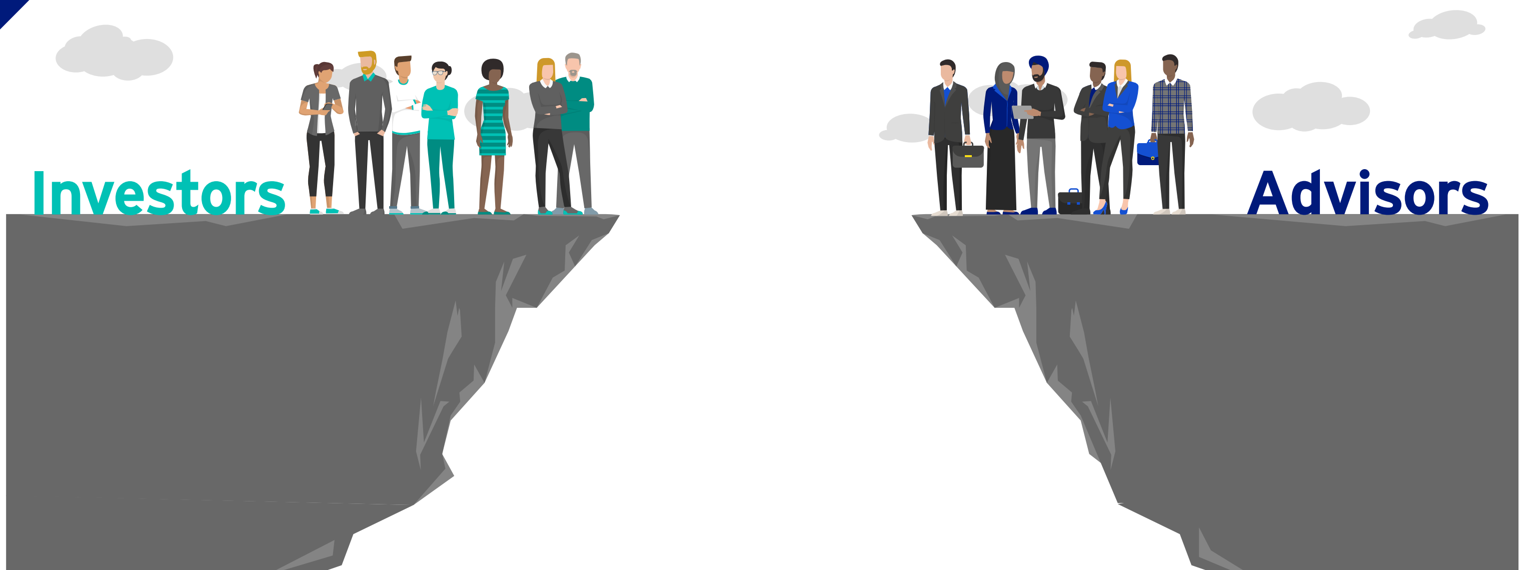
Invesco

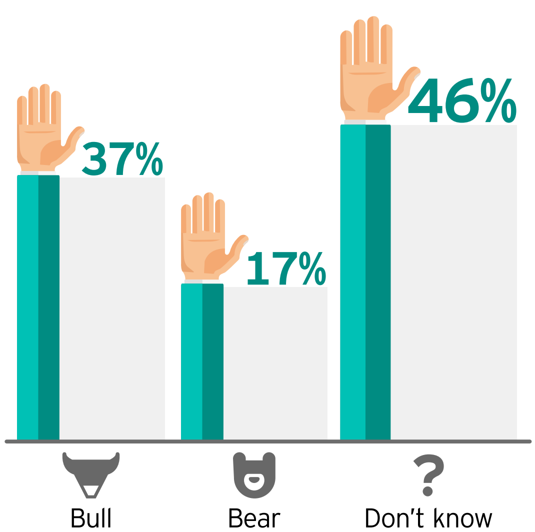
The growing sentiment gap

Market outlooks differ among financial advisors and investors



Invesco commissioned a study to take the pulse of investors and financial advisors in the first (1Q) and second quarters (2Q) of 2018. The first round of research was conducted in January. The second round was conducted in April to gauge the investment climate after February's market adjustment causing volatility to spike.[1] The research findings reveal differences in how financial advisors and investors view the market, rising interest rates and portfolio income.

