THE MALE INVESTOR: THE GREAT OVERLOOKED OPPORTUNITY

A white paper by Hearts & Wallets

Female investors are generating a lot of interest these days. As the leading source for retail investor data and insights, Hearts & Wallets is quite interested in women investors and has released several in-depth studies on this topic. In this era of gender equality, we wonder why the provocative insights into the female investor in papers and talk points are not inspiring illuminating analyses of the male investor.

The male investor is increasing his preference for “managing money and making decisions on [his] own,” a preference now held by 69% of male investors, up 7 ppts from 2010, as revealed by the Hearts & Wallets Investor Quantitative (I.Q.)™ Database sample of 15,976 male respondents and shown in Exhibit 1.

It's actually true that men as a group are more likely to say they are self-directed now than they were five years ago. But we don’t believe it’s worthwhile to draw conclusions about such a loosely defined group as "the male investor.” We use the occasion of April Fools’ Day to respectfully emphasize the importance of identifying better ways to define consumer groups that lead to distinctive, actionable insights around which products and services can be designed.

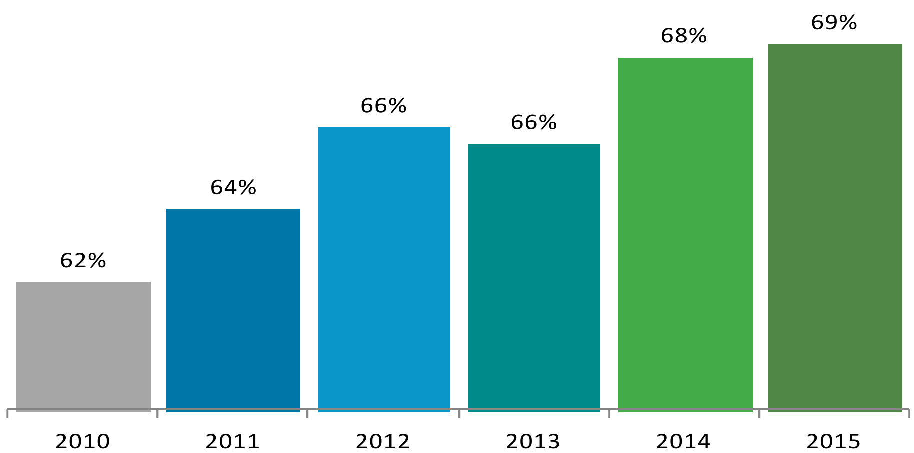
The big idea isn’t about being politically correct by studying male investors in addition to female investors, it’s about effective vs. ineffective marketing techniques. Why make generalizations about male investors, or for that matter, any loosely defined group? We believe ever-more demanding consumers and intensifying competition will reward crisper marketing and product development techniques while punishing sloppier ones.

Does anyone believe male investors are really a “segment,” meaning a large group of consumers who share enough characteristics that they can be understood as a group (think “family” in the biology classifications) for marketing strategy? Of course not. Gender doesn’t create homogenous groups of investors, but feelings, preferences, beliefs and behaviors do create groups to whom messages can really speak. Getting even more focused, what kind of male investors constitute a “Design Persona,” meaning a more precisely defined group of similar consumers (think “species”) for whom an investment product, online tool, or service solution can be optimized? Keep reading for real insights into “segments” and “Design Personas” of male investors.

Exhibit 1: Self-Directedness Among Male Investors

Percentage of Men Who Say Their Preferred Investment Decision-Making Process Is to “Manage Money and Make Decisions on My Own”

The male investor* has become increasingly self-directed since 2010.



*Happy April Fools’ Day. This data is true but we don’t think there is such as thing as the “male investor.”

Source: Hearts & Wallets Investor Quantitative Database

Good Segmentation Includes Both Attitudes and Behaviors

"Segments" organize consumers into broad groups to whom value propositions can be tailored. Segments can then be used broadly throughout the organization, especially by strategy, marketing and sales executives. Segments are groups of consumers that share similar needs and attitudes. Solutions and messages used to describe them are the tangible pieces that make the value proposition come alive. Therefore, a good segmentation approach should flow from core competencies that the firm or business unit can deploy to the market to solve consumer problems.

Gender doesn't create a "segment," or a homogenous group of investors, but feelings, preferences, beliefs and behaviors do. Keep reading for real insights into "segments" and "Design Personas" using male investors as a case study.

