

Today's Engaged Investor: An Approach to Investing, Borrowed From Life

A Study by Charles Schwab & Co. Inc., Member SIPC

Introduction

In the wake of the extremely challenging and often volatile investing environment of the last 15 years accompanied by a decline in investor trust in the financial services industry, we've witnessed the emergence of a new class of investors. This group is more engaged, asks more questions, wants to work with an investment professional but plays an active role in the decision-making process, and has higher expectations for the financial services firms and professionals with whom they work. These engaged investors demand transparency and accountability, and they want a relationship on their terms – not the terms of their broker.

In many ways, this investing approach mirrors the attitudes and behaviors they exhibit in other aspects of their lives, where they are similarly engaged and demonstrate a significant amount of personal ownership – they are active in their communities, participate on school boards, stay late at the office, many are entrepreneurs, they are dedicated to their families, and get second and third professional opinions before making decisions.

We conducted a research study of these engaged Americans to better understand how they think and behave in life and how their overall beliefs and actions translate to their investing habits. The study confirms what we've experienced through interactions with our clients: The majority of these energized individuals are similarly driven and engaged in the way they approach investing. But we also identified a smaller yet significant number of engaged Americans who have decided to take a less hands-on approach when it comes to investing.

Study Objectives

The study's objectives are:

- To understand highly engaged Americans' attitudes and behaviors in life compared to how they think and behave when it comes to investing.
- To examine differences among highly engaged Americans who are actively involved in investing versus those who are less involved.

Executive Summary

In April 2013, Charles Schwab and Koski Research surveyed 1,000 Americans ages 25-75 with \$250,000 or more in investable assets who are highly engaged in their lives, in order to analyze their attitudes and behaviors toward their overall lives and their investments. The study was conducted using an online panel of investors. Survey respondents are primarily clients of large, national brokerage firms - 88 percent are clients of a wirehouse or other national brokerage firm (nine percent are Schwab clients), seven percent are clients of an independent broker dealer (IBD), three percent are clients of an independent registered investment advisor (RIA), and two percent are clients of firms categorized as "other." In reading the results of this study, the general rule of thumb is that the margin of error is about 3.1 percent on the total sample and greater when looking at results for specific subgroups.

According to the study:

- The majority of investors surveyed who are highly driven and motivated in their lives are also highly engaged in investing.
- A smaller but significant portion of investors surveyed are much less engaged in investing despite being highly engaged in many other aspects of life.
- Less engaged investors may want to reexamine their current approach to investing with respect to their engagement in other important aspects of life to confirm that level of involvement is right for them.
- Even among engaged investors, there are some behavioral gaps between how they act in life and investing that are worthy of consideration.

Attitudes Toward Life and Investing

The highly engaged individuals who participated in the study share a number of attitudes about life. Ninety-six percent think of themselves as planners, 83 percent take charge in their life and wouldn't have it any other way, and 74 percent say hard work makes the country great.

But when asked about their attitudes about investing, there is a significant split. Nearly two-thirds (61 percent) say they are actively involved in their investment portfolio, similar to how they approach other parts of life. However, more than one-third (39 percent) say they are not actively involved in their portfolio, despite being highly engaged in other aspects of their lives.

While all these individuals are highly motivated and hands-on in most aspects of life, the two groups think and behave very differently when it comes to investing.

