Schroders
Global Investor Study 2016

Investor engagement: Over confident investors and the help they want

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Overview

These are challenging times to be an investor – but the good news is that people are increasingly coming to terms with this reality. Results from the 2016 Schroders Global Investor Study suggest, for example, a growing awareness among the world's investors that they can generally expect to live for longer and will need to be more self-reliant when it comes to funding their future.

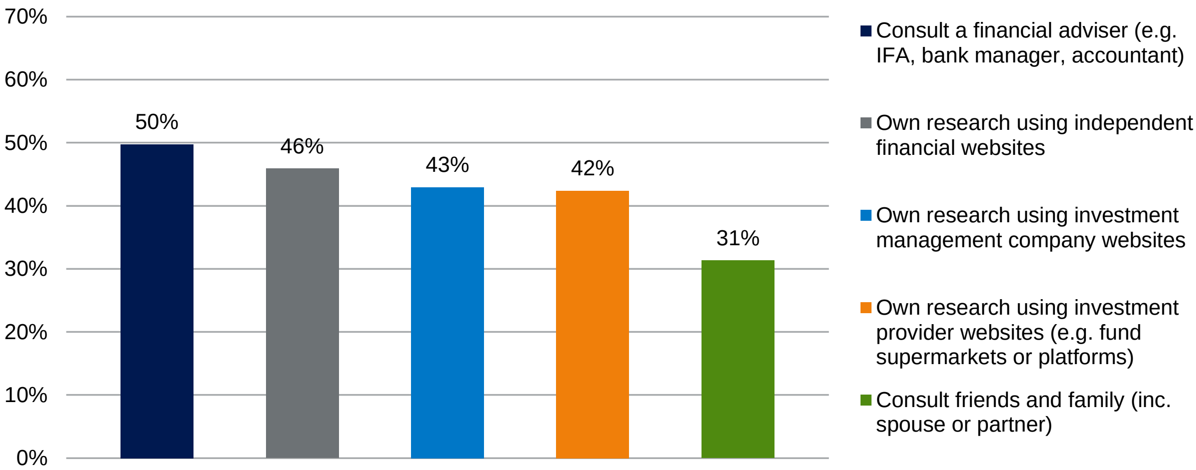
Less positively, however, the study also highlights a number of holes that still exist in many people's basic financial knowledge and which could put their long-term retirement and other investment plans at risk. Concerns about a lack of financial education in many quarters would certainly appear justified.

It is also evident from this year's study that plenty of investors might be overestimating their own investment abilities.

Although half of respondents rate themselves better than average when it comes to their general understanding of investments, almost two-thirds globally did not correctly identify what an investment management company does, confusing its role with that of, among others, a financial adviser or an investment bank.

Many consumers do, however, express a willingness to learn, with only a small proportion suggesting they have no interest in improving their understanding of investment. Both financial advisers and online research look likely to play an important part in this, with the former the more likely port of call for help when people are considering their next investment decision (see chart below). As for the latter point, the study finds investors are increasingly engaging with fund managers online although more 'traditional' methods – phone, email or through an adviser – remain commonplace.

When you next make an investment decision, which of the following are you likely to do?



Source: Schroders Global Investor Study 2016.

There seems little doubt the investment management sector has more work to do to promote greater engagement with, and a better understanding from, end-investors. Certainly there is little downside for anyone involved in the process of investment if consumers gain a greater appreciation of the role of investment managers and what they can do to help them achieve their long-term financial goals.

The risk of overconfidence

Two out of three adults around the globe have low financial literacy, according to the 2015 Global Financial Literacy Survey[1] by Standard & Poor's, which asked 150,000 people from 140 countries five multiple-choice questions on diversification, inflation and interest. In the US, for example, the survey found 57% of adults to be financially literate while the comparable figure varied enormously within the European Union – from a high of 71% in Denmark and Sweden to a low of 21% in Romania.