We believe segments should be mutually exclusive and collectively exhaustive; they should present a holistic picture of the entire marketplace. Even so, it's critical to define which segments are strategically most important. Big firms need solutions for multiple, or even all, consumer segments, while smaller firms may focus on a few. Because the segmentation is tied to a firm's or business unit's identity and core competencies, defining segments is highly strategic. Although segments can be defined using any variables, strong segments need to be durable and broadly useful for multiple functional areas.

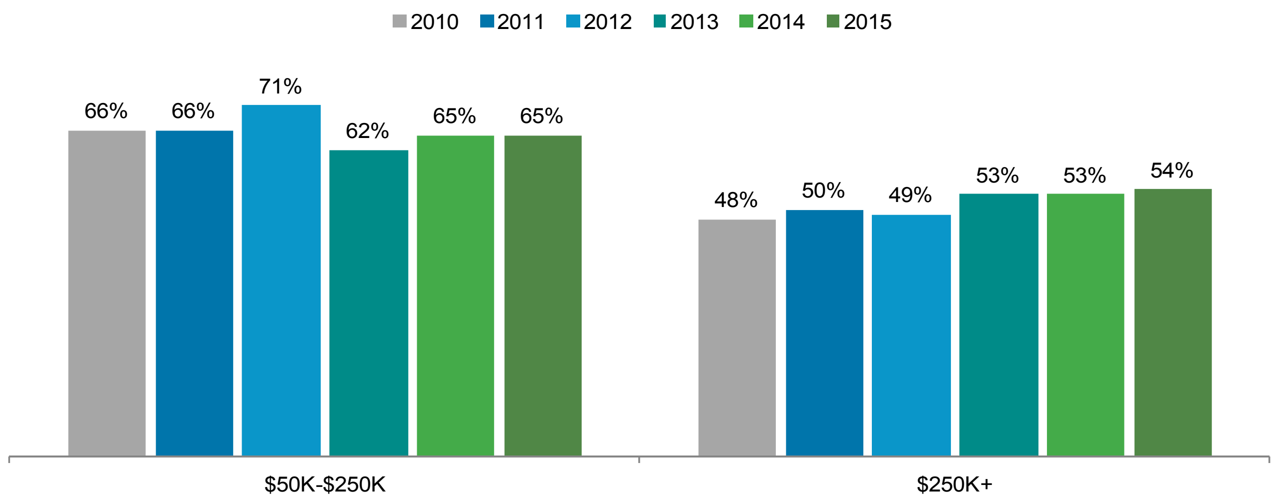
Assets is currently a popular segmentation variable in the retail investing industry, partly because services are priced in assets today. (Remember, services were priced on trade commissions only a few decades ago, so this isn't necessarily a permanent phenomenon.) As shown in Exhibit 2, adding assets as a segmentation variable to gender, we see male investors with more than $250K in investable assets are becoming more self-directed while mass affluent men haven't changed much over the past five years.

However, assets isn't a great segmentation variable all by itself because, as consumers, our behaviors and conceptions of self are defined by so much more than how much money we have. Therefore, insightful consumer segmentation is

Exhibit 2: Self-Directedness Among Male Investors, Segmented by Investable Assets

Percentage of Men in Each Asset Group Who Say Their Preferred Investment Decision-Making Process Is to "Manage Money and Make Decisions on My Own"

Segmenting men by assets reveals that the increase in preference for self-direction has occurred at a faster pace among wealthier men, even though wealthier men are still less likely to say they are self-directed.



Source: Hearts & Wallets Investor Quantitative Database

based on more than assets, lifestage or gender. The most revealing, actionable segmentations include goals, engagement or interest level, attitudes to pricing, service desires, family structure or many other potential variables.

Good, actionable segmentations include goals, engagement or interest level, attitudes to pricing, service desires, or family structure.

It's important to note that an attitude like preferring to "make decisions on my own" is a fantasy that animates. It is different from behavior. To use a term that has garnered the popular attention, many men who "identify" as self-directed actually behave as avid users of multiple full-service advisors. As shown in Exhibit 3, one in three men who identifies as self-directed thinks that his advisor "is a partner to me."

In other words, they use advisors even though they identify as self-directed. They want to use advisors to get expert ideas, possibly from multiple sources, while feeling in control about decision-making. This seeming contradiction is actually a totally understandable desire that can be marketed to with solutions structured to address the need for control. In order to get at insights like this, the most robust segmentations we run for clients include a mix of both attitudes and behaviors.

The most robust segmentations Hearts & Wallets runs for clients include a mix of both attitudes and behaviors.

