2014 Global Survey of Individual Investors

Cautious, Conflicted, Needing Guidance

NATIXIS
GLOBAL ASSET MANAGEMENT

Contents

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Project Background and Methodology

2014 marks the release of the fifth annual Natixis Global Asset Management (NGAM) Individual Investor Survey.

CoreData Research was commissioned by NGAM to conduct the study of savers and investors across 14 countries in order to better understand attitudes, behavior, sentiment and how they benchmark performance and navigate investment markets.

Specifically, the study looks at investor attitudes toward portfolio construction, risk, advice, and saving and their general sentiment.

The research was carried out in March 2014.

There were 5,950 individuals involved in the study, from the following countries:

Chile: 200 respondents
Colombia: 200 respondents
France: 500 respondents
Germany: 500 respondents
Hong Kong: 350 respondents
Italy: 500 respondents
Japan: 250 respondents
Mexico: 200 respondents
Singapore: 350 respondents
Spain: 500 respondents
Switzerland: 350 respondents
UAE: 250 respondents
United Kingdom: 750 respondents
United States: 1050 respondents

An online quantitative survey, comprising 30 questions, was developed and hosted by CoreData Research.

A sample of 5,950 individual investors with a minimum net worth of US$200,000 (or Purchase Price Parity [PPP] equivalent) was obtained for the purposes of this study. Results are analyzed with segmentation from a range of perspectives.

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Executive Summary

Introduction

Investors worldwide are at an impasse on reaching their financial goals, relying on little more than gut instinct as a guide to investing success despite admitted lack of investment knowledge. Few have clearly defined goals or a plan to reach them, and they are torn between a desire for high, historically unrealistic, returns and insecurity about taking on risk. While there are positive signs that investors are seeking new approaches to investing – as well as new, more personal ways to measure and track progress toward goals – the fact remains that without a dramatic change in course by both investors and advisors, millions remain stuck in neutral and exposed to the greatest risk of all: falling short on their financial goals.

Investors around the world say they'll need to earn average gains of 9 percent a year, above inflation, to meet their financial requirements. However, this high, and historically unrealistic, expectation of growth is in stark contrast to investor behavior and well-established aversion to risk.

Despite lofty aspirations, as many as seven in 10 investors worldwide say they are conflicted about the balance of risk and return in investment decision making. And if forced to choose, more than three-quarters (78%) would side with safety over outperformance.

As a result, many investors today are unable to move forward, caught in a conflicted behavioural and psychological battle between the hunt for investment returns and desire of a safe haven for their financial assets. Without a course correction, they and their investment portfolios are at risk of falling short of their financial goals.

What led investors to this point? In a study of 5,950 investors around the world, Natixis Global Asset Management found that nearly six in 10 (58%) of investors do not have clear financial goals, 68 percent do not have a financial plan to reach them, and 80 percent simply follow their gut when making investment decisions.

Education and new understanding of risk, return and performance benchmarks needed

The stakes are high for investors who now face perpetual volatility in the market and new, bigger risks to their financial security, particularly in retirement. The path forward calls for a change in investors' approach to investing, one that includes a new understanding of risk and reward, more meaningful performance benchmarks and disciplined involvement in the investment process with an advisor who understands their goals and personal risk tolerance.

It is an approach that manages risk by using it as a portfolio advantage, rather than a necessary evil of investing. Through diversification that levers upside and downside risk with correlated and non-correlated asset classes, investors can move beyond the risk/return impasse and build portfolios that aim to accomplish both.

Admittedly, embracing risk defies logic for many investors still healing from the financial crisis and who appear to lack sufficient knowledge to navigate new and rapidly changing dynamics of the markets.

Market volatility has eroded confidence in the markets for two-thirds (66%) of investors worldwide. For example, four in 10 (41%) say that achieving stable returns amid market volatility is most important in their investment decision-making, yet only 19 percent of investors are very confident that their current investment approach will protect their portfolio from dramatic swings in value, and only about one-half (55%) feel knowledgeable about investment strategies that produce stable returns/income.

Eight in 10 (82%) of investors worldwide say they only invest in products they understand, yet only 18 percent of investors feel that their overall investment knowledge is very strong. Fully two-thirds of investors agree that a traditional approach (equities and bonds) to portfolio allocation is no longer the best way to pursue returns and manage investments. Not surprisingly, the top asset classes investors intend to maintain or increase allocations to over the next 12 months are stocks, bonds and cash.

Nearly six in 10 (57%) of investors say they do not understand alternative investments. One-half (49%) do not even think they have access to alternatives as an individual investor, including 44 percent of high net worth investors. And given their lack of knowledge, it's not surprising that 69 percent of investors perceive alternative investments to be risky, despite their potential to produce returns not correlated to the broader market.

Evidence of a turning point in investor behavior and sentiment

There is evidence of a turning point in behavior, as strong global markets have slightly diminished investor fear factor over the past year and provided the sense of comfort most investors still rely on. Two-thirds of investors worldwide say that asset growth is increasingly a priority over asset protection.

Eighty-four percent report that they are trying to measure risk in their portfolio, and at least half say they can endure higher levels of risk now than they could a few years ago.

Investors are also starting to look at risk and performance in more personal ways, which will help them better understand their goals and overall tolerance levels. A significant majority (63%), for example, worry more about the risk of not achieving their own specific investment goals than not beating the broad market, two-thirds of investors (67%) are willing to set a target return independent of the broad market and three-quarters (76%) say they would be content to achieve their goals even if it meant underperforming the market. A large majority (73%) are confident their portfolios are based on personal goals and benchmarks.

Yet, more than five years on from the financial crisis, scars remain. Globally, two-thirds of investors say they are willing to take on only minimal investment risk, even if it means sacrificing returns. In Europe 71 percent of investors still are unwilling to increase risk, up from 68 percent a year ago. By comparison, 56 percent of investors share a similar view on risk in the U.S., where risk tolerance and investor confidence are higher and evidence of behavior change is accelerating faster than in most other countries.

When asked what would help them the most in reaching their goals, 42 percent of investors worldwide recognize that they need better investing knowledge. Further good news is that more investors are turning to professional advisors to guide them to investing success. Globally, 63 percent of investors at least occasionally use an investment adviser, an increase by 10 percentage points in advisor usage since last year. Equally important, they are more likely to have established an ongoing relationship with a dedicated financial advisor.

Ongoing use of a financial advisor is highest in the United States and lowest in Asia. In turn, investor confidence and investment knowledge are highest in the U.S. while investors in Asia have the lowest level of investor confidence.

By all indications, the nature of advisor relationships appears to have a marked effect on investment decision-making and benchmarking. For example, in Europe, more investors have turned to advisors over the past year, but fewer have an ongoing relationship with a dedicated advisor.   With the exception of the U.K., European investors are least likely to have clear financial goals or a financial plan. More than half (54%) of U.S. investors say an advisor has input on setting investment performance goals, far more than in other countries.

Globally and generally, investors who use a financial advisor are more likely than those without one to have clear investment goals, a financial plan for reaching them, stronger investment knowledge and greater tolerance for risk. These enlightened and advised investors also are more likely to be focused on growth as an investment priority, and have greater confidence in their portfolios to withstand market fluctuations.

Sixty-eight percent of investors now say they are more interested in discussing risk with an advisor, and 63 percent say they are revealing their needs and expectations more than ever. With greater guidance to help them navigate the rapidly changing markets, investors appear to be open to new approaches in the way they invest. Two-thirds (67%) of investors worldwide say they are willing to set target returns independent of the market, and three-quarters would be satisfied if they achieved their annual investment targets, even if they underperformed the market.

The ultimate long-term goal: Retirement planning still low, but improving

When it comes to retirement, 69 percent of global investors want to retire by the time they reach the age of 65. Yet only 22 percent are very confident that their current investment approach is on track to provide steady income in retirement. Thirty-seven percent of investors worldwide have little or no knowledge of the annual income they need to live comfortably in retirement. One-half (50%) have little or no knowledge of the annual return needed to reach long term goals, and 54 percent have little or no knowledge of the strategies needed to achieve steady returns through market cycles. However, investors appear to be more acutely aware of the risks to their financial security in retirement and their need to plan.

