PERSPECTIVES ON RETIREMENT

Investing is out of the comfort zone for many Americans

Research conducted on behalf of Prudential[1] reveals that many Americans are overwhelmed and have limited understanding about their investments. This may lead to disconnects between their perceptions about their investing savvy and their actual behaviors, which can negatively impact the performance of their investment portfolios.

Nearly two-thirds (64%) of Americans are overwhelmed by the number of financial products available in the marketplace. Of those who do not feel prepared to make financial decisions, industry jargon and a lack of financial education are cited as sources of unpreparedness by 42% and 35%, respectively. In addition, over half of investors (53%) say they do not have time to be actively involved in the day-to-day management of their investments. Of those who do have financial investments, less than half (44%) actually enjoy investing. To make matters worse, about two in three Americans (66%) agree that it's much harder to be an investor today than during their parents' generation.

Overwhelmed Americans reveal disconnects between perception and reality regarding investments.

INVESTOR DISCONNECTS MAY LEAD TO SUBOPTIMAL INVESTING

Investors' lack of knowledge appears to manifest itself in disconnects between their perceived and actual investment behaviors.

1. **Seven in 10 Americans (71%) consider themselves to be prepared to make wise financial decisions, but over four in 10[2] do not know how their assets are allocated (42%) or what products they are currently invested in (43%).** This lack of knowledge of their own investment products is even more pronounced for investors who are Millennials (55%), female (56%), or less affluent (59%), compared to their respective counterparts.
2. **Over half of pre-retirees[3] (56%) say they are willing to take some, or significant, investment risks, but their stated portfolio allocations often reflect risk aversion.** On average, pre-retirees[3] hold 36% of their portfolios in cash and 21% in fixed income. Given historical returns, these allocations may not provide enough asset growth to enable investors to reach their retirement goals.

[1]Research conducted by Harris Poll on behalf of Prudential.
[2]Of investors who have financial investments.
[3]Of investors who are at least a little knowledgeable about their investments.

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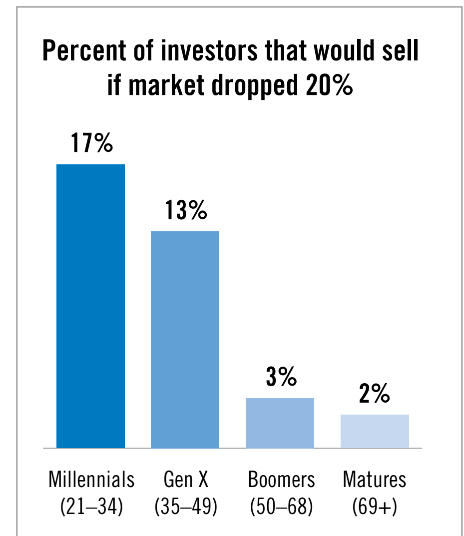
Conventional wisdom dictates that investors' asset allocations should become less risky over time, but investors' portfolios indicate the opposite. Millennials, the youngest generation of investors, are far less likely to invest in equities than other generations.[4] Ownership of equities actually increases from Millennials to Gen Xers, then stays relatively flat for the older generations. This trend suggests that many investors are not optimizing their risk-to-return ratio over time.

AVERAGE ASSET ALLOCATION BY GENERATION

	Millennials (21-34)	Gen X (35-49)	Boomers (50-68)	Matures (69+)
Equities	32%	48%	45%	46%
Fixed Income	26%	18%	20%	15%
Cash	42%	34%	35%	40%

Source: 2016 Prudential Retirement Preparedness Study.

3. **Only 9% of Americans say they would sell their investments if the market dropped 20%, but recent history indicates that a significant number of investors sold their investments in the aftermath of the 2008-2009 financial crisis.** This disparity between intentions and behaviors may be driven by emotional investing. When investors time their decisions poorly, they tend to buy at the highest prices and sell at the lowest prices, leading to long-term underperformance.[5] Interestingly, intentions vary significantly by age. Millennials and Gen Xers are far more inclined to sell during a market downturn of 20% than the Baby Boomer and Mature generations. This may reflect lessons learned by the older generations during the 2008-2009 financial crisis; many Millennials may not have experienced the adverse effects of selling during a market downturn.



ADVISORS CAN HELP

Advisors can help make investors more comfortable and knowledgeable about their investments, and help them "connect the disconnects." Advisors can:

- Educate their clients. For example, advisors can help Millennials understand that they can take on some risks because time is on their side if they need to rebuild their savings after a market downturn.
- Suggest diversified, outcome-oriented products. For example, target date funds, in which professionals construct investment glidepaths, are designed so that investors do not have to continuously monitor and adjust their asset allocations.
- Adhere to the Principles of Prudent Investing. These principles involve setting realistic long-term goals, continually investing regardless of market fluctuations, diversification, and selecting quality investments with professional advice.

[4]Prudential Retirement Preparedness Study, 2016.
[5]Prudential Investments, "Emotional Investing Can Take You Off Course," 2016.

The Retirement Preparedness Study was conducted using an online survey among 1,568 adults (including 438 retirees) who met the following criteria:

- Age 21 and up
- Primary or shared responsibility in making household financial/investment decisions
- Employed full-time or part-time, self-employed, stay-at-home parent, or retired

The survey was conducted by Harris Poll on behalf of Prudential between July 20 and August 9, 2016. Results were weighted where necessary by age, gender, race/ethnicity, region, education, income, size of household, marital status, employment status (for non-retirees), and propensity to be online to bring them in line with their actual proportions in the population.

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