Even after a volatile first quarter, most advisors have a positive outlook on the market, and investors plan to hold steady with the investment strategies they have in place. However, Invesco's research reveals a widening gap in sentiments between advisors and investors, as well as differences in their concerns and expected outcomes.



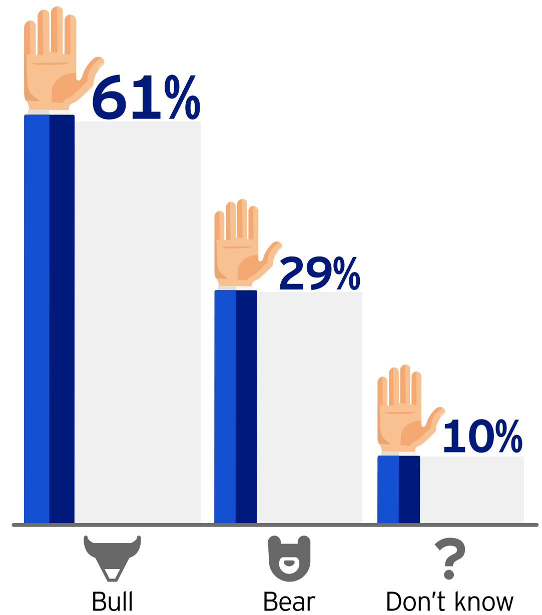
Caution and confusion are growing among investors

This year's volatility tempered market outlook among investors; nearly half reported financial losses as a result of February's volatility spike. At the same time, the proportion of investors who feel we are in a bull market dropped precipitously from 65% in Q1 to 37% in Q2. For investors, current market conditions cause confusion more than outright pessimism as almost half (46%) can't discern whether we're in a bull or a bear market. Overall willingness to invest is still high, although investors' tendency to feel that now is a good time to invest declined from 80% in Q1 to 69% in Q2.

Investors are more confused after market volatility. In Q1, 65% said we were in a bull market and 30% didn't know.

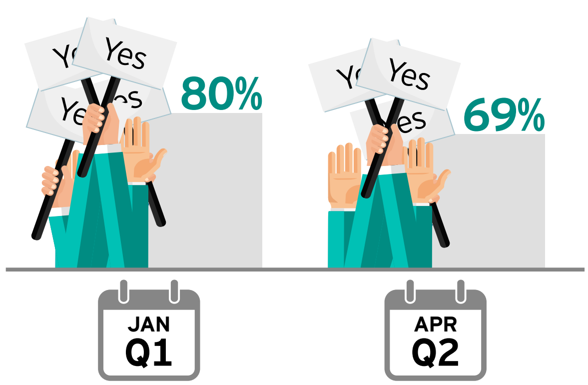
Advisors tell a different story

Despite increased market volatility, the proportion of advisors who feel that now is a good time to invest has held steady around 87% since Q1. Advisors also have a greater sense of clarity on the market's direction as only 10% don't know whether the market is a bull or a bear. Moreover, most advisors still feel we are in a bull market (61%), and this figure showed only a moderate drop since Q1 (from 73% to 61%).

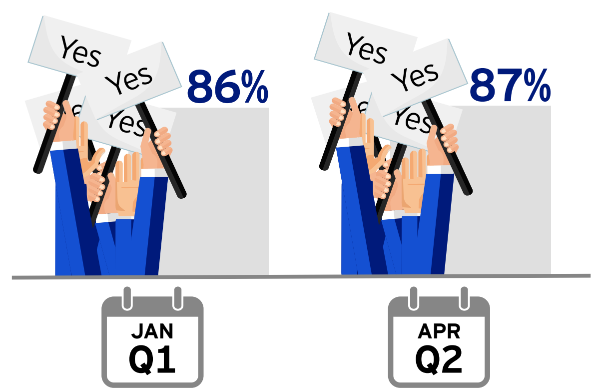


Advisors are more decisive – and show more stability in their market outlook. In Q1, 73% said we were in a bull market and 7% didn't know.

Is now a good time to invest?