Among the perceived risks to financial security in retirement, the most notable change among investors worldwide is greater awareness of the costs associated with living longer in retirement. Long-term care costs not covered by insurance was cited by investors around the world as the top threat to their financial security in retirement, rising 10 percentage points over the past year to surpass insufficient proceeds from pension and even a decline in savings due to market conditions.

The top five risks to retirement security are:

- Long-term care costs not covered by insurance (43%)
- Government financial situation (31%)
- Insufficient funds from government pension (27%)
- Insufficient proceeds from pension or other benefit plan (26%)
- Lack of work (physical limitations) (25%)

Global Investor Mood and Trends

Investors worldwide are at an impasse on reaching their financial goals, relying on little more than gut instinct to guide investment success despite their admitted lack of investment knowledge.

Few have clearly defined goals or a plan for reaching them, while many are torn between a desire for high, historically unrealistic returns and insecurity about taking on risk, leaving them to worry more about what's happening in the markets rather than using any meaningful benchmarks for assessing personal progress.

There are further indications in 2014 that investors want a new approach to investing and a guide to lead them forward. Without a change in course and support from investment advisors, many remain stuck at the impasse of risk/return and exposed to the greatest risk of all: falling short of their financial goals.

Thus the modern day investor is conflicted, wanting to move forward in pursuit of asset growth, yet not at a velocity that creates exposure to additional risk and the potential polar opposite effect on portfolios – decreasing rather than increasing value.

When it comes to markets, investors are desperate for growth but petrified of loss, as they pursue a seemingly perpetual balancing act.

Seventy percent of investors globally face an ongoing psychological battle between the hunt for investment returns versus the preservation of capital [67% in 2013[1]], and tied to this, 86% of investors seek to balance risk and return [84% in 2013[1]].

With market dynamics creating so many moving parts and unknown, unknowns, investors are keen to try and influence the cards in their favor, even if for just a slight advantage – primarily being protection of assets.

More than five years on from the financial crisis and although a lot of healing has occurred and much water has passed under the bridge, scars remain.

Europeans are most affected by events over the past five years – 50 per cent more so than U.S. investors.

Only one in five (19%) investors globally are very confident their current investment approach can withstand a market shock [19% in 2013[1]].

Strong global markets have slightly reduced the fear factor among investors this year, but despite this change, it doesn't mean investors are willing to aggressively pursue asset growth.

[1] **Natixis Global Asset Management, Global Survey of Individual Investors, September 2013.**

There is, however, a strong interest in measuring risk, reflected in a staggering 84% of investors who try to measure the risk of their investments [83% in 2013[1]]. However this could prove challenging as only 18% of all investors say that their investment knowledge is strong [17% in 2013[1]].

Conflicts and Paradoxes

Markets have risen strongly in the 12 months since the last Natixis Global Asset Management (NGAM) Individual Investor Survey. The message in 2014, and the fifth edition of this study, is that investors are guarded.

78% of investors globally are inclined to take safety over performance, which reflects the mentality of investors in 2014 [77% in 2013[1]].

It seems regardless of market movements people remain cautious in their outlook – if times are good there is a sense they can always turn bad, despite there being a general view that the past five years, despite the volatility, reflect a prolonged *bull market* period.

Notwithstanding the inherent caution among investors globally, approximately one-third of those yet to retire want to do so before the age of 60. Yet for many the desire to retire early is hindered further by the fact that increased longevity makes the mathematics of early retirement impractical.

Nearly two-thirds of investors globally (65%) feel they require between 5 percent and 15 percent annualized returns (after accounting for inflation) to meet their retirement income goals, while 12 percent of investors globally say they require annualized returns over 15 percent.

A disclaimer here, though, is that only 16 percent of investors actually claim to have a very strong appreciation of the annual income needed in retirement to live comfortably.

Regardless, the aforementioned annualized returns may only be achievable if the risk tolerance exists to pursue these specific goals.

The problem is the lack of appetite for minimal loss among large swathes of investors, an example being that 26% of investors globally define success as only experiencing investment gains and no losses – a near impossibility over any investment horizon.

Almost half of investors globally cite the absence of losing as success, which supports the fact that only 50 percent of investors globally feel they can endure more risk now than they could in previous years.

[1] Natixis Global Asset Management, Global Survey of Individual Investors, September 2013.

But tolerance levels remain low, even if they have crept up for some people post-financial crisis.

This isn't to say investors are oblivious to the challenges ahead, as many are well aware that too cautious an approach will leave them short of where they need to be when they retire, and in fact two-thirds (67%) cite asset growth as a priority [67% in 2013[1]].

The problem, again, is that wanting something and doing what is needed to meet that goal are two completely different things.

Asian investors are least confident that their investment approach will grow their assets to a level to meet their retirement saving goals.

LatAM and U.S. investors are most confident about their long-term retirement goals being met.

So what is Plan B?

According to the survey, there are three general pillars investors will look to in the event their retirement income falls short, with these accounting for 77 percent of an investor's Plan B.

These are:

- Work longer (31%)
- Government assistance (25%)
- Spouse/Significant other (21%)

One of the biggest concerns investors have for their financial security in retirement is the potentially eroding effect on their pension pot of paying for long-term care costs that sit outside what would be covered by insurance.

This is a concern for 43% of investors globally.

Meanwhile on the subject of investment appetite, globally, the pendulum continues to reside on the side of caution with an almost exact ratio as those citing growth as a priority this year also reveal an inclination to take only minimal investment risk (66%) [64% in 2013[1]].

One exception is the U.S., where 47% [39% in 2013[1]] disagree that they're only willing to take minimal investment risk, which contrasts with Europe where 71% [68% in 2013[1]] of investors are risk-averse.

Interestingly, saving is just as important as investing when it comes to gauging progress, with 40 percent of investors globally citing meeting their saving targets as a solid indicator, versus only 33 percent who consider the investment returns they've achieved.

So what is the route investors need to take to reach their destination?

[1] Natixis Global Asset Management, Global Survey of Individual Investors, September 2013.

It seems globally the consensus view is that what may have worked historically is not best suited for today's markets, with 66 percent of investors globally agreeing that a traditional approach is no longer the best way to pursue investment returns [65% in 2013[1]].

It all depends on education, though, with 82 per cent of investors globally saying they only invest in products they understand [84% in 2013[1]].

When it comes to alternative investments[2], similar to previous years, the role of advisors cannot be understated. Seventy-three percent of investors globally say they would consider alternative investments if their advisor recommended them [65% in 2013[2]].

This is in the added context of 82 percent of investors globally saying they would need to learn more about alternatives before investing [85% in 2013[1]].

This supports previous years' research that investors are open to taking new approaches, but that understanding and education are critical to changing actual behavior.

In fact, 69 percent of investors globally believe alternative investments are riskier than most other investments [69% in 2013[1]].

In addition, 65 percent of investors globally believe alternative investments have higher fees [64% in 2013[1]].

[1] Natixis Global Asset Management, Global Survey of Individual Investors, September 2013.

[2] An alternative 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.

