternatives also may be in this position for similar reasons.

Most people have discussed alternative investments with their financial advisors – nearly 70% of people, in fact – and this number was especially high in the Middle East (87%).

Has your financial advisor ever discussed alternative investments with you (% Yes)?

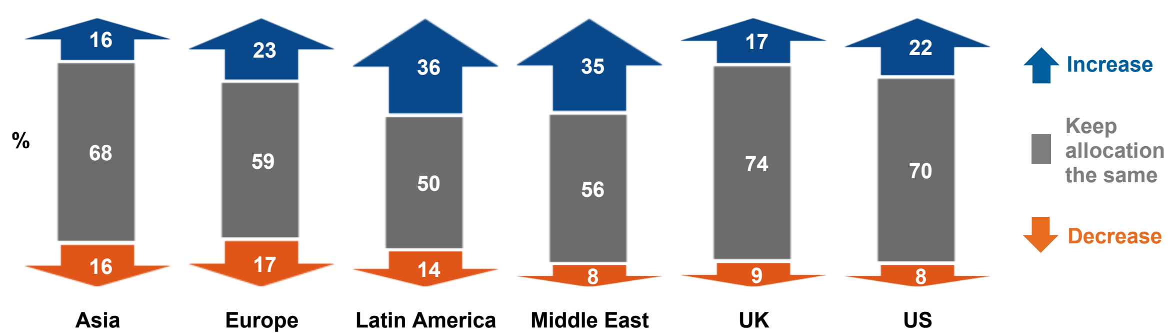


However, they did not seem to understand them well: 29.3% of people claimed not to *understand them well at all*, and a further 40% only understood *a little*. As the vast majority of people claimed only to invest in products that they understand (83.9%), this suggests that people will have a natural disinclination to invest in alternatives.

Attitudes did vary somewhat, country to country, and people may not be as negative about alternative investments as they claimed they were. When asked if they were likely to increase, decrease, or keep their allocation to alternative mutual funds the same, a majority of people said that they would keep them the same or increase them.

In the region where alternatives were least popular, Asia, 16% of people planned to decrease their allocation to alternative mutual funds (AMFs), but this will be offset by the 16% who planned to increase their allocation. In the region where alternatives were most popular, on the other hand, 36% of people planned to increase their allocation to AMFs, and only 8% were planning to decrease it.

Allocation to alternative mutual funds over the next 12 months



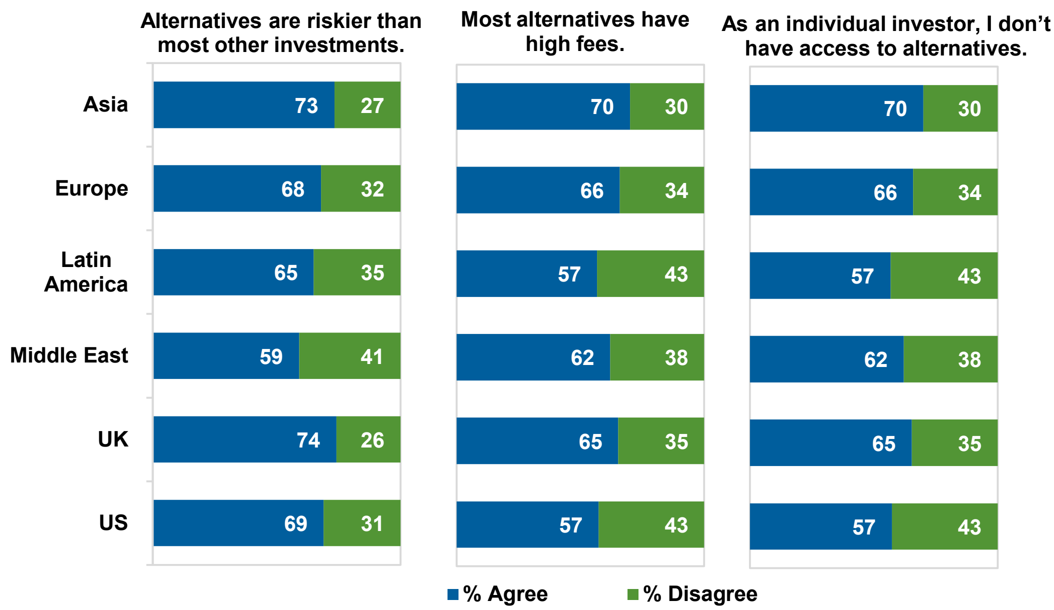
Alternatives fared better in some regions than others, and their popularity was increasing on the whole, if slowly.

However, it was still worth accounting for the fact that interest in alternatives was significantly higher than the amount of investment into alternatives, especially given how well placed alternatives were to fulfill investor desires for products which will help to grow their portfolios in volatile markets.