Yes,
but investors are starting to worry



Yes,
and advisors are steadily sure

Investors blame the market for their struggles, advisors disagree

While investors are most likely to cite the market as their top financial obstacle, advisors say investors' top financial obstacle is a lack of discipline or planning.

Investors point to

- Volatile market
- Limited financial resources
- Failure to begin planning early enough

Investors with more than $1 million in assets are even more likely to blame the market.

Advisors point to

- Insufficient discipline with money
- Failure to begin planning early enough
- Limited financial resources

Macro concerns also differ

As for concerns, there is one that both groups agree on – about three out of four investors and advisors agree that a trade war could lead to a downturn this year. Otherwise, top macro concerns for investors and advisors differ, and these concerns increased over the course of the year. Congress tops the list of concerns for investors, followed by the federal budget deficit. More than 80% of investors expect at least one of these two to lead to a downturn in the stock market this year. In contrast, rising interest rates rank first among advisor concerns while the same concern ranks seventh for investors.

Investor concerns

Concern	%
Congress	**83%**
Federal budget deficit	**81%**
Trade war	**73%**
Major cyber-security breach	71%
Conflict with North Korea	68%
Rising inflation	68%
Rising interest rates	62%
The Trump Administration	58%
December tax law	46%
Automation and AI	39%
Growing e-commerce	35%

Advisor concerns

Concern	%
Rising interest rates	**81%**
Trade war	**78%**
Rising inflation	**77%**
Congress	76%
Federal budget deficit	76%
Major cyber-security breach	69%
Conflict with North Korea	68%
The Trump Administration	67%
December tax law	53%
Automation and AI	53%
Growing e-commerce	51%

Differing reactions to rising interest rates

Investors who have less money tend to be more worried about rising interest rates

Investor assets	Percent of investors worried about rising interest rates
$100K-$249K	67%
$250K-$500K	65%
$500K-$999K	57%
$1,000,000+	53%

Notably, the more affluent investors are, the less likely they are to report concern over rising interest rates. This may be because investors think of interest rates as something that affects their loan obligations or access to credit, while advisors may see the full impact of interest rates on their clients' financial goals.

Informed advisors understand the long-term impact that interest rates have on the market as well as their clients' retirement incomes. Still, while 81% of advisors are concerned about the effects of rising interest rates on the market, only 60% of those who reported this concern recently gave their clients advice regarding rising interest rates. Moreover, this topic seems especially challenging for newer advisors, as less than 55% of advisors with fewer than 10 years of experience advised their clients on the subject of interest rates, compared to 68% of advisors with more than 10 years of experience.

Advisors who have more years of experience are more likely to have advised their clients about rising interest rates

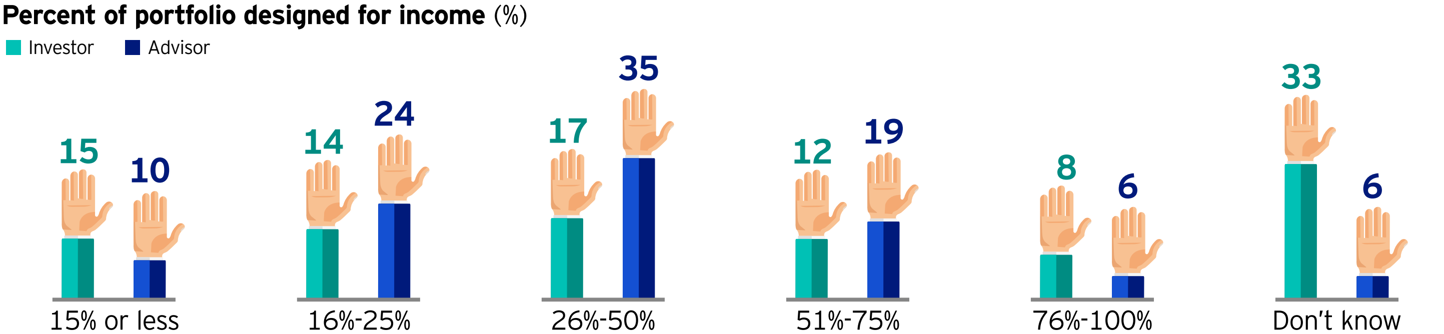
Years of advisory experience	Percent of advisors who have advised their clients about rising interest rates
Fewer than three years	52%
Three to 10 years	55%
More than 10 years	68%