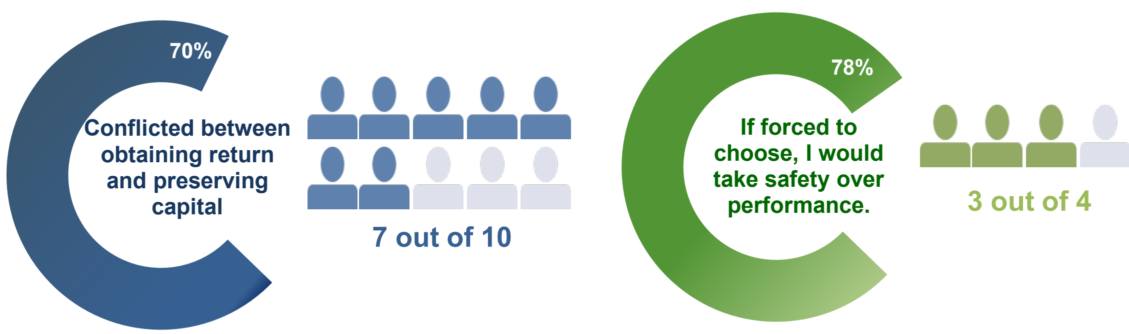
Research Findings

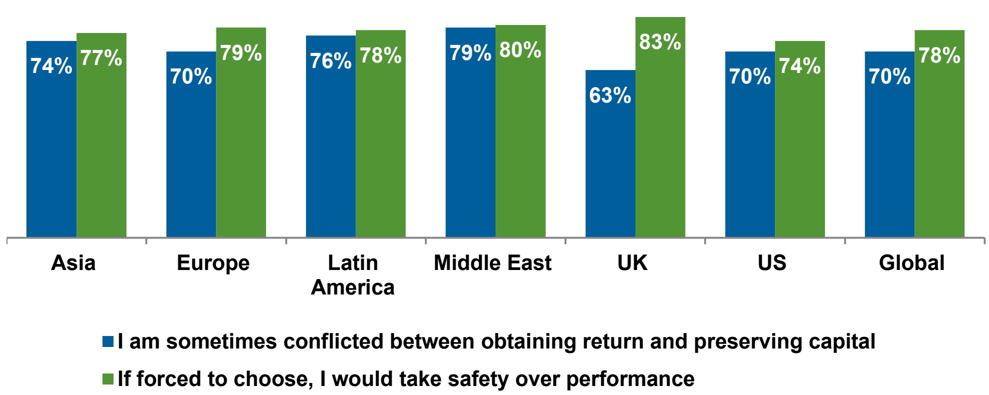
Investors around the world say they'll need average returns of 9 percent a year, above inflation, to meet their financial goals, a figure well above the average annual return of the markets over most rolling periods during the past century.

Investors around the world say they'll need to earn average gains of 9 percent a year, above inflation, to meet their financial requirements. However, this high, and historically unrealistic, expectation of growth is in stark contrast to investor behavior and well-established aversion to risk.

Despite lofty aspirations, as many as seven in ten investors worldwide are conflicted about the balance of risk and return in investment decision making – if forced to choose, more than three-quarters (78%) would side with safety over performance.

Balance between Risk and Return





As a result, many investors today are unable to move forward, caught in a conflicted behavioral and psychological battle between the hunt for investment returns and desire of a safe haven for their assets.

Without a course correction, they and their investment portfolios are at risk of falling short of their target.

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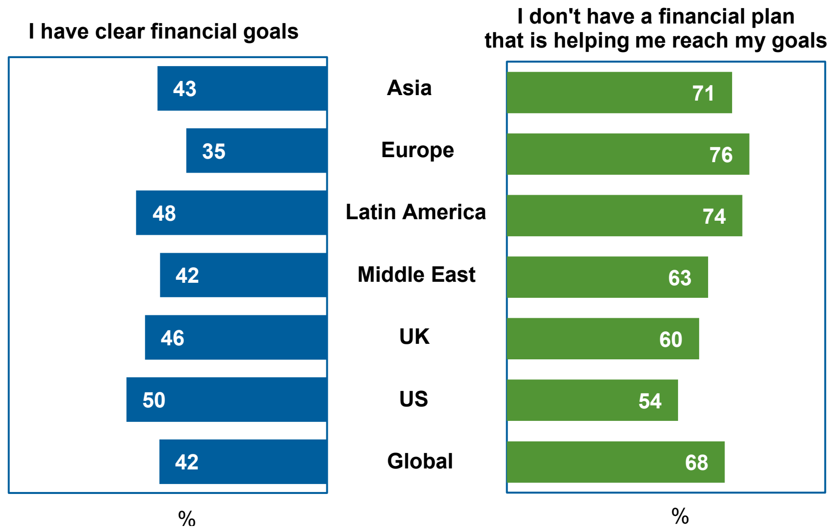
What Has Led Investors to This Point?

Nearly six in ten (58%) investors globally do not have clear financial goals, 69 percent do not have a financial plan to reach them, and 78 percent believe it's important to follow their *gut* when making investment decisions.

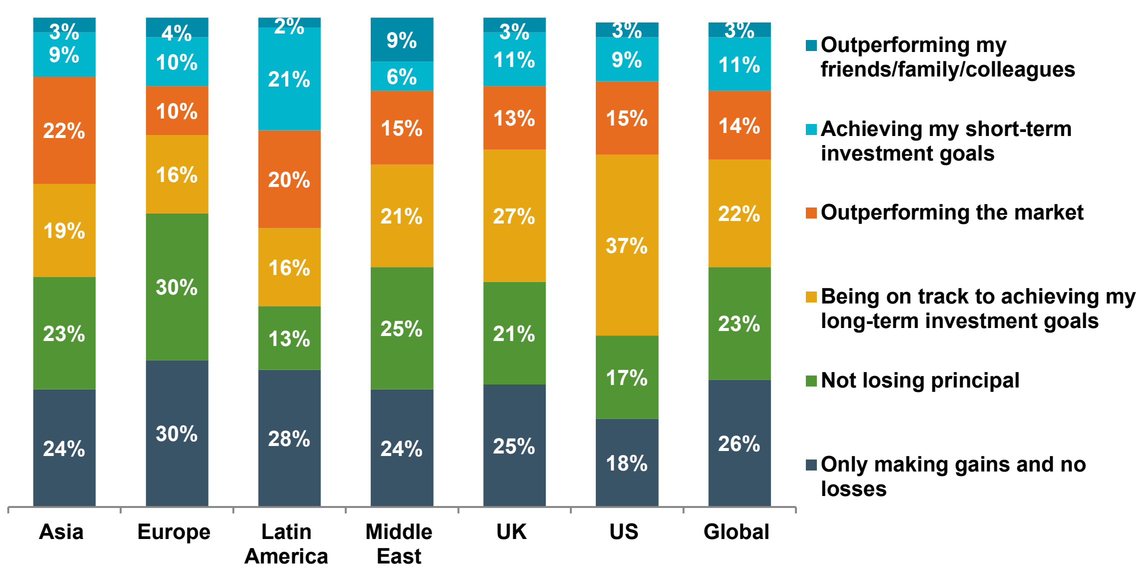
Financial Goals and Plans



Even more troubling is that only a third (33 per cent) of investors globally deem meeting either short- or long-term goals as a measure of investment success.

More specifically, one in ten of global investors (11 per cent) define meeting short-term goals as their primary gauge for measuring investment success while a quarter (22 percent) do likewise but over a longer-term time horizon.

How Individuals Personally Define Investment Success



For others, almost half (49 percent) of investors globally cite success as making gains and no losses or not losing principal as the single criterion of how they define success when investing.

Education and New Understanding of Risk, Return and Performance Benchmarks Needed

The stakes are high for investors who face volatility in the market and new, bigger risks to their financial security, particularly in retirement.

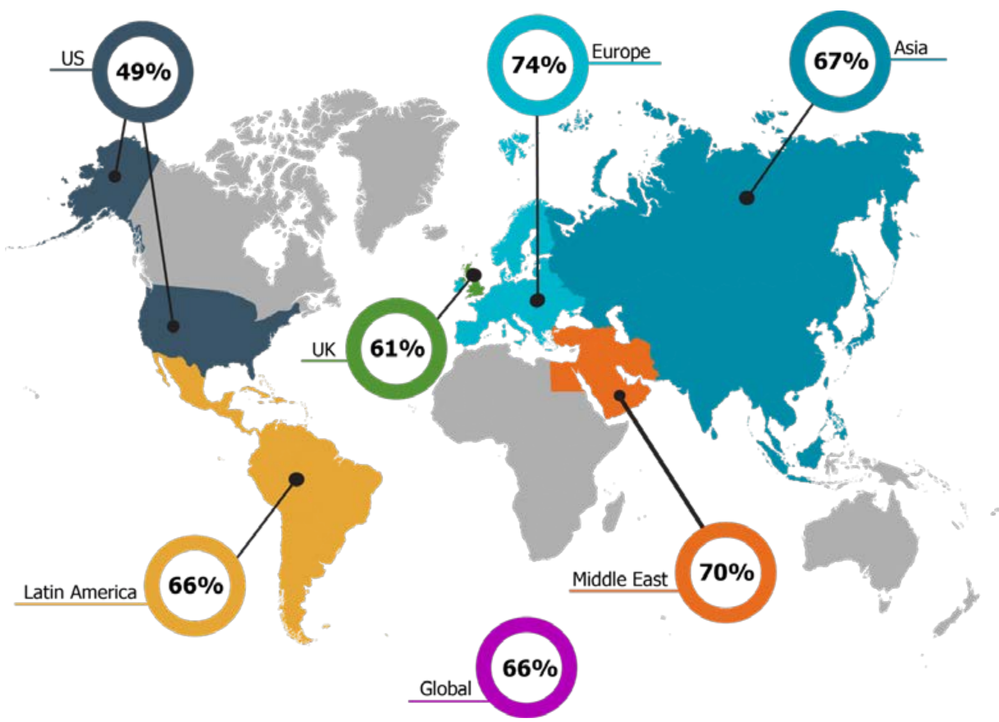
The path forward calls for a change in investor approach, one that includes a new understanding of risk and reward, more meaningful performance benchmarks and disciplined involvement in the investment process with an advisor who understands their goals and personal risk tolerance.

