

## **Perceived Investing Experience Drives Attitudes to Active Management, Advice-Seeking Behaviors, Loyalty to Firms vs. Advisors** *Experience Impacts Language Preferences; Four Concept Tests on Health Care, Education and Simplifying Complex Communications*

Jan. 11, 2018 (Rye, NY) – The degree of perceived investing experience – independent from investable assets – influences consumer attitudes to active management, advice-seeking behaviors and loyalty to firms versus advisors, offering opportunities for firms with higher value-added services that understand the concerns of less experienced, wary consumers, in a new report by to **Hearts & Wallets**, the source for retail investor data and insights.

*The “Experience Divide:” How Beliefs and Truths About Investing Experience Affect Loyalty and Attitudes to Active-Passive, HSAs, and Descriptions of Advice* examines the variable of perceived investing experience, which is potentially a more important lens than traditional filters of wealth and attitudes toward advice. The report comes as the financial services industry struggles to define higher value-add solutions and their price points to consumers.

The report also assesses how experience affects consumer understanding of descriptive terms of advice and guidance models and reactions to four concept test that are in early phases of development at leading firms. Two concepts on health care and education, in the form of an Investment Account for Future Health Care Expenses, or a health savings account (HSA), and Education Funding for Grandchildren, address major life challenges. Two concepts tests, on Hybrid Active and Passive Fund and Change in Mutual Funds Available, examine how to simplify complex communications. Hearts & Wallets reports are written by subject matter experts with decades of operating experience in retail finance, consumer packaged goods and technology development, and acumen honed at the nation’s finest business schools.

### **The Connection Between Experience and Active Management**

The impetus for this qualitative research was a recent Hearts & Wallets quantitative report, the Timely Topic, *Active vs. Passive and Impact Investing*, which found investors who say they are more experienced are more likely to believe active management can add value beyond indexing. Investors of all assets levels who describe themselves as “very experienced” are more than twice as likely agree with the statement “it is possible to reduce and/or limit downside negative returns... to less than an index” through active management than investors of all experience levels who have \$2 million plus. Whether consumers feel experienced is somewhat correlated, but not as strongly as might be assumed, to their investible assets, as revealed by Hearts & Wallets Investor Quantitative™ Database analysis.

Consumers who say they are very inexperienced are a significant segment nationally, representing about 40% of the market. The qualitative research examines the sub-set of older, more wealthy consumers. Although experience would be assumed to be greater for this demographic, even here, about one third considers themselves inexperienced investors.

## Beliefs and Truths of Perceived Investing Experience 2018/2

Part of the Explore™ Qualitative series, these national focus groups gain new insights from consumers and test new concepts twice annually. This report focuses on older consumers, ages 53 to 70, with \$500,000 to under \$5 million in investable assets. The total market size of this demographic is 6.3 million households nationally with \$10.6 trillion in investable assets. For this research, Hearts & Wallets broke the market segment into three groups based on perceived investing experience:

- *Inexperienced* – 1.9 million households, \$1.9 trillion investible assets
- *Middle* – 1.2 million households, \$1.8 trillion investible assets
- *Experience* – 3.3 million households, \$5.9 trillion investible assets

“Consumers in this research are like canaries in a coal mine, revealing the concerns of the larger body of inexperienced consumers,” Laura Varas, CEO and founder of Hearts & Wallets. “By understanding the mindsets of inexperienced consumers, higher-priced services, such as active management and advice that is deeper and broader, can identify the best ways to communicate and connect with this market.”

### Beliefs and Truths about Experience

*Inexperienced* and *Middle* groups of consumers reveal important misconceptions about what it means to be experienced, which can result in barriers to investing and wealth accumulation. Less experienced groups erroneously believe experience requires understanding product details, constantly watching and taking action, and even having a formal education in finance. *Experienced* consumers debunk these beliefs, offering truths about what it means to be experienced.

Not knowing these truths, *Inexperienced* consumers see investing as scary and complicated, and react with negative emotions. *Inexperienced* consumers seek a safe haven. Inexperienced consumers are passive, waiting to be told what constitutes a higher value-added service.

“The degree to which Inexperienced sought a safe haven in simplicity was striking,” Varas said. “Firms should approach consumers based on their level of experience with investing. For Inexperienced consumers who are not interested in investing, reassure them and simplify their life. For *Inexperienced* consumers who do want to learn more, debunking myths about how what Experienced consumers really do can help them to understand why Experienced investors are open to higher-value add products and services.”

### Loyalty and Language

The report contains two exercises that exploring the impact of experience on loyalty and language. With loyalty, experience does play a role in the level of consumer loyalty to advisors vs. firms. Firms do have opportunities to enhance loyalty and to articulate how the home office adds value, such as stability, training and reputation.

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## Beliefs and Truths of Perceived Investing Experience 2018/3

The second exercise examines experience as related to advice topics and language. Consumers expect specific advice topics to be associated with levels of sophistication. *Experienced* and *Middle* have clearer understanding of this dynamic. More work is needed to differentiate advice and guidance experiences, what they do, how much they cost, and how they differ. Specifically, reactions were sought to “private bank” and “wealth management.”

## HSAs and Funding Education

Two of four industry concept tests focused on major life challenges: addressing rising health care costs in retirement and funding education. For Investment Account for Future Health Care Expenses, or a health savings account (HSA) under a different name, high interest and questions centered around key product features of triple tax benefit, interest-earning account, rollover ability and portability. Overall, HSAs had low awareness with this age group, who felt they might be too late to benefit. Education Funding for Grandchildren was a hit in addressing an unmet need for ways to help and engage entire families in responsible financial behaviors.

## Simplifying the Complex

Two of the concept test examined how to simplify complex communications. The Hybrid Active and Passive Fund was positioned for individuals in or near retirement who still want to grow their portfolio without aggressive risk, a true consumer need. The concept was attractive to many participants in theory with questions about how it would work. The test revealed potential opportunities for products in the middle of the active management and passive indexing. The concept test about how to communicate fund change, Change in Mutual Funds Available, revealed sensitivities about incentives, trust, pricing and the tension between home offices and the field.

“The delay of the DOL Fiduciary Rule has created extensive misunderstanding, especially among *Inexperienced* and *Middle* investors,” Varas said. “Firms must recognize this confusion in their communications and explain how it is possible to put client interests without being a fiduciary. There is also an exciting opportunity to define a clearer role for how the home office adds value.”

## Methodology

*The Experience Divide: How Beliefs and Truths About Investing Experience Affect Loyalty and Attitudes to Active-Passive, HSAs, and Descriptions of Advice* is an Explore™ Quantitative report. The research is based on three national focus groups conducted this fall in New York, St. Louis and San Francisco with consumers ages 53 to 70 who have sole or shared decision-making responsibility for investment decisions; informed or involved in investment decision-making with \$500,000 or more in investible assets, excluding real estate. Participants were segmented based on their perceived level of investing experience: *Inexperienced*, *Middle* and *Experienced*.

## 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](http://www.heartsandwallets.com).

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