The disconnect between advisors and investors impacts portfolio expectations

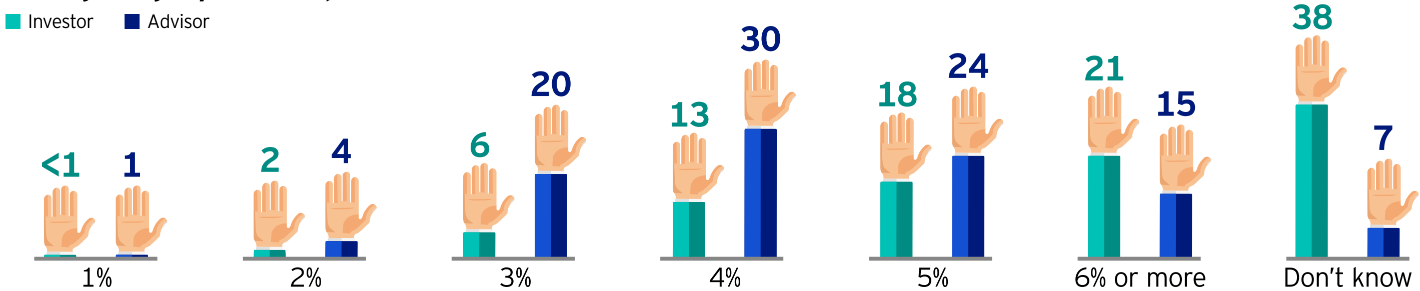
Differences in opinion between investors and advisors are not just limited to general concerns and market outlook. One area where these unspoken differences in perspective may cause tangible disappointments down the road is in expectations for portfolio income.

94% of advisors know which investments in their clients' portfolios are designed to provide income, and 93% have a clear idea of the yield client portfolios can generate. When it comes to the investors, however, one-third do not know how much of their portfolio is designed to create income, and four in 10 do not know what kind of yield to expect from their portfolios. Moreover, investors are most likely to believe their portfolio's income investments target a yield of 6% or more, whereas advisors target a yield of 4% on average.

Percent of portfolio designed for income (%)



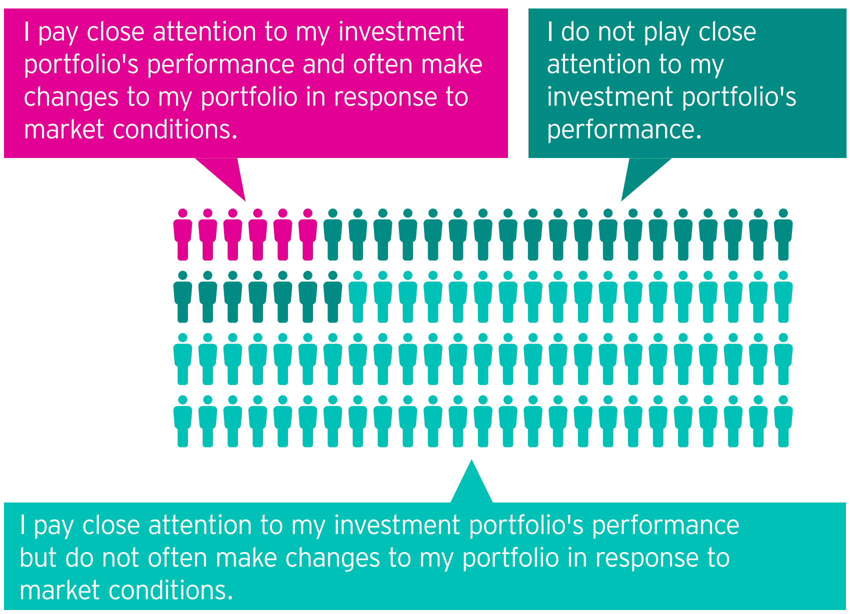
Average target yield from portfolio's income investments (%)



Both a lack of clarity and the potential for unrealistic expectations from investors indicate that there is an opportunity for advisors to deepen client conversations around goals for income from investments.