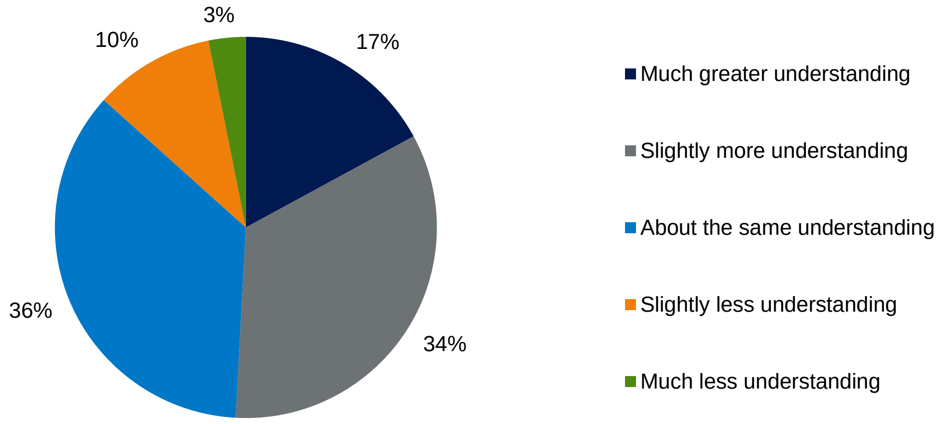
Not that this has necessarily dampened people's confidence in their ability to make investment decisions. In an echo of the Swedish psychological study[2] from the 1980s that found more than three-quarters of people rated themselves among the

[1] https://www.spglobal.com/corporate-responsibility/global-financial-literacy-survey?keyfindings

[2] http://heatherlench.com/wp-content/uploads/2008/07/svenson.pdf

top 50% of drivers, our study shows more than half of respondents (51%) believe they have a much or slightly greater understanding of investments than the average investor. As the chart below shows, just 13% feel they have a below-average understanding.

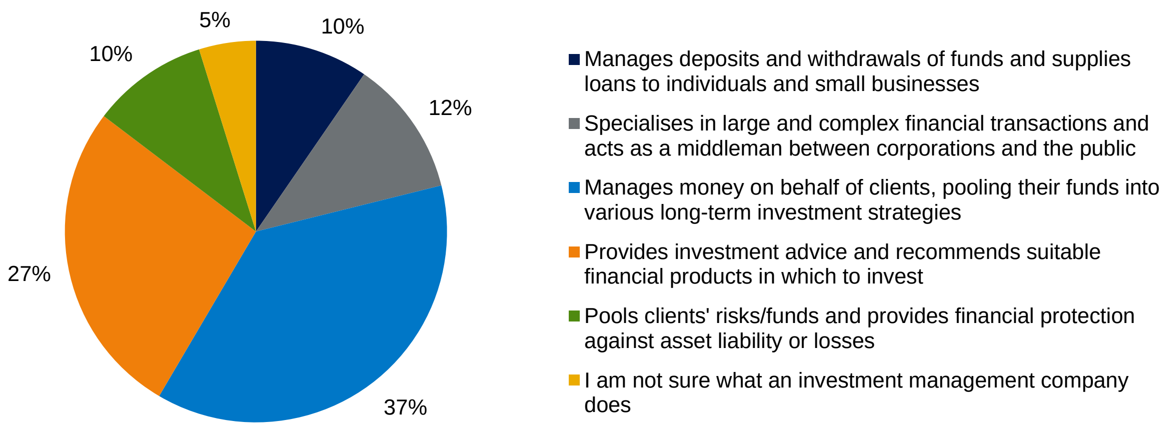
Compared to 'the average investor', which of the following best describes your general understanding of investments?



Source: Schroders Global Investor Study 2016.

Yet, to judge from consumers' ability to identify what the investment management sector does, this confidence may be misplaced. As the chart below shows, for example, more than a quarter (27%) of people believe an investment management company 'provides investment advice and recommends suitable financial products in which to invest' – the role of a financial adviser.

Which one of these phrases best describes what you think an 'investment management company' does?



Source: Schroders Global Investor Study 2016.