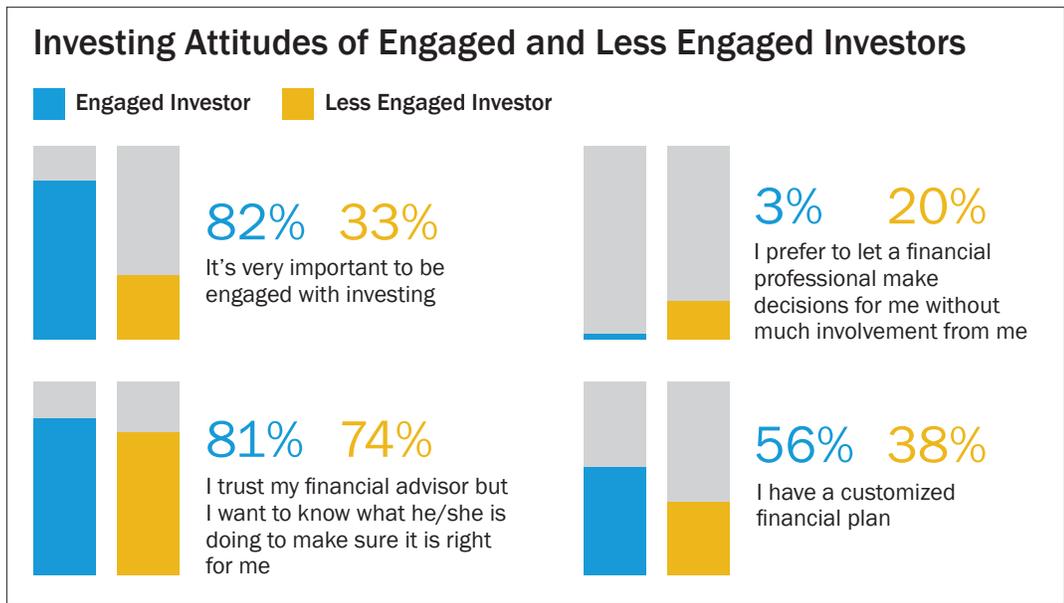
Actively Involved Investors

The 61 percent who are actively involved in their portfolios have similar attitudes about engagement in life and investing – they take a great deal of ownership in both. For example, 82 percent think it's very important to be engaged with investing, while just three percent prefer to accept an investment professional's decisions without much involvement from them. More than half (56 percent) of these investors have a customized financial plan that includes savings goals, expected expenses and portfolio allocations. In addition, 81 percent of engaged investors who work with an investment professional trust them, but want to understand any recommendations to make sure they are right for them.



Less Involved Investors

In stark contrast, the 39 percent who are not engaged in investing think about it in a way that often contradicts their attitudes in other parts of life. Just 33 percent think it's very important to be engaged with investing, and one-in-five prefer to accept an investment professional's decisions with little involvement from them. Only 38 percent of this group of investors has a financial plan that includes savings goals, expected expenses and portfolio allocations. Of this group, those who work with an investment professional are less likely to want to be actively involved.

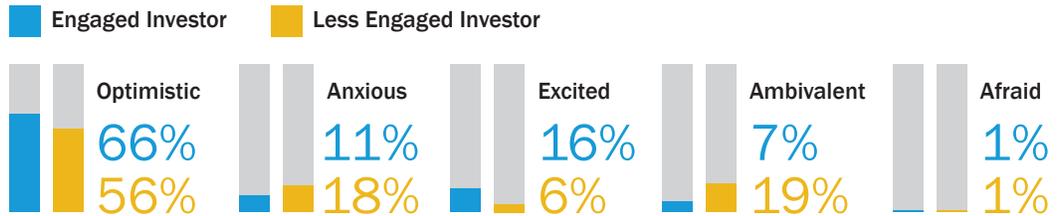


The Impact of Engagement

Both the engaged and less engaged investors in the study are generally optimistic about investing, but there is a higher level of optimism and less anxiety among the investors who are actively involved in their portfolios. Sixty-six percent of engaged investors say they feel optimistic when they think about investing compared to 56 percent of less engaged investors. And just 11 percent of engaged investors feel anxiety about investing versus 18 percent of less engaged investors.

What Investors Think About Investing

When asked how optimistic they are about their ability to meet their investment objectives, 90 percent of engaged investors say they are optimistic compared to 81 percent of less engaged investors.



Investors Want More From Their Investment Professional and Firm

While 79 percent of investors surveyed who work with an investment professional say they are satisfied, more than half (55 percent) would change some aspect of the relationship.

What motivated Americans would change about their investment professional



Highly engaged investors who work with an investment professional are slightly less satisfied with the firms at which their professionals work compared to the professionals themselves. Thirty-four percent dislike or are unsure about their brokerage firm, and there are a range of reasons why.

Reasons investors dislike or are unsure of their investment professional's brokerage firm



Examining Investing Behavior

Most of the 1,000 individuals surveyed take personal ownership over their lives – they research major purchases, think it’s important to be active in their local communities, and prefer to be involved in the decision-making process with professionals such as contractors and doctors. The 61 percent of engaged investors in the study also exhibit similar behaviors with their investment portfolios.