It is an approach that manages risk by using it as a portfolio advantage, rather than a necessary evil of investing.

Through diversification that levers upside and downside risk with correlated[1] and non-correlated asset[2] classes, investors can move beyond the risk/return impasse and build portfolios that aim to accomplish both.

Admittedly, embracing risk defies logic for many investors still healing from the financial crisis who appear to lack sufficient knowledge to navigate new and rapidly changing dynamics of the markets.

Market Volatility Eroding Investor Confidence
(% of investors whose confidence in markets has been eroded by volatility)



[1] **Asset correlation** is a measure of how investments move in relation to one another. When assets move in the same direction at the same time, they are highly correlated.
[2] When one asset tends to move up when the another goes down, the two assets are **non-correlated assets**.

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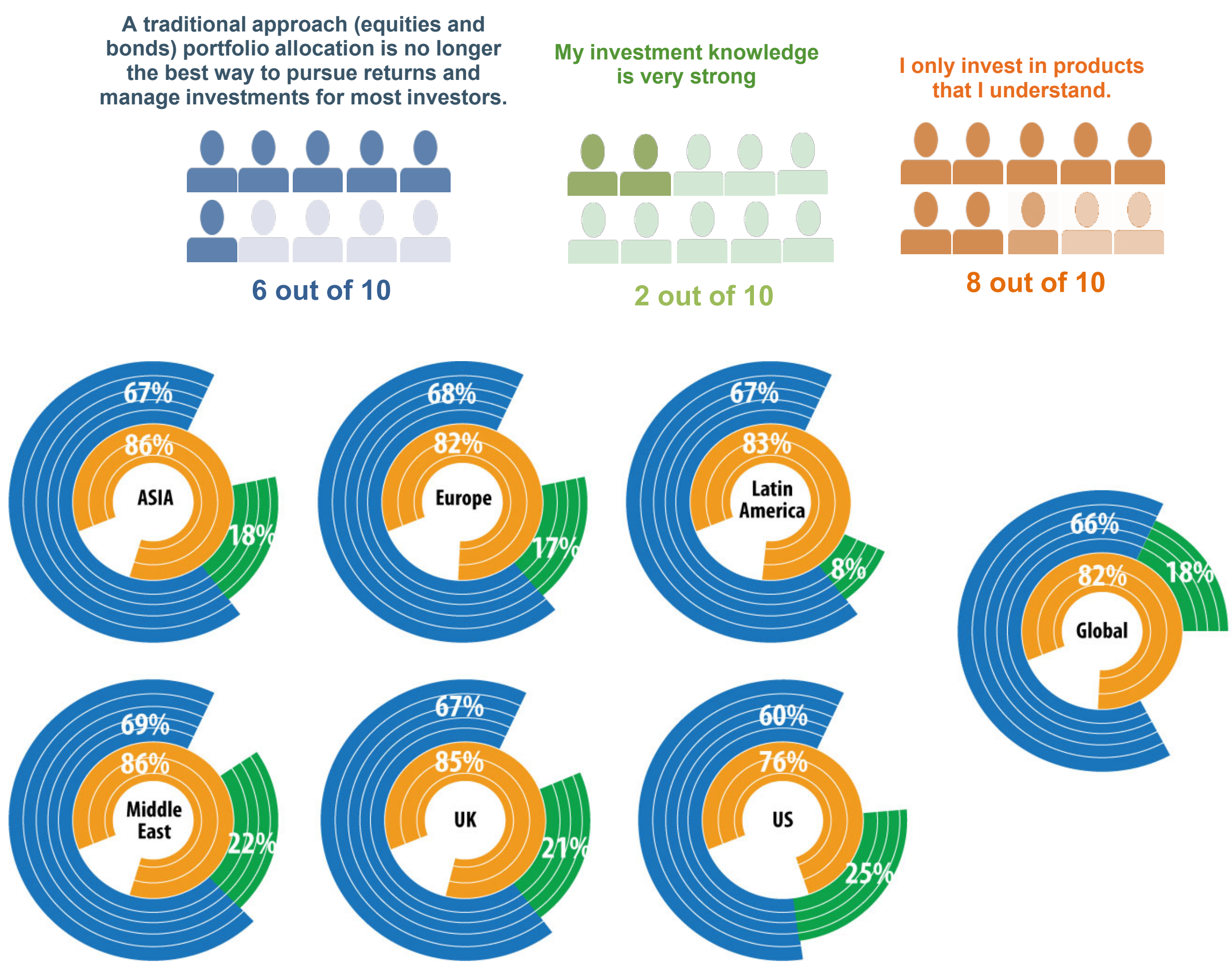
Market volatility has eroded confidence in the markets for two-thirds (66%) of investors worldwide. For example, four in ten (41%) say that achieving stable returns amid market volatility is most important in their investment decision-making, yet only 19 percent of investors are very confident their current investment approach will protect their portfolio from dramatic swings in value, and only about one-half (55%) cite being knowledgeable about investment strategies that produce stable returns/income.

Eight in ten (82%) investors worldwide only invest in products they understand, but fewer than one in five (18%) investors feel their overall investment knowledge is very strong.

Two-thirds of investors worldwide agree a traditional approach (equities and bonds) to portfolio allocation is no longer the best way to pursue returns and manage investments, yet the top asset classes investors intend to maintain or increase allocations to over the next 12 months are stocks, bonds and cash.

Investment Knowledge and Asset Allocation



Blue = A traditional approach to portfolio allocation is no longer the best way to pursue returns and manage investments for most investors.

Green = My investment knowledge is very strong.

Orange = I only invest in products that I understand.

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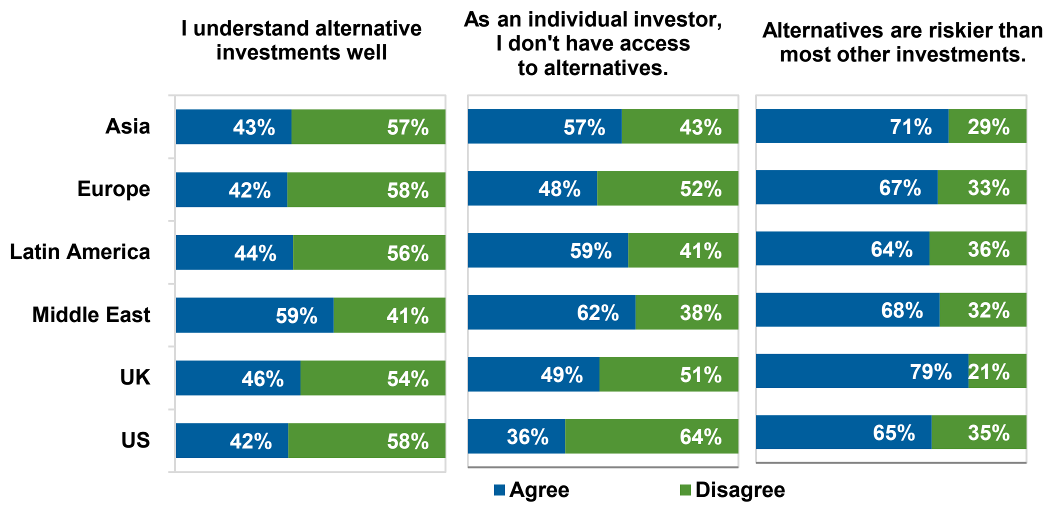
Unfortunately, despite two-thirds (66%) of investors globally indicating a traditional approach to investing is perhaps no longer fit for purpose, nearly six in ten (57%) say they don't understand alternative investments and one in two (51%) don't feel they have access to alternatives as an individual investor, including 44 percent of high-net-worth investors.