Meanwhile 12% believe investment managers 'specialise in large and complex financial transactions and act as middlemen between corporations and the public' – the role of an investment bank. Only a little more than one-third (37%) of respondents identified the right answer of 'managing money on behalf of clients, pooling their funds into various long-term investment strategies'.

A willingness to learn

While many may be overconfident in their understanding of investments, the study also identifies a marked willingness to improve, only one-in-nine (11%) respondents feels no need to improve their investment knowledge. To build a better understanding, two-fifths (43%) would talk to a financial adviser while a similar proportion (42%) would do their own research via independent financial websites. Investors also express an interest in taking part in online guides and tutorials (36%) or using government-provided information.

In a similar vein, half (50%) of all respondents say the next time they need to make a financial decision they will consult a financial adviser as part of the process, while 46% will look to include their own research using independent financial websites. Other popular sources of advice are investment company websites (43%) and those of fund supermarkets or platforms (42%) but less than one-third (31%) of respondents say they will include friends and family in their decision-making.

Engaging with investment managers

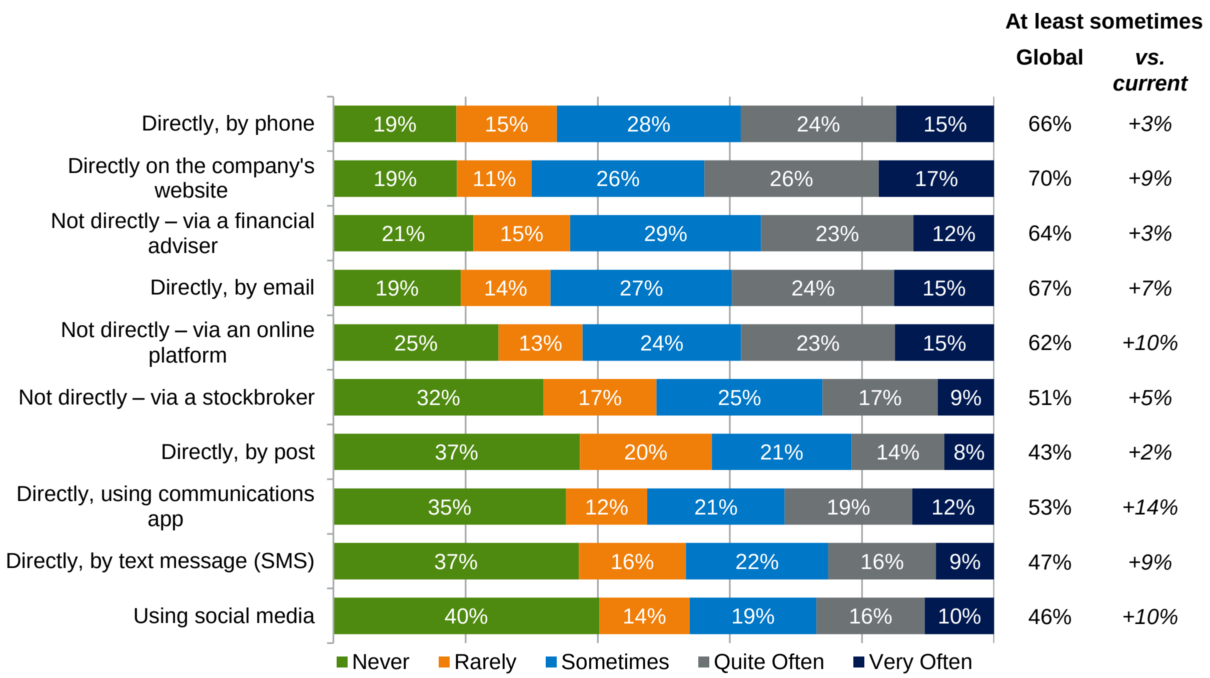
Consumers

The phone remains the most common way for consumers to interact with an investment manager, with 63% doing this at least 'sometimes'. A similar proportion engages directly via a company's website or by email – 61% and 60% respectively doing so at least 'sometimes' – while many still interact indirectly through their financial adviser.