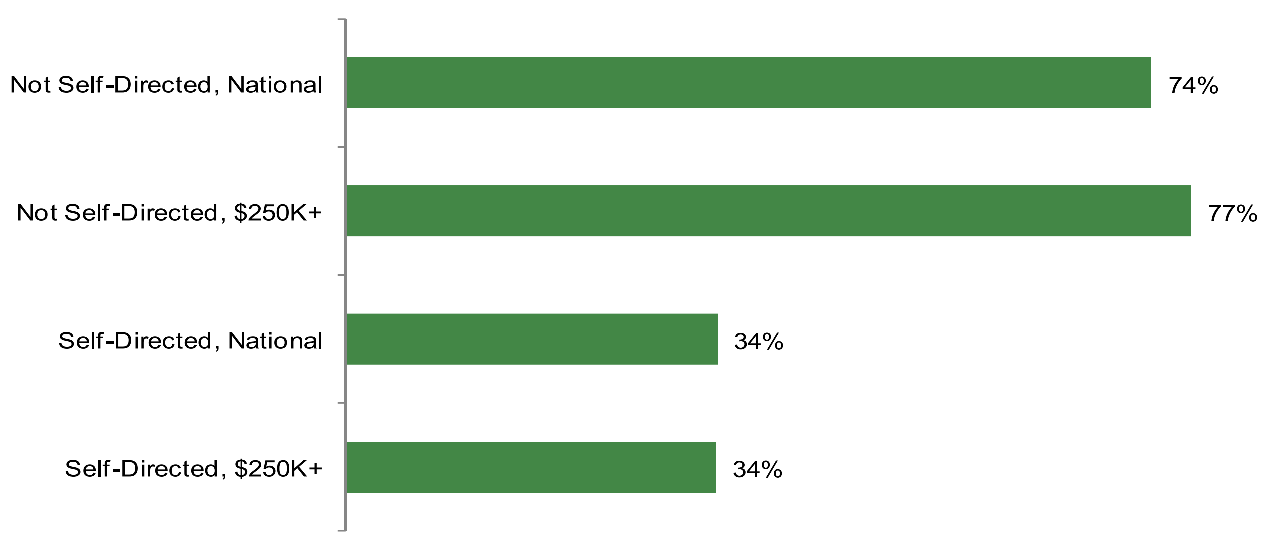
Segmenting on Anxiety

In fact, in just one example of how adding an attitude can reveal something new, segmenting men by confidence level leads to a fascinating insight. As shown in Exhibit 4, most (75%) men who are highly confident in their financial situations prefer self-direction, and have felt this way consistently over the past six years. In contrast, anxious men did not express as strong a preference for self-direction in 2010 as did confident men. Anxious men have steadily become more likely to identify as self-directed, and are more likely than confident men to have a preference for self-direction today. In a stressful situation like the current economic and political environment, MacGyver-esque self-reliance has become more appealing. Therefore, one takeaway for strategists studying increasing self-direction among retail investors is to examine anxiety as

Exhibit 3: Self-Directedness Preference vs. Behavior

Percentage of Men in Each Group Who Agree "My Financial Advisor Is a Partner to Me"

About 1 in 3 men who say they prefer to "make decisions on my own" agrees his financial advisor is a "partner to me," meaning he has one!



Source: Hearts & Wallets Investor Quantitative Database

part of the picture when designing product solutions and engagement.

Strategists studying increasing self-direction among retail investors should look to anxiety as part of the picture.

The nature of anxiety is such that it usually feels like it's intensifying, but the portion of U.S. consumers saying they are highly anxious about the future has stayed pretty steady since 2010. At the national level—that is, mixing all asset levels to a nationally representative weight—32% of consumer households felt "moderate" or "high" anxiety about their financial situations in 2010. The incidence of anxiety decreased in 2013 but started going back up in 2014 and reached 33% again in 2015.

In fact, Hearts & Wallets conducted qualitative research on anxiety in Explore multi-sponsor focus groups in 2011, and found a connection between anxiety and poor relationship fit. Explore focus groups are a twice-yearly multi-sponsor qualitative series to test the key product and service concepts of the moment while exploring behavioral and attitudinal segmentations. In 2011, affluent investors were segmented by anxiety level, grouping them into "Secure," "Middle," and "Anxious" segments. The two concepts tested in that series were "Advisor Annual Review" and "Online" tools and resources. "Secure" consumers may be more likely to consolidate because they are more confident in their own ability to discern fit and concluded that they need "both Advisor Annual Review and Online advice, together." In contrast, "Anxious" consumers had had many relationships (slightly promiscuous) that made fit elusive, meaning lack of resources is both a cause and an effect of their anxiety. There may be a marketing opportunity in figuring out how to break this cycle.