However, in examining the 39 percent who say they are not involved in investing, there are significant gaps between their investing behaviors and their ownership of the non-investing aspects of their lives. When it comes to investing, they do less research, have less awareness and understanding about fees and costs, and are less actively involved with investment professionals compared to other professionals in their lives. Simply put, while they often have both hands on the wheel in the rest of their lives, they are uncharacteristically willing to take more of a backseat when it comes to their financial futures.

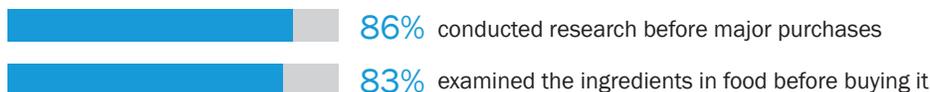
In addition, it’s noteworthy that even for the group of more actively engaged investors, there are some considerable gaps between how they behave in life versus investing that they might want to consider.

Consider how highly engaged Americans approach investing versus other life activities in three key consumer behavioral areas:

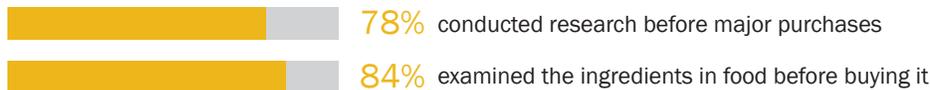
1. Looking “under the hood.” Most individuals surveyed are diligent and willing to do their homework on their non-investment decisions. For example, the vast majority in the past year conducted research before making major purchases and even examined ingredients before buying food. Engaged investors take the time to understand their investments, although they are less focused on the research their investment professional uses. Less engaged investors are less likely to ask for the research behind an investment professional’s investment recommendations, and less than a quarter take the time to understand the investment products available to them.

LIFE BEHAVIORS (OVER THE PAST YEAR)

Engaged investor:

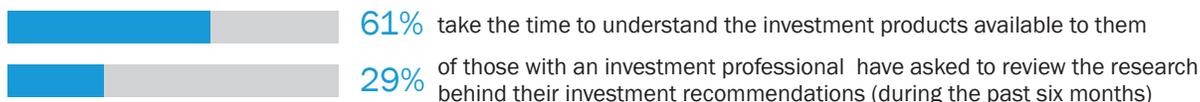


Less engaged investor:

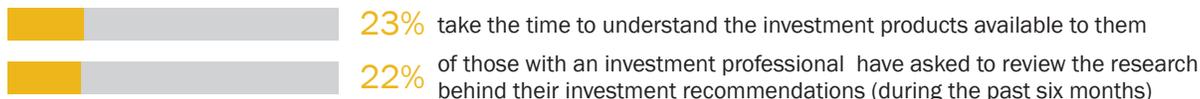


INVESTING BEHAVIORS

Engaged investor:



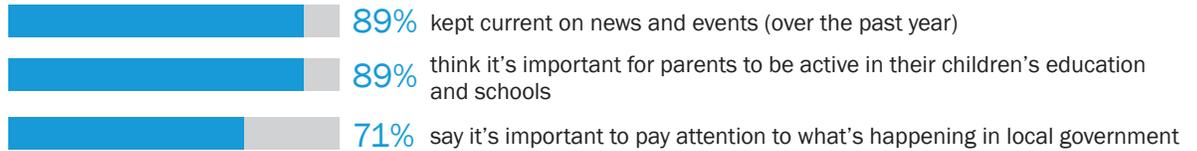
Less engaged investor:



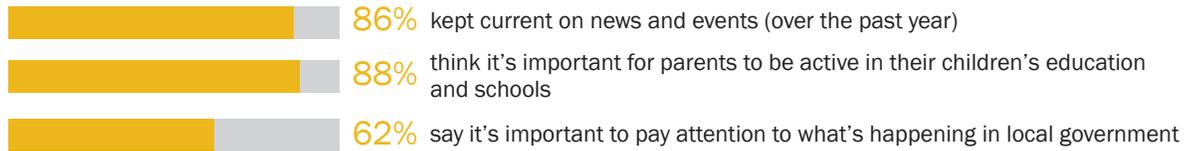
2. Staying up-to-date. The vast majority of individuals surveyed pay close attention to their communities and developments in the world around them. This commitment to keep current generally translates to how engaged investors approach investing as well: They tend to stay on top of their portfolios and make changes to their portfolios when necessary. On the other hand, less engaged investors are less likely to regularly review their investment portfolios and less inclined to adjust their portfolios at different life stages or when the stock market changes to make sure it is still right for them.

