Behavioral Insights

Results from ASI's Behavioral
Research on U.S Investors

U.S. Investor Demographics

by
Mark Ferrari, PhD
&
Li Huang, CFA

Behavioral IQ White Paper 1708-1

© Advisor Software, Inc.
12 September 2017

Introduction

In August 2017 Advisor Software commissioned a survey of 5000 U.S. adults in collaboration with our partners Be-IQ International Ltd. The purpose of the survey is to relate investors' attitudes and actions to their behavioral profiles as measured by the Behavioral IQ product. This document reports early results focusing on the demographics and investment choices made by the individuals surveyed.

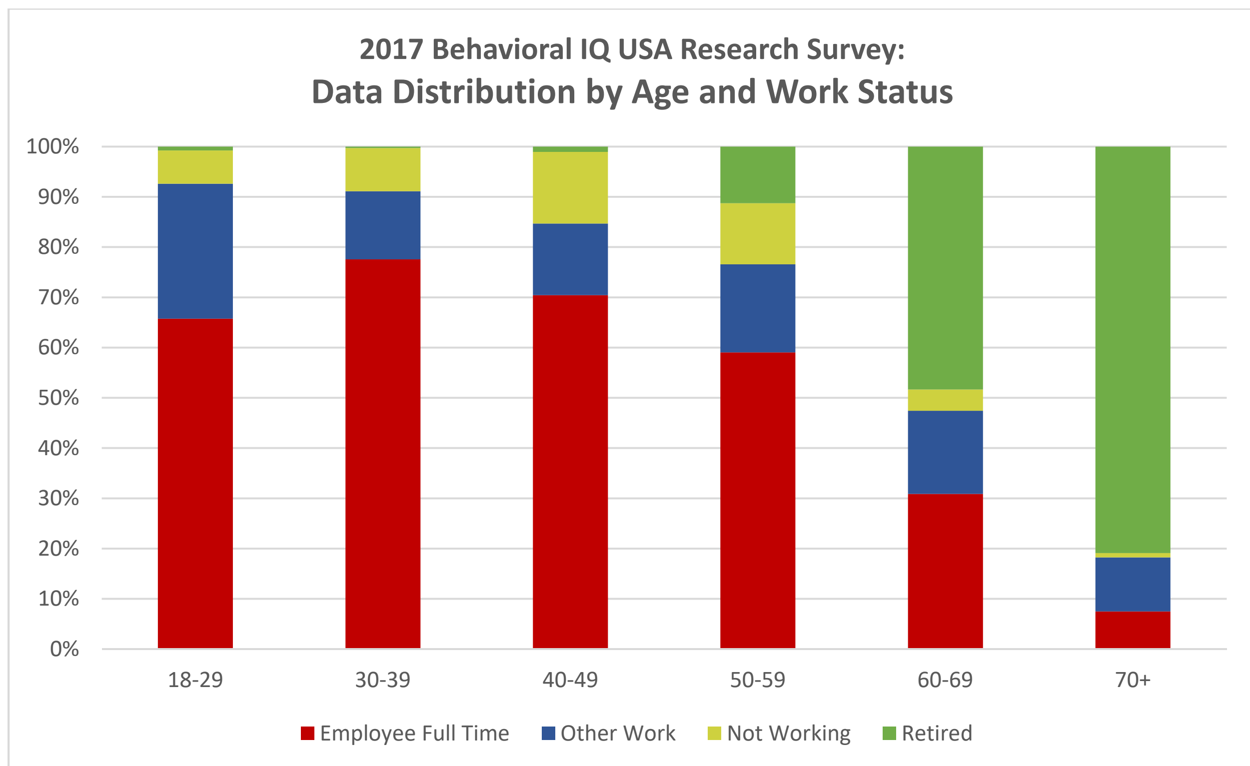
Survey Questionnaire

Advisor Software engaged a global survey firm to collect data from a sample of U.S. individuals with household incomes of $80,000 and above, approximately the 65th percentile of household income according to 2015 census data. Although some selection bias is inevitable in a paid digital survey, the sample is expected to be broadly representative of the U.S. population in this income segment. The actual number of unique individuals completing the survey was 5005.

Because our income threshold is a higher hurdle for younger investors, all ages are not equally represented in our sample. Individuals under 40 years old constitute the youngest 18% of our sample, those aged 40 through 59 the next 32%, and those 60 and over the remaining 50%.