Using a Design Persona to Optimize Products

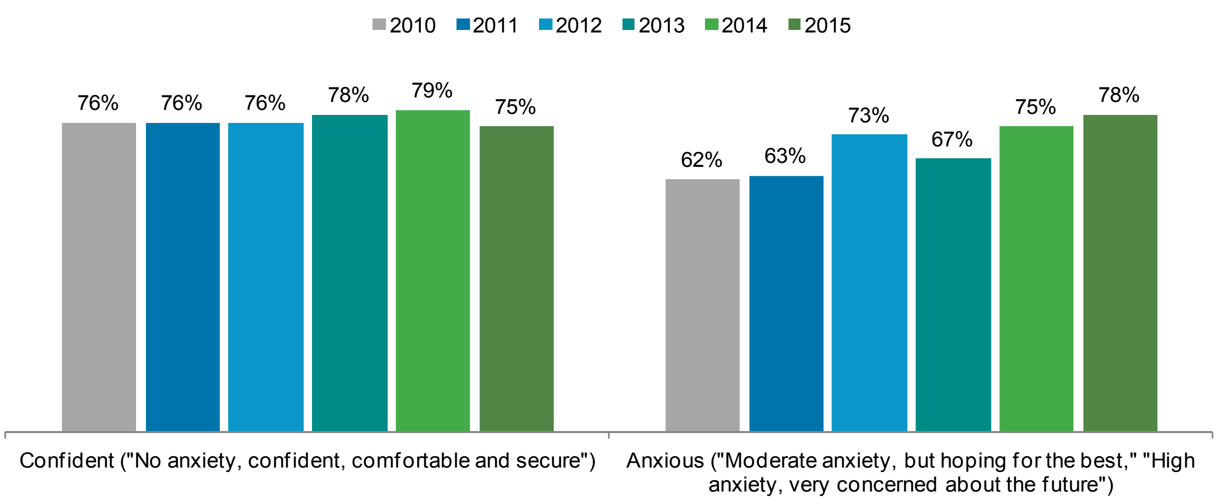
Segmentation is great for strategy and marketing messaging, but a different technique is needed for product management and development. Good understanding of a target market for a specific product or service should involve a Design Persona.

There are dozens of potential Design Personae (Personas going forward) among the trends this paper has presented so far. The Design Persona process can start with a certain group of consumers for whom solutions can be developed. Or the process can start with a product that

Exhibit 4: Self-Directedness Among Male Investors, Segmented by Confidence-Anxiety

Percentage of Men in Each Group Who Say Their Preferred Investment Decision-Making Process Is to "Manage Money and Make Decisions on My Own"

Segmenting men by anxiety level reveals that anxious men have increased their preference for self-direction while confident men have always preferred self-direction and have not changed.



Source: Hearts & Wallets Investor Quantitative Database

solves a certain need, around which a Design Persona can come to life. Truthfully, it probably happens more often following the latter process (a product solution in need of a consumer), but since this paper has been analyzing types of male investors, let us consider a consumer type in need of solutions.

The Design Persona process can start with a certain group of consumers for whom solutions can be developed. Or the process can start with a product that solves a certain need, around which a Design Persona can come to life.

Consider a Design Persona of 1) men who are 2) anxious, 3) self-directed, and 4) have $100K+ in investable assets. A good Design Persona creates a vivid, well-defined group of consumers who start to show very similar characteristics in some key areas. If these similarities don't start to gel, then the definition under consideration might not constitute a Design Persona because by definition a Design Persona should be a group of homogenous consumers. It usually takes several iterations to find the right definitions to identify a group both big enough and similar enough to constitute a Design Persona. That is the reason for including the fourth definition of assets of $100K+. At $250K in investable assets, the market size in terms of consumer households would have been quite small, but at the national level (with no minimum assets), the group would have been a mix of anxious men with no money at all and anxious men with money, failing to create a group with homogenous attitudes and wants.