Meanwhile, given the perceived lack of knowledge for most investors, it's not surprising that 69 percent of investors deem alternative investments as high risk.

Alternative Investments

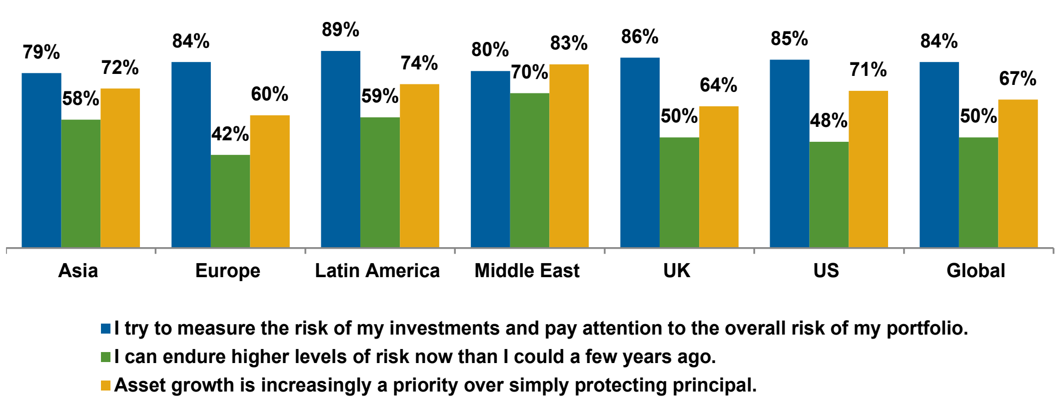


A Turning Point in Investor Behavior and Sentiment?

There is evidence of a turning point in behavior, as strong global markets have marginally diminished investor fear over the past year and provided some sense of comfort to investors. Two-thirds of investors worldwide cite asset growth as an increasing priority over asset protection.

Eighty-four percent try to measure risk in their portfolio, and at least half claim they can endure higher levels of risk now compared to a few years ago.

Investor Behavior and Sentiment

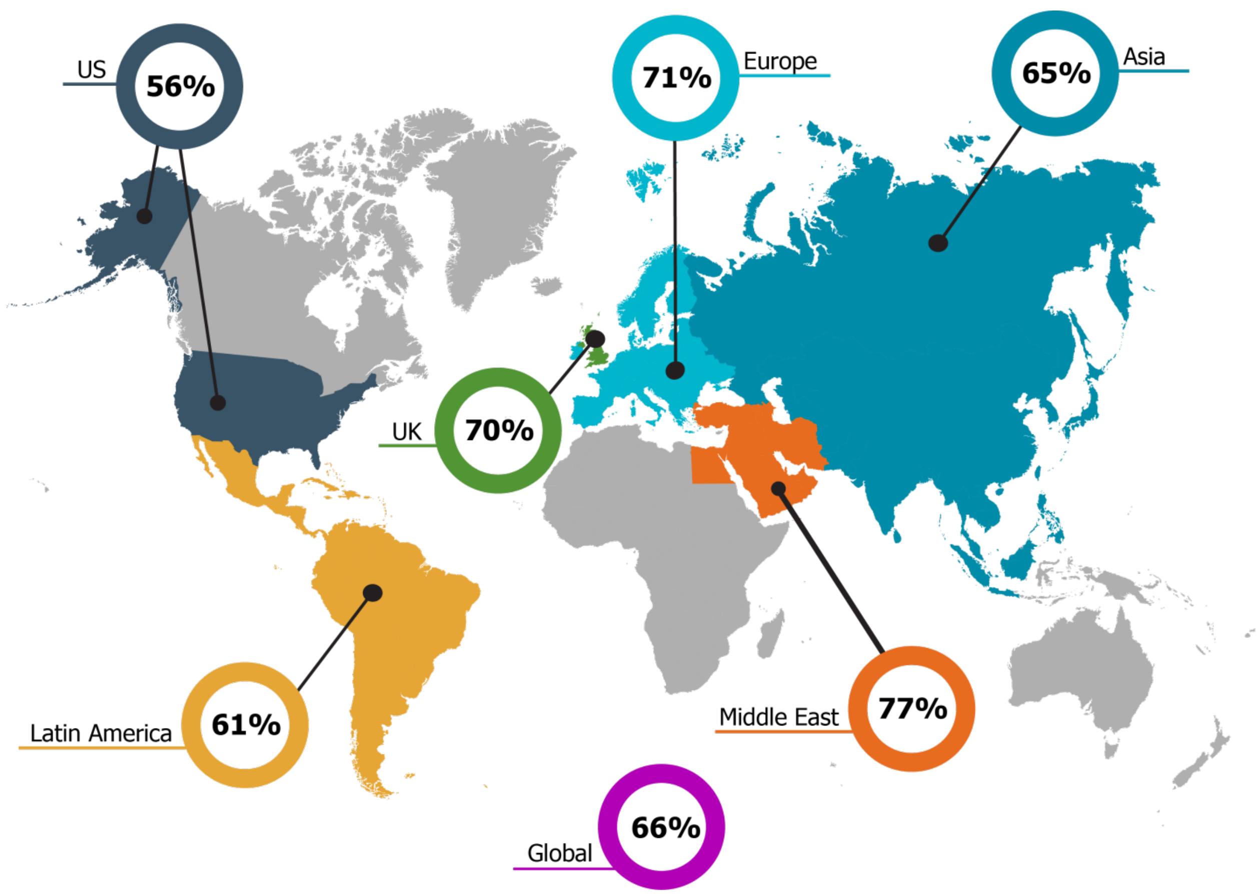


However, investors are far from throwing caution to the wind.

More than five years on from the financial crisis, scars remain. Globally, two-thirds of investors are willing to only take on minimal investment risk, even if it means sacrificing returns.

In Europe, 71 percent of investors still are unwilling to increase risk, up from 68 percent a year ago. By contrast, 56 percent of investors share a similar view on risk in the U.S., where risk tolerance and investor confidence are higher and evidence of behavior change is accelerating faster than in any other country/region.

Investors Prepared to Take Only Minimal Investment Risk, Even if Sacrificing Returns (%)



When asked what would help them most in reaching their goals, 42 percent of investors worldwide recognize a need for better investment knowledge.