LIFE BEHAVIORS

Engaged investor:

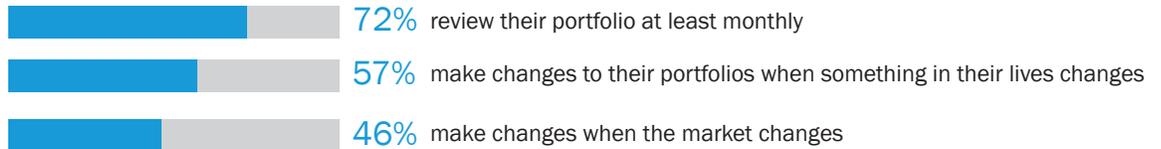


Less engaged investor:

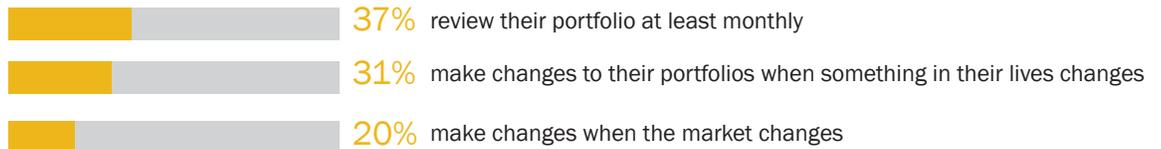


INVESTING BEHAVIORS

Engaged investor:



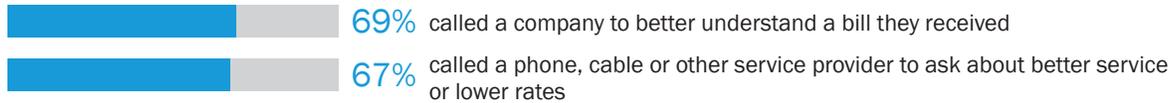
Less engaged investor:



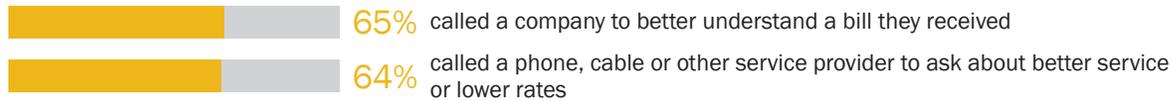
3. Seeking value. Most individuals surveyed are acutely focused on making sure they spend wisely and get value for their money in general. However, both engaged and less engaged investors are actually less aware of what they're paying for their investments compared to other parts of their lives. For example, very few are talking about fees and compensation models with their financial professional. Not surprisingly, these gaps are far more pronounced among the less engaged investors.

LIFE BEHAVIORS

Engaged investor (over the past year):

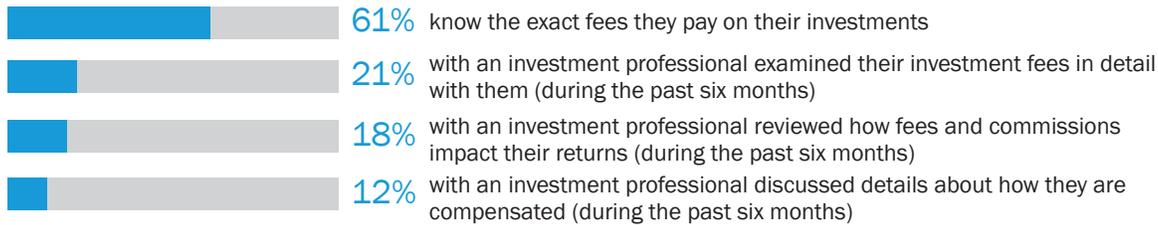


Less engaged investor (over the past year):