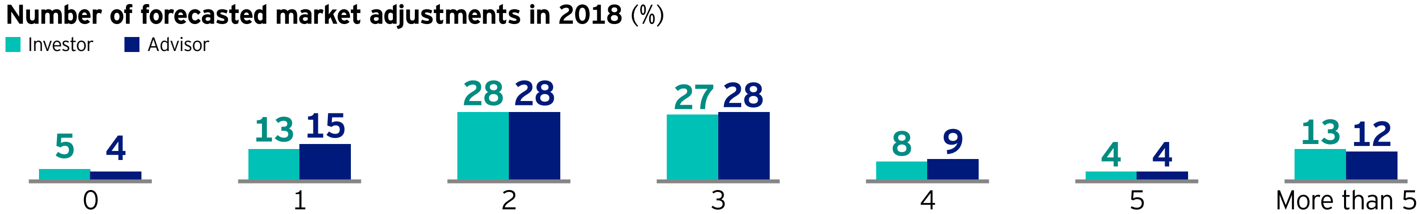
A time for conversations to mitigate investor confusion

Investor's attention



Advisors largely recognize the psychological impact of this year's volatility on investors, and eight in 10 said that it made their clients more cautious. Correspondingly, over half of investors say their advisors reached out to them during this period of volatility. Despite a cautious outlook, investors' general approach to investing remains steady, and a majority (67%) say they pay close attention to their investment portfolios without making changes in response to market conditions. Going forward, most investors intend to stick to the current strategies set out by their advisors.

Number of forecasted market adjustments in 2018 (%)



Given that both investors and advisors expect further volatility this year, now is a sensible time for advisors and investors to confirm their steps forward. Furthermore, advisors can expand the scope of client conversations to go beyond concerns stemming from near-term volatility so that these discussions address impactful issues that investors might not understand, such as interest rate risk.

Key takeaways

1 Investors are holding steady with long-term strategies developed with their advisors, but there are differences in concerns and expectations that might go unrecognized.

2 Even high-net-worth investors may not understand the long-term impact of interest rates on their portfolios or the market. Interest rate risk is a challenging topic, and it is important for advisors to ensure that their clients understand how rising interest rates could affect them.

3 Portfolio income is crucial to an investor's ability to live the lifestyle he or she aspires to in retirement, so investors should be informed about how their portfolios will generate income and about what kind of target yield is realistic based on their risk profiles.

Important information

[1] Stock market volatility represented by the CBOE Volatility Index® (VIX®), which measures market expectations of near-term volatility conveyed by S&P 500 stock index option prices. An investment cannot be made directly into an index.

A bull market is a financial market of a group of securities in which prices are rising or are expected to rise.

A bear market is a condition in which securities prices fall and widespread pessimism causes the stock market's downward spiral to be self-sustaining.

Invesco hired market research firm GfK to conduct surveys to better understand the pulse of financial advisors and investors. The first round of research (initial pulse) was conducted in January. The second round (re-pulse) was conducted in April to gauge the investment climate after February's market adjustment causing volatility to spike.

Methodology (initial pulse):

GfK conducted an online survey of 1,015 investors who use a financial advisor and have at least $100K in investible income using KnowledgePane™ and 811 financial advisors using an opt-in sample. The investor survey was conducted from January 18-23, 2018, while the financial advisors survey was fielded from January 18-27, 2018. Importantly, these surveys were fielded before the market changes that began on February 5. The margin of error for the KnowledgePanel investor sample is +/-3.4 percentage points.

Methodology (re-pulse):

GfK conducted an online survey of 500 investors who use a financial advisor and have at least $100K in investible income using KnowledgePanel™ and 403 financial advisors using an opt-in sample. The investor survey was conducted from April 10-17, 2018, while the financial advisors survey was fielded from April 10-26, 2018. The margin of error for the KnowledgePanel investor sample is +/- 4.8 percentage points. Totals may appear as though they do not to sum to 100% due to rounding and respondents who refused their participation.

GfK maintains a proprietary panel called KnowledgePanel®, which is the largest online probability-based research panel in the US. The respondents were paid an honorarium for their participation in the research. Investors received about $1.50 per survey. Advisors received $2 in e-currency. E-currency is money that you can use on items the panel offers – typically gift cards.

Invesco is not affiliated with GfK.