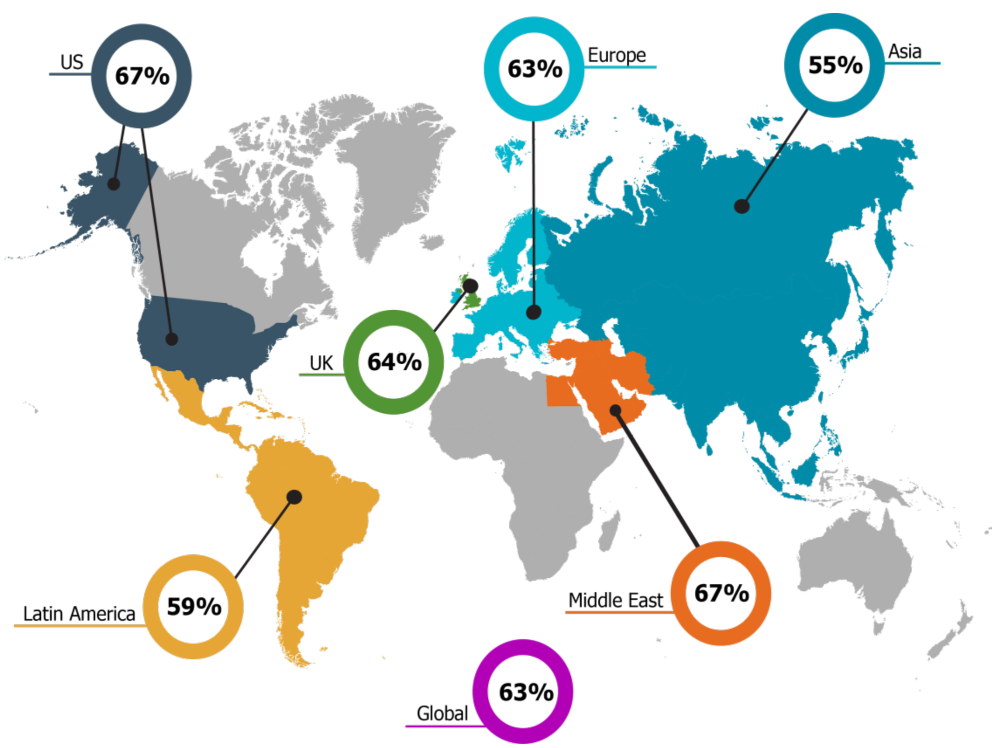
Furthermore, investors are seemingly turning more to professional advisors to guide them on their road to investment success.

Globally, 63 percent of investors at least occasionally use an investment advisor, an increase of 10 percentage points compared to last year. A notable proportion of investors globally have an established and on-going relationship with a dedicated financial advisor.

Adviser Use

On-going engagement with a financial advisor is highest in the United States and lowest in Asia. In turn, investor confidence and self-proclaimed investment knowledge are highest in the U.S. while investors in Asia admit to having the lowest levels of investor confidence.

Investors Who at Least Occasionally Use an Investment Advisor (%)



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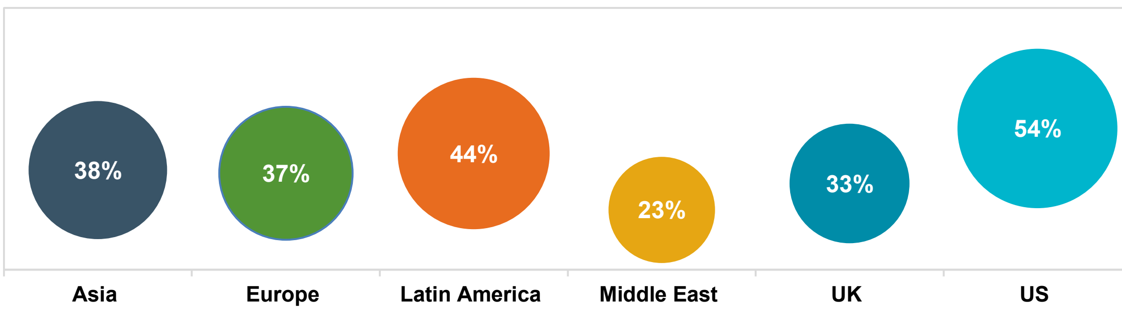
By all indications, the nature of advisor relationships appears to have a marked effect on investment decision-making and benchmarking. For example, in Europe, more investors have turned to advisors over the past year, but fewer have an on-going relationship with a dedicated advisor. With the exception of the U.K., European investors are least likely to have clear financial goals or a financial plan.

More than half (54%) of U.S. investors say an advisor has input in setting investment performance goals, far more than in other countries and more than twice as many as in the Middle East, where investors place the least importance on professional advice and are more likely to follow a gut instinct when making investment decisions.

Advisor Has Input in Setting Investment Performance Goals (%)



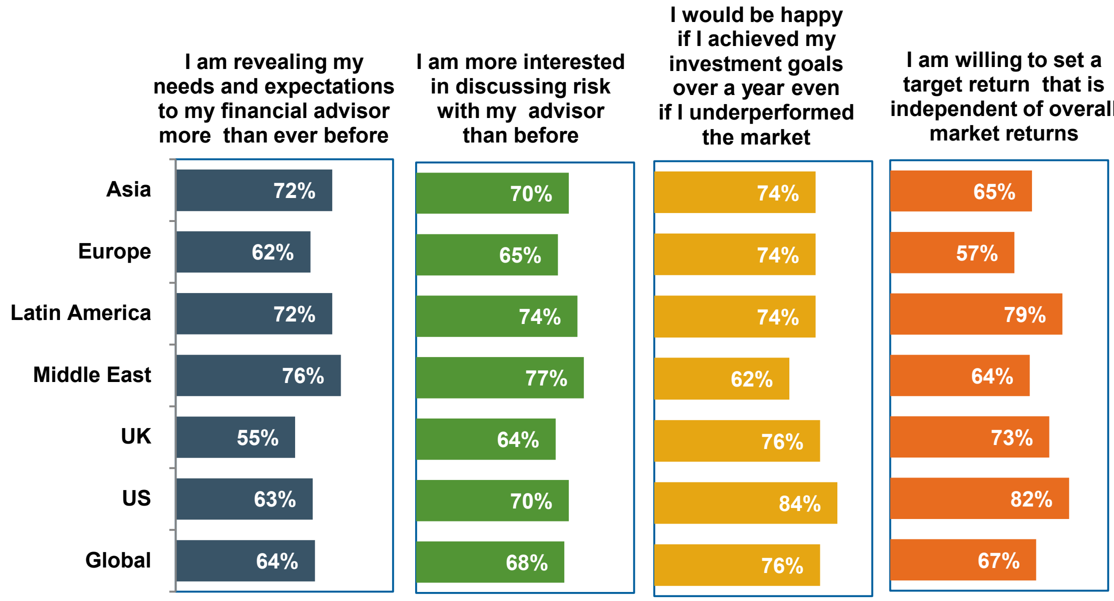
Globally and generally, investors who use a financial advisor are more likely than those without to have clear investment goals, a financial plan for reaching them, stronger investment knowledge and greater endurance for risk.

Advised investors are also more likely to focus on growth as an investment priority, and have greater confidence in their portfolios withstanding market fluctuations.

Sixty-eight percent of investors globally say they are more interested in discussing risk with an advisor, and 64 percent say they are revealing their needs and expectations more than ever. With greater guidance to help them navigate markets, investors appear to be open to new approaches in the way they invest.

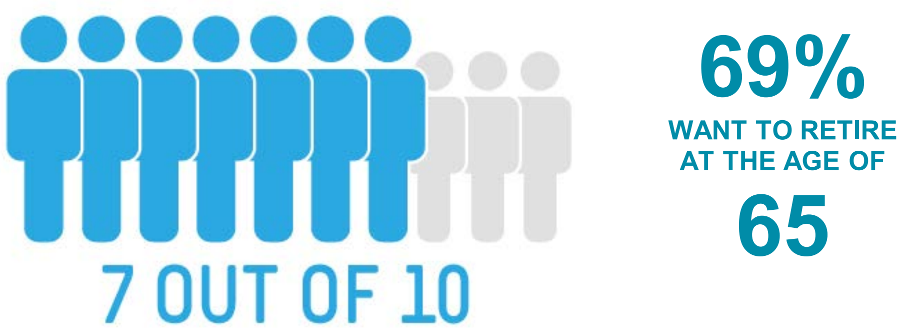
Two-thirds (67%) of investors worldwide say they are willing to set target returns independently of the market, and three-quarters would be satisfied if they achieved their annual investment targets, even if this meant underperforming the market.

Personal Benchmarking



The Ultimate Long-Term Goal: Retirement Planning Still Low, But Improving

When it comes to retirement, 69 percent of global investors want to retire by the time they reach the age of 65. Yet only 22 percent are very confident that their current investment approach is on track to provide steady income in retirement.



Thirty-seven percent of investors worldwide have little or no knowledge of the annual income they need to live comfortably in retirement.

One in two (50%) have little or no knowledge of the annual return needed to reach long-term goals, and 54 percent have little or no knowledge of the strategies needed to achieve steady returns through market cycles.

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However, investors appear to be more acutely aware of the risks to their financial security in retirement and their need to plan.