Employment

This figure illustrates the distribution of employment status for each of six age cohorts.



We examine four broad categories of employment: full-time employee, other work (part time, self-employed, or student), retired, and not working for any other reason. The proportion reporting that they are not working peaks in the middle decades, representing primarily stay-at-home parents. The demographic transition from working to retirement is clear, and our sample of retired people is large enough that we will be able to report results for ages 50 and higher.

One of our main directions of inquiry is to better understand the behavioral links between investors' financial

decision making during the transition between working and retirement. We believe that an investor's behavioral profile provides important clues as to how investors manage this transition as well as managing their goals in retirement. For example, the way investors manage their trade-offs between the probability of running out of money and providing a legacy to their heirs are likely influenced by their behavioral biases. We intend to report on these important issues in forthcoming white papers.

Savings Adequacy

We asked respondents for their gross annual household income and for their investable wealth excluding home, Social Security, and pension. From these we can compute the ratio of wealth to income, a rough measure of savings adequacy for retirement. Restricting our attention to the half of our sample who are employed—so that the income denominator arguably represents a lifestyle expectation—we tabulate the median ratio of wealth to income by age:

2017 Behavioral IQ USA Research Survey:

Median Wealth to Income Ratio by Age for Working Individuals

Age	Percent	Median Wealth to Income Ratio
18-29	7%	0.53
30-39	21%	1.13
40-49	16%	1.13
50-59	25%	2.50
60-69	23%	3.10
70+	7%	4.31
	100%	1.96

Sample size: 2,565

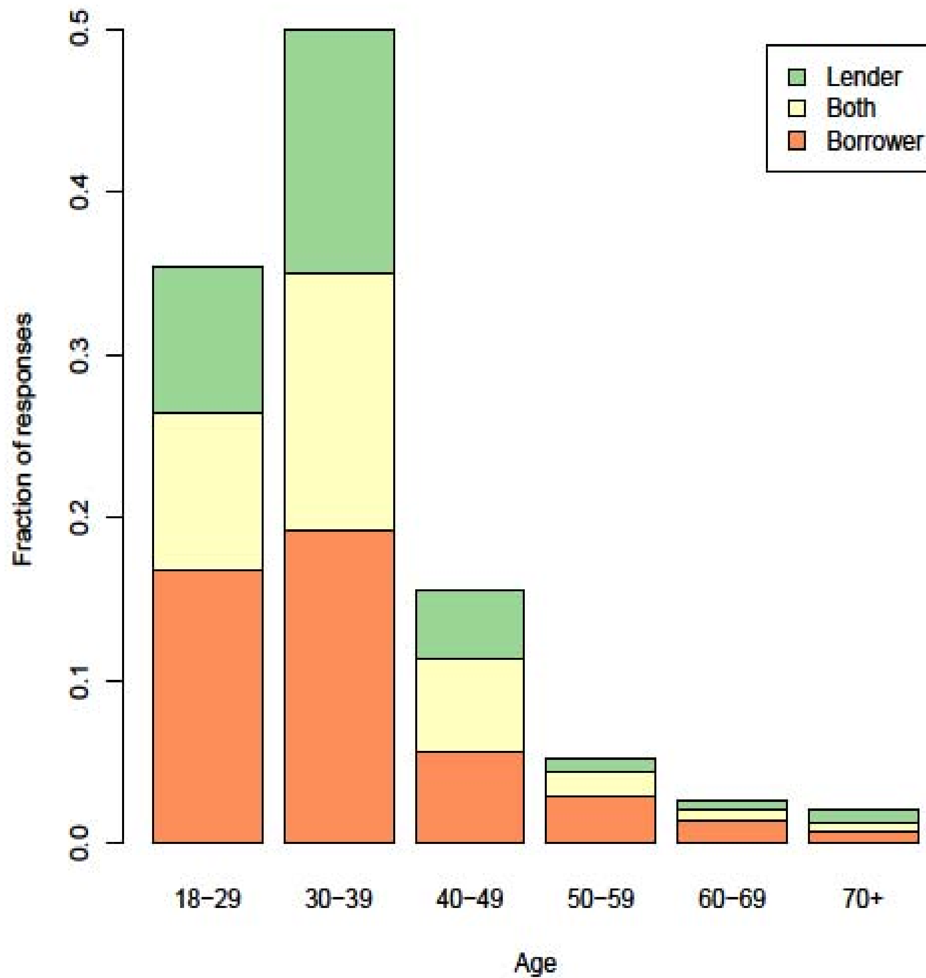
As expected, assets as a multiple of income rise with age as working people save for retirement. However, the magnitude of the ratio is a cause for concern; even those working past 60 years of age have typically saved only three to four years' income. Accounting for pension present value and real estate investment would make this situation appear less dire, but given that we are surveying investors in the top third of U.S. household income, the rate of wealth accumulation is surprisingly low. Later in this report we will examine differences between investors with high and low wealth to income ratios.