Traditional mail is relatively unimportant, with two-fifths (41%) of respondents saying they currently never use the post and only 20% saying they use it at least 'quite often'. At the other end of the communication spectrum, however, the study finds relatively few investors are currently engaging with investment managers via social media – 51% never use it. Equally, communications apps and text messages have achieved relatively similarly low levels of penetration. In spite of platform growth, only half of investors engage with investment managers via online platforms.

Looking to the future, as the following chart shows, use of social media, text messaging and communications apps are all expected to grow in popularity over the next five years – albeit from a relatively low base. Platform penetration usage is also expected to grow, with 62% of respondents believing they will interact with investment managers that way at least 'sometimes' in five years' time. In contrast, post, phone and via a financial adviser are the areas of slowest growth.

How do you think you will interact with an investment management company in 5 years' time?



Source: Schroders Global Investor Study 2016.

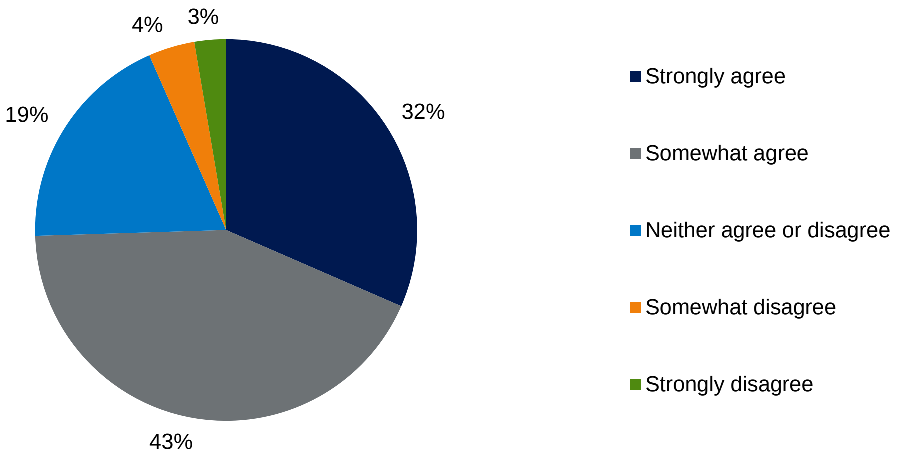
Advisers

The study also reveals the importance of engagement from the financial adviser's point of view. Asked how they would prefer to access thought-leadership content and other information provided by investment managers, almost half (47%) of advisers choose a standalone article online. Other popular methods are small seminars or meetings (44%), online infographics (41%) and online white papers (38%). One-third (33%) of advisers pick out collections of articles within an online magazine.

Active versus passive investment managers

When asked to what extent they agree that active investment managers generally add value to investments over passive managers, advisers around the world offer a ringing endorsement of the potential of active investment. As the chart below shows, three-quarters of all advisers agree the discipline adds value while just 7% disagree to any degree.

To what extent do you agree that active investment managers generally add value to investments over passive managers?



Source: Schroders Global Investor Study 2016.

The Millennial difference

'Millennials', also known as 'Generation Y', tend to do things differently. According to the latest Deloitte Millennial Survey[3], for example, Millennials – those born between the early 1980s and 2000 – think differently about corporations. The survey of 7,700 Millennials from 29 countries around the world found they generally they mistrust 'big business' and, in a similar vein, they do not display the same loyalty to their employers as previous generations.

This presents a number of issues for investment managers. Not only are Millennials less likely to be as willing to stick with investments over the longer term or to remain loyal to certain brands, an inclination to change jobs more frequently creates an extra hurdle for workplace saving.

Nevertheless, the 2016 Schroders Global Investor Study does reveal that, while the Millennial generation undoubtedly has a different investing profile, some aspects of this are perhaps not as far from the mainstream, as has been suggested.

Investment understanding

Millennials clearly display some of the overconfidence of youth, suggests the study. They are, for example, less likely to identify what an investment management company does, with a little less than one-third (32%) identifying the correct definition of the role, compared with two-fifths (41%) of older respondents.