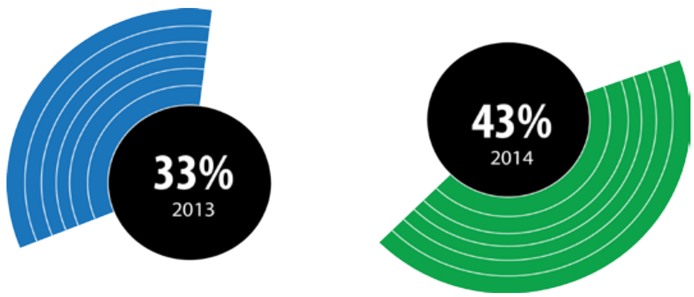
Finally, among the perceived risks to financial security in retirement, the most notable change among investors worldwide in 2014 is a greater awareness of the cost associated with living longer in retirement.

Long-term care costs not covered by insurance were cited by investors around the world as the top threat to their financial security in retirement, rising 10 percentage points over the past year to surpass insufficient proceeds from pension and even a decline in savings due to market conditions.

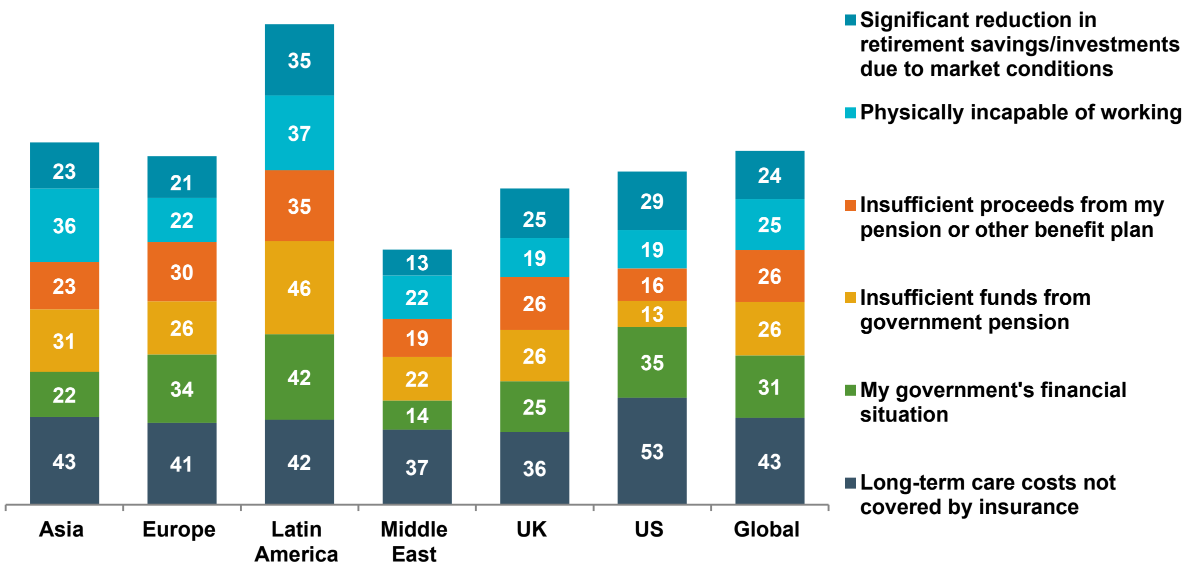
The top risks to retirement security according to the survey are:

- 43% Long-term care costs not covered by insurance
- 31% Government financial situation
- 26% Insufficient funds from government pension
- 26% Insufficient proceeds from pension or other benefit plan
- 25% Lack of work (physical limitations)
- 24% Loss of value of retirement savings/investments due to market conditions

Long-Term Care Costs Not Covered by Insurance (2013 vs 2014)



Investor Perceived Threats to Financial Security in Retirement (%)



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NATIXIS
GLOBAL ASSET MANAGEMENT

At a Glance – Global and Regional

Sentiment and Confidence in the Markets

- Investors are showing limited concern of a so-called equities asset bubble, with fewer than one in four (23%) of investors globally hinting that markets are reaching tipping point.
- This is reinforced by the fact that only 25% of investors globally have discussed the potential effect that a market correction could have on their portfolio.
- Collectively, investors globally are better off than a year ago, with 37% versus 22% revealing their financial situation to be better this year compared to 12 months ago. 41% experienced no change.
- Furthermore, the year ahead is expected to be better still for the majority, despite the cautious confidence, with 43% expecting a better pending 12-month period ahead, versus 16% expecting it to be worse and the same ratio of people as this year (41%) expecting no change.
- Only 42% of investors globally say they have a clear financial plan, and only 32% claim to have a financial plan that is helping them to meet their goals.
- Meanwhile there has been a decrease in the fear of market volatility, consistent across every country in the study.
- The fear of market volatility is also slowly decreasing; 54% of Americans see market volatility as a factor that undermines their ability to reach their savings and retirement goals, down from 58% a year ago.
- Similarly, it was down from 70% to 67% for British investors.
- It is Singaporean investors who are most likely to see market volatility as an impediment; 73% do, although this is down from 79% last year.
- Investors across the globe are less worried about the impact of market movements on their ability to fund their retirement than a year ago.
- American and British investors are no exception; while 36% of investors in both countries saw market movements as a potential threat to their financial security in retirement, this has now decreased to 25% in the U.K. and 28% in the U.S. This is further evidence that confidence in the markets is increasing.
- The overall more positive mood is also reflected in the fact that global economic and political uncertainty has also become less of a concern for investors. 28% of American investors are very concerned by this compared to 34% a year ago, and 20% of British investors are worried about this compared to 30% a year ago.
- Similarly, concern about European debt issues has fallen and particularly in countries within the euro zone. 62% of Spanish and 63% of French investors were very concerned a year ago, now only 38% and 35% are respectively.
- This is mirrored in the U.S. and the U.K. where those who are very concerned have fallen from 24% to 14% and from 37% to 20% respectively.
- Concern over the U.K. and U.S. financial situation has also decreased for both countries, although much more dramatically in the U.K., from 50% of investors being very concerned to only 22%. In contrast, in the U.S. concern has only fallen from 57% to 44%.

- The proportion of investors who think their financial situation has improved in the last 12 months has increased marginally in the U.S. from 44% to 46%, but has increased a great deal more in the U.K., from a mere 28% to 34%, closing the gap between both countries. The much-awaited start of the recovery in the U.K. could well be behind this.
- Latin American investors have seen their situation improve most; 60% of Chileans, 64% of Colombians and 54% of Mexicans say their situation has improved.
- In contrast, Europeans are the least positive about their financial situation over the last 12 months, with only 21% of Italians, 25% of French, 28% of Spanish and 28% of Germans having seen an improvement.
- When asked about the next 12 months, American investors are still slightly more optimistic than British investors but, somewhat worryingly, less optimistic than last year. 50% expect their finances to improve in the next year compared to 53% a year ago and to 40% of Brits, who in contrast have become more optimistic as only 35% of them expected to be better off a year ago.

Attitudes to Risk

- The rise in confidence across many countries coupled with a pervasive risk-averse attitude could reflect a new normal, in which increased confidence does not translate into increased risk-taking.
- Despite several years passing since the financial crisis, investors around the world are still highly risk-averse.
- Nearly three in four (72%) American investors would take safety over performance if forced to choose, almost exactly the same proportion as a year ago [73% in 2013].
- The proportion is even higher among British investors; more than eight in ten (83%) would take safety over performance [80% in 2013].
- The proportion of U.K. and U.S. investors who are willing to take more risk remains largely stable from a year ago, at 47% and 43% [44% and 43% respectively in 2013].
- In other markets, particularly Japan, the proportion of investors who are willing to take more risk has increased quite sharply from 30% to 55%, which could be due to the stimulus program put in place by Prime Minister Shinzo Abe.
- Germany on the other hand sees a fall in willingness to take more risk from 38% to 29%, which could be due to a slowdown in economic growth.
- Attitudes toward risk across the Atlantic are moving apart. This is even more pronounced in markets like Germany and France.
- American and British investors do seem to be parting ways when it comes to taking some degree of risk, as the proportion of British investors who are only willing to take a minimal amount of risk, even if it means sacrificing returns, has increased from 64% to 70% and the opposite has happened with American investors, falling sharply from 61% to 53%.
- The focus on stability and fear of volatility continues among U.K. and U.S. investors with 44% and 49%, respectively, saying that stability in volatile times is the most important thing for them [46% and 45% respectively in 2013].