With these four definitions, the male-anxious-self-directed Design Persona takes on a personality:

- Online brokerage ("OLB") is important to him, and he uses his OLB account to trade. Most (3 of 4) have OLB accounts, in contrast to just over half of men who are confident and not self-directed. Also, most of the anxious self-directed men trade; very few (5%) have OLB just to hold investments. In fact, 16% trade 12+ times per year.
- He is more concerned about "missing out on investment growth" than "losing money in the short term." In fact, 60% agree "missing out" is a "bigger worry," of whom half (30% overall) strongly agree. This is in marked contrast to confident self-directed men,1 in 4 of whom strongly agree that "losing money in the short term" is a "bigger worry."
- The anxious self-directed man is not sure he's doing a good job. Only 67% agree with the statement "I am on track to accumulating the savings I'll need to retire." This is quite different than the nearly 9 out of 10 confident self-directed men who agree with this statement. Most of the anxious self-directed men (77%) wish they were "doing a better job saving." Perhaps he sees his short-comings as his fault and this guilt contributes to his anxiety. It would be necessary to do qualitative research to understand this more definitively.
- He is open to help through his employer. A stunningly high portion (61%)—compared to other Design Personas we have developed—is "comfortable leaving money in a retirement plan sponsored by a company where I no longer work" (i.e., not rolling over) and 64% "use retirement planning resources provided through my employer, or would if they were offered."
- His biggest pain point is fear "of getting ripped off by a financial professional" (77% agree they are afraid of this). Consistent with this, the things he most wants from a provider are "fees that are clear and understandable" (60% place top two-box importance on this attribute on a scale of 1 to 10) and a provider that "is unbiased, puts my interests first" (58% top two-box importance).
- It is important to him "which investment companies manage [his] mutual funds regardless of whether [he] or a financial professional has chosen the funds" (76% agreement) and he "prefers one product that combines different investments to accomplish a goal, over me or an advisor assembling a portfolio of many component investments" (63% agreement). He mostly "sees value in paying for professional financial advice, whether or not I use a financial advisor today" (58% agreement).

In short, he is the kind of investor who self-identifies as self-directed not because he really likes investing (only 30% really "enjoys thinking about money") but because he is fee-averse. At the same time, he worries he might not be up to the task, doesn't want to lose out on upside, and sees value in professional advice. Packaged products can help him get over his fear of getting ripped off, as long as they don't totally eliminate a role for him. And he cares about the investment companies managing his products.

Many existing products or services can be packaged and positioned to help someone like him. Ideating a list of solutions to help is beyond the scope of this white paper but hopefully you get the idea. This same process can be applied to a literally infinite number of Design Personas, limited only by the creativity of the marketing and product development executives imagining them.

Sizing

Sizing is critical to any segmentation or Design Persona, and should be done both in household and asset terms. We have helped clients size segments and personas developed by consulting firms or marketing agencies who have excellent vision but insufficient data to estimate size reliably. Because market opportunity is key to prioritization and funding decisions, the most creative segmentation and Design Personas are not useful if they cannot be sized.

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It is difficult to size segments or personas that take marital decision-making into account. It is important to understand marital decision-making but few companies incorporate it into segments today. We usually size market potential based on the decision-maker, or if decision-making is shared, the respondent in our database. This example, however, hits marital decision-making squarely on the head, so it probably should not be ignored. Single men represent about 20% of households and 12% of investable assets, while married couples represent 55% of households and 75% of investable assets. About 15% of households (30% of assets) are married couples where the man is the breadwinner and the woman does not work, a bit over 20% of households are married couples where both work but the woman is not the breadwinner, and just under 20% are married couples where the woman is the breadwinner.*

The dynamics between breadwinning and investment decision-making are beyond the scope of this paper, but for the sake of a rule of thumb, about 60% of households and 70% of assets are either controlled by single men or married households where the man is probably in charge of most earning and investing decisions and therefore fits in this Design Persona. At the national level, about 50% of households where males make most of the investing decisions fit the anxious-self-directed Design Persona, but at $100K+, only about 20% do. Since there are about 40M households with >$100K, the market size for this Design Persona in households in approximately 7M.

Conclusion

We hope we caught your attention with our April Fools' prank, and that the serious points in the rest of the paper can help you think more effectively about segmentation and Design Personas in the future.

We would be happy to talk about which of the more than 1,500 fields in the Investor Quantitative Database can help you accelerate your organization's thinking on segmentation, or improve the effectiveness of product marketing and development with Design Personas. Our customizable platform works in conjunction with internal proprietary research to speed time-to-market and allows your teams to explore efficiently and focus scarce resources on the best ideas.

*The Hearts & Wallets I.Q.™ Database accounts for a variety of domestic situations. For example, we have tracked LGBT for three years. Here we use language for heterosexual married couples only for simplicity.

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