There were a number of misconceptions about access to and fees associated with alternative investments. Over half of the global investor population thought that individuals do not have access to alternatives in any form (53%).

70% of people believed that alternative investments are riskier than most other investments, and more than 60% of people believed that alternatives necessarily have high fees.

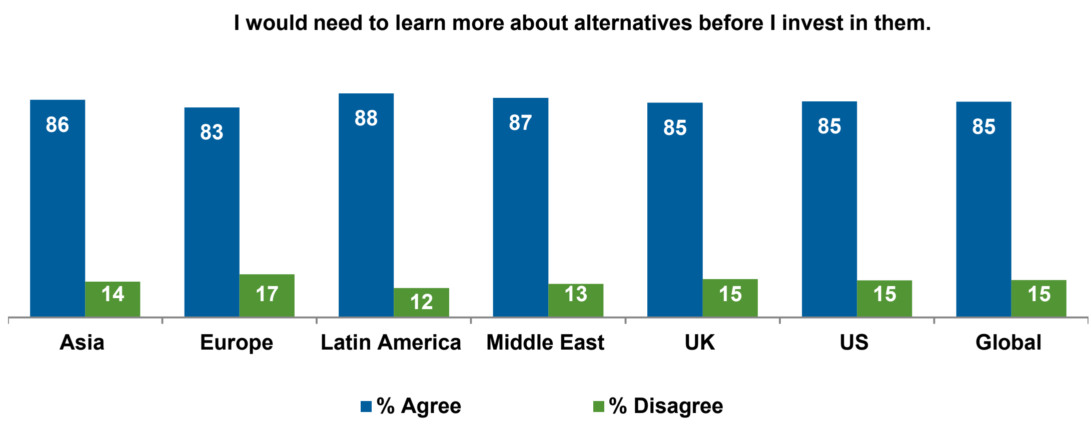
Investor opinions on alternative investments:



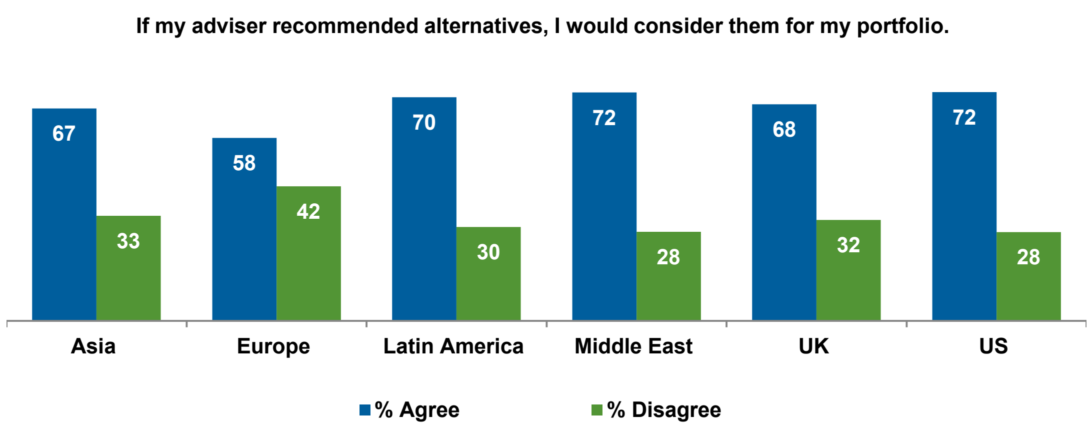
Interestingly, 10% fewer investors in the Middle East, where more people invested in alternatives, believed that alternatives are riskier, suggesting that investing in alternatives has changed people's minds on this issue and that this could be emulated in other regions with education.

Despite the fact many investors discussed alternatives with their advisors, the former held a number of misconceptions about them.

There did seem to be awareness among investors that one of the major obstacles to investing in alternatives was a lack of knowledge – 85% of them said they would need to learn more about alternatives before investing in them.



Interestingly, over 65% of people globally said that they would consider investing in alternatives if their financial advisor recommended them.



This provided some indication investors may overcome their trepidation of alternative products if their advisors support them.

Alternative investments were, at the time of the survey, a misunderstood option among both advisors and investors, yet could prove to be a critical component in a diversified portfolio, whether for income, volatility and/or risk management purposes.

Survey background

5,000+ individual investors

36 Mass Market
208 Mass Affluent
169 Emerging High-Net-Worth
337 High-Net-Worth
750 All

Representing 14 countries in six regions

Asia: Hong Kong, Japan, Singapore
Europe: France, Germany, Italy, Spain, Switzerland
Latin America: Chile, Colombia, Mexico
Middle East: Kuwait, Qatar, UAE (including Dubai)
United Kingdom
United States

One-on-one phone interviews (June/July 2013)

Approx. 30 minutes
$100 compensation or charitable donation