What is more, they 'don't know that they don't know'. For one thing, Millennials are more likely to choose three of five incorrect definitions of an investment management company than their elders and, for another, they are more likely to describe themselves as having a better understanding than the average investor; three-fifths (61%) feel this way, compared with less than half (45%) of older investors.

More reassuringly, nearly all (94%) of the study's Millennial respondents say they would like to improve their investment knowledge and they are also open-minded as to how they would go about doing so. Talking to a financial adviser is a popular choice (46% versus 41% of the older investors), and they are also more willing to take part in online guides or tutorials (42% versus 32%) and view financial videos online (39% versus 30%).

Interaction with investment managers

Although Millennials might be expected to make greater use of technology in their dealings with investment managers, most in fact prefer the same methods as older generations. Around three-quarters interact at least 'sometimes' directly, via phone (76%), company website (75%) or email (75%), and indirectly, via a financial adviser (73%). Social media (56%) remains relatively lightly used even by this tech-savvy group.

[3] http://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html

Again in common with older generations, Millennials expect to use more technology-based communication in five years' time – in particular, company websites (80%), email (79%), online platforms (76%), communications apps (70%) and social media (66%). Even so, most still expect to be using the phone (79%) or a financial adviser (74%).

Although it has been suggested by some commentators that financial advisers will have to adapt their business models significantly to appeal to this next generation of investors, our study does not add weight to this view – finding instead that financial advisers still remain an important part of the investment decision-making process. Perhaps unsurprisingly, however, Millennials are more inclined to do their own web-based research than other generations.

Half of Millennial investors (51%, versus 49% of older investors) say they will consult a financial adviser the next time they make an investment decision. However, there is also a preference to use DIY research, whether it be using independent websites (46% versus 46%), investment management websites (47% versus 40%) or investment provider websites (45% versus 41%).

Conclusions

This year's Schroders Global Investor Study paints a robust picture of the demand for financial advice around the world, with half of all investors saying they plan to consult a financial adviser the next time they make an investment decision.

That said, the DIY approach is also gaining in popularity – as amply evidenced by the growth of online, direct-to-consumer brokerage platforms in recent years. In its 2015 report, The state of online brokerage platforms, for example, research group Celent expected overall annual growth rates in the US self-directed investor market to be in the region of 4% to 6% over the course of last year[4].

Any increase in DIY investing is of course to be welcomed – provided consumers are building their knowledge and engaging with their finances. Our study suggests, however, that some aspects of consumer knowledge remain relatively poor. It is, for example, difficult to feel confident people know and understand their investments if they only have a relatively scant understanding of the role of an investment manager versus an adviser, insurance company or investment bank.

What is more, consumers continue to display a worrying degree of overconfidence. As with driving ability, this has long been a well-understood behavioural trait in investing but it has significant ramifications for a person's wealth – or otherwise – in retirement. Consumers are increasingly entrusted with their own retirement provision and, our research suggests, there remains a significant gap between what they think they know and what they actually know.

The OECD[5] is leading the call for greater efforts to be made to educate the youth of the world about finance – and, again, that is to be welcomed. Yet there remain a number of generations, considerably closer to retirement, who have a relatively poor grasp of investment and what it can and cannot do for them. For a lot of people, being left to manage their retirement provision by themselves could well see them living unhappily ever after.

[4] http://info.scivantage.com/INV_Research-Celent-Online-Brokerage_DOWNLOAD.html?aliId=1252190

[5] http://www.oecd.org/newsroom/first-oecd-pisa-financial-literacy-test-finds-many-young-people-confused-by-money-matters.htm

Notes: About the Schroders Global Investor Study 2016

Schroders commissioned Research Plus Ltd to conduct, between 30 March and 25 April 2016, an independent online survey of 20,000 investors in 28 countries around the world, including Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. This research defined 'investors' as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last five years. These individuals represent the views of investors in each country included in the survey. Please note, where percentages do not add up to 100%, this is due to decimal rounding or a multi-coded question.