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The Awakening: How Younger and Experienced Consumers Will Shape Investment Products

The Asset Managers that Rank Highest in Consumer Awareness; Opportunity to Reinvent Managed Products

(Rye, NY) – As mutual funds continue to decline, falling from 63% of U.S. households owning them in 2010 to 39% in 2017, asset allocation and passive investment remain market darlings. Two overlooked consumer groups, younger consumers and more experienced investors, and their views on products promise to shake up this orthodoxy, offering silver linings for product managers in new research by **Hearts & Wallets,** the source for retail investor data and insights.

Two new reports, *Investment Products & Asset Managers*, and *Active vs. Passive and Impact Investing*, provide insights into developing and marketing investment products. The reports offer exciting ideas on consumer attitudes and behaviors drawn from the over 40,000 U.S. households in the Investor Quantitative Database™ (IQDB), a sample size with unparalleled certainty. Younger consumers – and their growing awareness of the financial products they own and the firms that create them – are signaling a receptivity for packaged and actively managed products. Experience is another factor that can change attitudes about active and passive management – for all lifestages.

Product vs. Asset Awareness

These trends in product receptivity come as product relevance has struggled. The emphasis of asset allocation over the branded mutual funds has caused consumer awareness of investment products to decline, while awareness of asset allocation has increased. In 2011, 80% of households with assets were able to say what investment products they own, but by 2015, only 65% were. In contrast, 82% of consumers can answer questions about their asset allocation.

2017 marks an uptick in product awareness, but only among young consumers. In 2017, 83% of Emerging (ages 21 to 27) and 80% of Early Career (ages 28 to 39) can name the investment products they own, up from 62% and 65% respectively. Yet awareness of investment products among the coveted Late Career (ages 53 to 64) Baby Boomers continues to decline, falling to 68% in 2017 from 84% in 2010, as asset allocation and goals-based wealth management approaches have replaced branded mutual funds. 40% of younger consumers prefer packaged products to assembling component investments, the highest of any lifestage. Younger consumers hold the key to the next generation of managed products.

“Most mutual fund companies continue to want to target richer, older consumers,” Laura Varas, CEO and founder of Hearts & Wallets, said. “But older, richer consumers prefer to assemble components, either with an advisor or by themselves. They’re just not looking for packaged products, so targeting them is like selling ice skates to people who live in the tropics. The completely greenfield opportunity is to look at the unmet emotional and practical consumer needs to create products that solve real problems.

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"This is where the so-called robos have focused," Varas continued. "Young people have a lot of wants and problems and few solutions. So, there's a great opportunity to reinvent managed products for younger consumers who already have higher brand awareness for products. There is this awakening that the manager behind the funds and the market cycle may indeed matter."

One in 4 younger investors are open to putting more money in active funds. One in 3 experienced investors believe active management can add value, especially in down markets. Experience has a bigger impact on investing attitudes than assets. About one third of experienced investors strongly believe that active management is more effective than indexing in limiting downside and can provide better returns, while less than 20% of investors with $2 million or more believe this.

High Cash, Impact Investing

A larger percentage of younger investors are not only receptive to managed products, they also have large concentrations of cash, giving them the immediate ability to act on their preferences. The average Early Career household now has 57% in cash, as cash concentrations are also increasing among Mid- and Late Career households. Younger investors are also the most receptive to impact investing with 70% of millennials including impact investing as one of their investment goals. Education is the impact area that motivates younger investors the most.

"Packaged products are a great way to scale advice, especially for younger consumers who are receptive to this structure," said Amber Katris, Hearts & Wallets research subject matter expert. "Younger consumers are looking for ways to build wealth. They currently have fewer equity funds and more bond funds and need to understand the long-term implications of this asset allocation. Younger consumers are receptive to products that do good, as long as they also perform."

Know Thy Asset Manager

Although many asset managers continue to struggle with consumer awareness, certain brands that have focused on name recognition have seen improvements. Firms that have increased their consumer awareness over the past five years include Fidelity Investments, with the highest overall shareholder awareness, Wells Fargo Advantage Funds (NYSE: WFC) and BlackRock (NYSE: BLK).

Flat over the five-year period and maintaining their awareness are Vanguard, with the second highest overall shareholder awareness, and American Funds. Awareness over the past five years is declining at Pimco Funds, John Hancock and Putnam Investments. The Shareholder Awareness Score is defined as shareholders who say they "definitely" own funds as a percentage of all respondents who "definitely" own a fund or "may own but are not sure."

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The Awakening: Product Strikes Back 2017/3

"As a former manager of products ranging from 110 equity mutual funds to consumer products, I've been puzzled to watch investment product manufacturers cede consumer awareness and becoming more commodity-like," Varas said. "Consumers want to be engaged in selecting their investments whether on their own or with a trusted advisor and that's increasing because of technology, concerns about pricing and potential conflicts of interest. The awareness-consideration-trial-purchase cycle begins with awareness, no matter who influences the ultimate purchase. This is a board-level issue for asset managers. Building a consumer-relevant brand is not for every company, but increasing consumer relevance and negotiating power can maximize profits longer-term."

Methodology
The *Investment Products & Asset Managers* insight module report analyzes financial product and asset allocation trends, and the behaviors and attitudes of U.S. consumer groups nationally. *Active vs. Passive and Impact Investing* is a timely topic insight module that analyzes consumer attitudes and behaviors around active and passive management as well as impact investing for all consumer lifestages nationally. The reports are drawn from the Hearts & Wallets Investor Quantitative Database™ (IQ Database™) of over 40,000 IQ Database households since 2010.

About Hearts & Wallets
Hearts & Wallets is a data and consulting firm focused on understanding the drivers behind retail investor decision making. Combining a consumer marketing framework with financial services operating experience, the company is a catalyst for consumer-driven innovation in retail investing and saving. Hearts & Wallets works with leading financial providers to improve the effectiveness of their marketing communications, solution design and service delivery. For more information visit www.heartsandwallets.com.

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