- In fact, it is American investors who are most likely to see this as the most important thing for their investments.
- U.S. and U.K. investors appear to be taking a more hands-off approach to risk and outsourcing a lot of the decision-making, when it comes to risk, to their financial advisors. 45% of Americans and 44% of Brits say that they let their financial advisor worry about risk; this compares to 37% and 32% respectively last year.
- However, investors from other countries are taking an even more hands-off approach. 77% [47% in 2013] in Japan, 52% [38% in 2013] in Spain, 52% in HK [56% in 2013] and 52% of investors in the UAE [37% in 2013] say they let their financial advisor worry about risk.

Investment Strategy and Approaches

- American investors appear to be less confident that their investment approach can deliver the objectives they need than a year ago. Confidence is down in their approach's ability to protect from swings in value, preserve capital, achieve diversification[1], take advantage of bull market periods, protect from inflation, grow their portfolio and provide income in retirement.
- This could reflect that while American investors are feeling generally more confident, they might feel the need to adopt a different approach to investing that protects their assets, while at the same time allowing them to take advantage of market opportunities.
- British investors, on the other hand, are more ambivalent about the virtue of their current approach; they are more confident that it is fit for purpose in some areas and less in others.
- This different attitude to risk also has an impact on people's approach to investing. American investors are seeing an increase in confidence in a buy-and-hold strategy; those who question it have decreased from 49% to 41%, compared to the Brits who have seen an increase from 50% to 58%.
- It appears that American investors are willing to take a less reactive approach to investing where they will not let short-term market movements alter their strategy while British investors appear to have a "jumpier" approach.

Alternative Investments

- More than half of U.S. and U.K. investors have never discussed alternatives with their advisor, a higher proportion than in Switzerland, Spain, Mexico, Germany and Chile.
- However, the great majority of those who have spoken to their advisor about alternatives invest in them, 38% in the U.S. and 42% in the U.K. This is a sharp increase from last year, when 31% and 27% said they invested in alternatives.

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

- Understanding alternatives is very closely correlated with investing in alternatives, with a cross-sectional correlation coefficient[1] of 88%. This is much higher than for discussing alternative investment with an advisor. This seems to point to the fact that there is only so much an advisor can do in talking about alternatives with their clients; it needs to be the clients who engage and get an interest in understanding what it's all about, before they can feel confident to invest.
- This does not mean that the advisors have no role to play, as 82% of U.S. investors and 75% of U.K. investors would consider alternatives for their portfolio if their advisor recommended them, a rise from 72% and 68% only a year ago. This comes to show that most investors take their advisor's advice seriously, but a recommendation might not be enough; they also need to understand the product.
- A positive note seems to be that access to alternatives for retail investors is improving in the U.K. and U.S. markets, in contrast with most of the other countries in the study where the proportion of investors who say they don't have access to alternatives has remained more or less stable or is even higher than a year ago.
- Those who say they do not have access to alternatives have decreased from 53% to 49% and from 44% to 32% in the U.K. and the U.S. respectively. It is worth noting that the U.S. seems a very sharp improvement.

Retirement

- Investors around the world are slowly realizing that they will retire at a later age than the previous generation and later than they probably expected.
- 15% of American investors believe they will retire between the ages of 71 and 75, compared to 10% the previous year.
- The contrast is particularly shocking if we take into account that the great majority of American investors who are already retired, did so before the age of 60.
- American investors are the most aware of the annual income they are going to need to live comfortably in retirement; 23% say they have very strong knowledge and a further 51% say they have a strong knowledge.
- At the other end, Japanese investors, who are more likely to rely on the provision of old-age income by third parties, are not very aware of the income they need in retirement. 21% say they have no knowledge and 48% have little knowledge.
- Setting the annualized return target needed to reach long-term goals appears to be a significantly harder task for investors than establishing the income they will need in retirement.
- American investors still do comparatively well, as 16% say they have a very strong knowledge and 42% a strong knowledge, only outdone by Mexican and Colombian investors.
- U.K. investors lag somewhat in this regard, as only 12% of them consider they have a very strong knowledge of the returns they need to achieve their long-term goals.

[1] A widely used measure of the correlation between two section of two different but random variables. It is often simply but incorrectly referred to as the cross-correlation, which is the un-normalized expectation value of the product of the two sequence sections. The cross-correlation coefficient of two sequences of random variables, X and Y, is often denoted by ρ XY(i, j,T); where i is the starting index of the section of the sequence, X, j is the starting index of the section of the sequence, Y, and T is the length of the sections.

Attitudes Toward Investing

- Very few investors in Latin America, Spain and France consider themselves to have strong investment knowledge.
- A quarter (24%) of U.S. and a fifth (21%) of U.K. investors consider their investment knowledge to be very strong.
- Persistent aversion to risk is reflected in the fact that there is a slight increase in the number of U.S. and U.K. investors who think that most investments are a pure gamble, from 13% to 17% in the U.S. and from 14% to 15% in the U.K.
- Hong Kong remains the country where most people believe that investments are a pure gamble, but the proportion is significantly lower, from 27% to 19%.
- Chilean investors appear significantly more confident that investments are not a gamble, with only 3% believing that, down from 27%.
- Slightly fewer U.S. investors say they have clear financial goals, a fall from 55% to 52%. The proportion in the U.K. remains stable at 46%.
- Despite this fall, U.S. investors are the most likely to have a financial plan when compared to investors in other countries. Only investors in Hong Kong match American investors in this regard, as 52% of them have clear financial goals.
- Switzerland is the country where the fewest investors have clear financial goals, only one in four (27%).
- Americans are also most likely to have a financial plan that is helping them reach their goals, as 47% of them do.
- U.K. investors are the second most likely to have a financial plan; 40% of them do.
- In fact, financial planning seems to be increasing, albeit slowly, in these two countries.
- At the other end of the spectrum, Chilean investors are the least likely to have a financial plan; only 18% do, down from 20% in 2013.
- Taxes are becoming a less important factor for Americans when making investment decisions; a third (32%) see tax implications as extremely important, compared to one in four (39%) last year.
- Unsurprisingly, a country with a low taxation regime, the UAE, is the country where investors are least influenced by tax implications; only 11% see them as extremely important.
- British investors, along with their Mexican counterparts, are the most tax savvy in the world. 16% say they have very strong knowledge when it comes to tax-efficient investment strategies.
- The extended use of these sorts of strategies might be one of the factors behind the crackdown by the U.K. taxman on some controversial schemes, which have recently been in the public eye.
- American investors are slightly less savvy, but only behind the U.K. and Mexico, as 12% of them rate their knowledge in this area as very strong.
- American investors are, by some distance, the most confident in knowing investment strategies to achieve steady returns through bull and bear market cycles. 15% of them say they have a very strong knowledge and a further 42% a strong knowledge.

- This could be due to the fact that in America, in general, investors have had the opportunity to invest in the markets for more years than in most countries in the world. This could make them not only more knowledgeable, but also more experienced and less prone to panic with sudden market movements.
- This notion could be backed by the fact that British investors are second in this regard, as 12% of them have a very strong knowledge of strategies to achieve stable returns throughout the business cycle.

Personal Benchmarking

- The main way in which investors in the U.S. and U.K. gauge their progress toward meeting their financial goals is by the level of their total assets. 47% of Americans and 44% of Brits say they measure their progress in this way.

Survey background

Representing 14 countries in six regions

Asia: Hong Kong (350), Japan (250), Singapore (350)
Europe: France (500), Germany (500), Italy (500), Spain (500), Switzerland (350)
Latin America: Chile (200), Colombia (200), Mexico (200)
Middle East (250): UAE (including Dubai)
United Kingdom (750)
United States (1,050)

Online survey (March 2014)

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