Peer-to-Peer Lending

Before focusing on retired investors, we investigate a striking difference among age cohorts. The following figure illustrates responses to the survey question, "Have you ever participated as a borrower or as a lender in a peer-to-peer marketplace such as Prosper or Lending Club?" Individuals were scored as not participating if they chose "Neither" or "Not sure." Nevertheless, more than one-third of investors in their twenties or younger have chosen to be a peer-to-peer borrower or lender, and among the cohort in their thirties the majority have participated. Participation tails off dramatically for older cohorts.

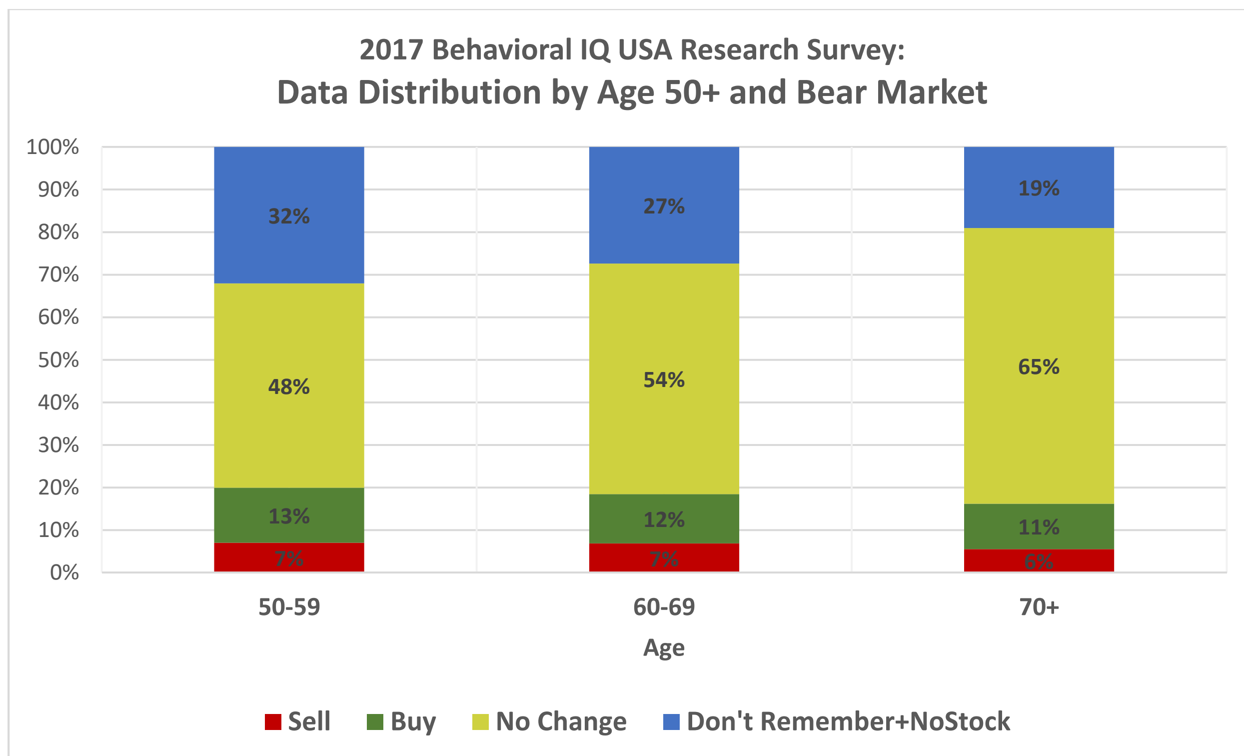
Advisors who rely solely on their experience with current retirees will greatly underestimate the importance of peer-to-peer as an asset class. In the future retirees and near-retirees looking to enhance income may well be

familiar with peer-to-peer lending, which could easily condition their attitude to asset selection away from more traditional products in pursuit of enhanced income.