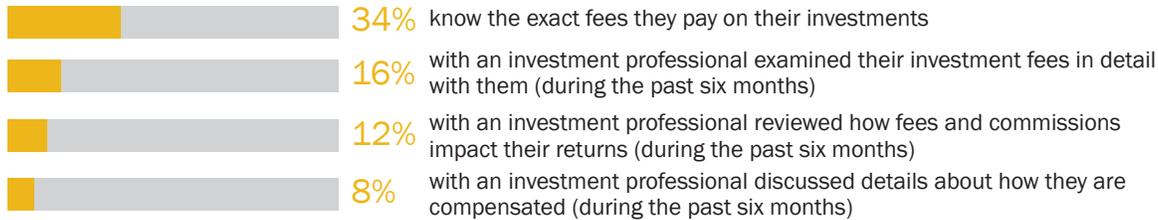


INVESTING BEHAVIORS

Engaged investor:



Less engaged investor:



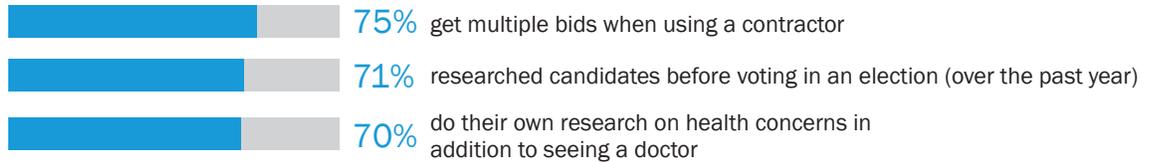
Interacting with Professionals

When working with doctors, contractors and other non-investment professionals, the majority of investors in the study are directly involved in the decision-making process – they get multiple opinions and do their own research. In fact, just four percent of all 1,000 investors surveyed allow non-investment professionals to make decisions on their behalf without their involvement.

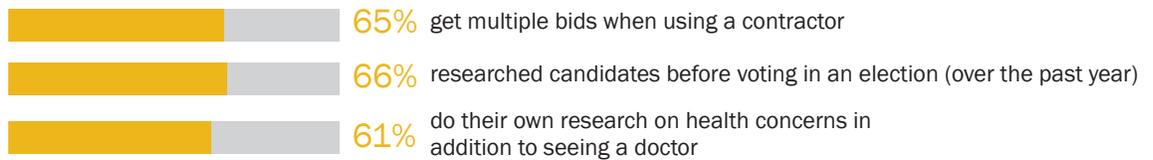
The dynamics of their relationships with investment professionals, on the other hand, are quite different in some cases. Both engaged and less engaged investors are more passive in this area - they don't dig into their professionals' recommendations, and they spend less time interacting with them.

HOW INVESTORS WORK WITH PROFESSIONALS

Engaged investor:

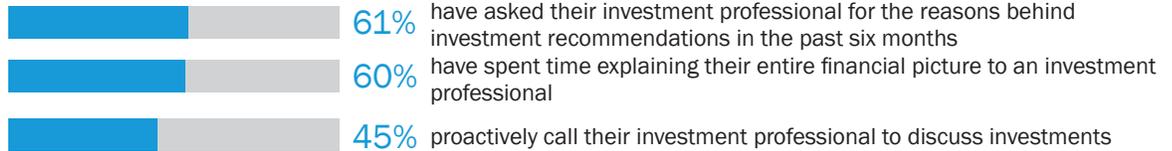


Less engaged investor:

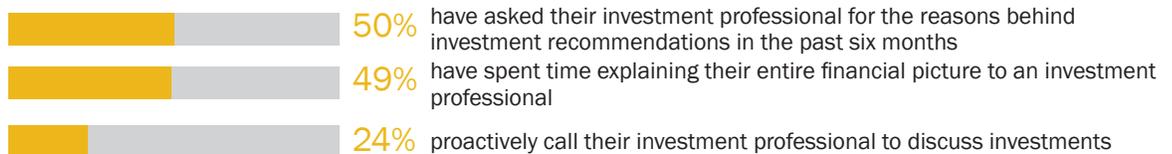


HOW INVESTORS WORK WITH INVESTMENT PROFESSIONALS (AMONG THOSE WHO HAVE A PRIMARY INVESTMENT PROFESSIONAL)

Engaged investor:



Less engaged investor:



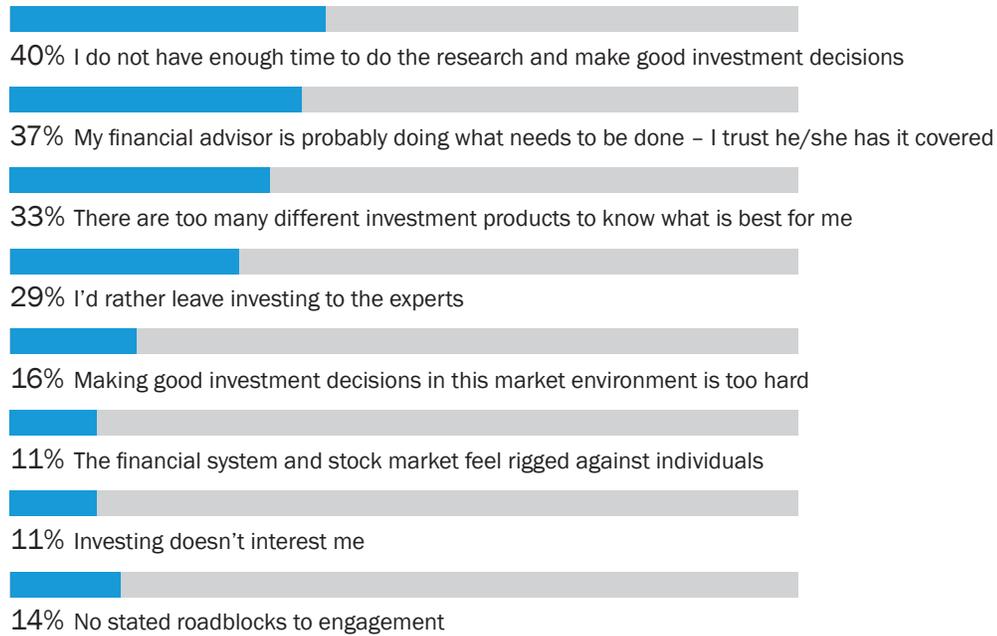
The study also finds that those who are less involved in investing are more likely to work with a primary investment professional – 75 percent of this group says they have one, compared to 58 percent of those actively involved. But the findings above show that the less involved are naturally less likely to regularly engage.

Reasons for Lower Levels of Engagement

The gaps between engaged investors and less engaged investors raise an important question: Why do the 39 percent of less engaged investors take such a hands-on and driven approach in life, while taking less ownership over their investing?

Eighty-four percent of this group cites at least one reason they are not more involved in their investing. While the specific reasons are diverse, the three most common involved a belief that their investment professional is doing what needs to be done without more involvement on their part, an overwhelming number of investment products to sort through, and naturally, lack of time.

Reasons Cited by Less Engaged Investors



Conclusion

The study confirms the levels of engagement we have seen among our own clients. The interactions we are having with clients are longer and more in-depth, they are more interested in getting advice and guidance about their investments, and they are increasingly seeking knowledge, tools and other resources to help them make more informed decisions about their assets.

That said, the investors we surveyed are split into two groups: Those who are actively involved in their investing and those who are less involved. The study findings show that all investors surveyed have areas of higher and lower engagement in investing. The less engaged investors especially should consider their current attitudes and actions regarding investing relative to how they approach the other areas of their lives. For some, this analysis will confirm that their current level of involvement is right for their values, needs and situation. Indeed, some of them have likely made an active decision to be more hands-off with investing. Others, however, may discover that their interests would be better served by becoming more engaged in their investing.

The study surfaces a number of important actions for anyone considering their current level of investing engagement:

- Create a financial plan that addresses specific investing needs and goals. For those looking to get started, Schwab has planning resources at www.schwab.com/planning.
- Take time to understand investment fees and costs and how they impact portfolio returns.
- Understand all the investments in your portfolio – how they work, what their role is in the overall portfolio, what the risks might be, and what options exist.
- Be present and active when it comes to your investment strategy – stay current and reevaluate your portfolio when your life changes.
- Establish regular check-ins with an investment professional, if you work with one, and be proactive – talk about your situation and goals, ask questions, and make sure you understand the reasoning behind any recommendations.

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