Response to Market Crisis

We now turn our attention to the 1715 investors (34% of our sample) who describe themselves as retired. The 2007 – 2009 bear market was a testing time for those in or near retirement. Our survey asked them for their response at the time.



Only a small fraction of investors report that they tried to time the stock market in the wake of the crisis. Roughly 7% tried to avoid further losses by selling stocks or stock funds, while 12% tried to make money by buying stocks when they were down. The majority of retired investors made no major changes to their investments. Interestingly, about a quarter of retirees are disengaged from the stock market, either not having been invested in stocks during 2007 – 2009 or not remembering what action they took.

If there is any pattern across the columns in the figure, it is the wisdom of age. Older investors are more likely to have stayed the course rather than trading as the market plunged, more likely to have been invested in stocks in the first place, and less likely to have forgotten their reaction over time. However, the cohorts differ by only a few percentage points; the effect of age is not strong. Our future research will investigate the behavioral determinants of such investment decisions, looking for stronger and perhaps predictive measures indicating who will panic in a crisis.

Advice and Monitoring

The market for investment advice is fragmented and in flux. To understand it better, our survey asked retired individuals, "Who helps you or your partner when making investment decisions?" The possible answers were as follows:

- I spend as little time as possible thinking about my investments
- A fully automated solution (robo advisor) like Wealthfront or Betterment
- A combination of online tools and human advice like those from Schwab or Fidelity
- An advisor I can talk to in person or on the phone
- I choose all of my investments myself
- Not sure

The following table shows that a human advisor is the choice of the majority of retirees. An entirely self-directed portfolio is the second choice at 27%. Essentially no one in our sample uses a robo advisor in retirement. This, together with the fact that 5% do not know where their investment advice is coming from, potentially indicates market opportunities.

		Frequency						
		Never	**Once a year**	**Every few months**	**Once a month**	**Several times a month**	**Daily**	
Advice	**As Little as Possible**	52	23	23	17	5	0	**7%**
	Robo	0	2	2	0	0	1	**0%**
	Combination	0	5	43	34	25	35	**8%**
	Advisor	12	74	246	314	151	100	**52%**
	Self	20	43	95	107	88	117	**27%**
	Not Sure	35	12	14	16	2	2	**5%**
		7%	**9%**	**25%**	**28%**	**16%**	**15%**	

We cross-tabulate the source of advice with the individual's answer to "Roughly how often do you look at the value of your investments?" There is a wide range of answers with "Once a month" being the most common. Unsurprisingly, people who don't like to think about their investments don't check values very often. There is no evidence for the stereotype of the self-directed investor as a screen-obsessed day trader; such investors are more likely to check their portfolio once a month or less than they are weekly or daily.

Interestingly, of the 27% of investors who are self-directed, fully a quarter check their portfolios daily, a higher proportion of investors than those who follow any other advice model (although closely followed by investors who use a combination of advice sources.) Why? Do self-directed investors have higher loss aversion than other investor types? Or are they lacking in confidence? We will opine on this as part of our research study since the goal of Behavioral IQ is to understand the aspects of personality that locate an investor in a particular region of this matrix.

Wealth Formation and Advice

In the section titled "Savings Adequacy" we calculated the ratio of investable wealth to household income for working individuals. We can use this ratio to separate our respondents into high savers and low savers depending on whether their ratio is respectively above or below the median ratio for their age cohort. The next table shows the source of investing advice separately for high and low savers.

2017 Behavioral IQ USA Research Survey:

Data Distribution by Saving and Advice for Working Individuals

Advice	High Savers count	%	Low Savers count	%
As Little As Possible	30	3%	185	14%
Robo	36	3%	47	3%
Comb	243	20%	191	14%
Advisor	585	49%	452	33%
Self	286	24%	382	28%
Not sure	20	2%	108	8%
	1,200	100%	1,365	100%

In contrast to retired investors, current workers are more likely to use a robo advisor or a combination of human and online tools, although these are still the two least popular options. The low savers are clearly less interested in their financial strategy: 22% report either "as little as possible" or "not sure." The high savers are avid consumers of personalized advice, with 69% employing either a human advisor or a combination, in contrast to 47% for the low savers.

For Further Information

For further information on Behavioral IQ please contact Alex Zicman at 925-444-1321 or at email azicman@advisorsoftware.com .