MacroMonitor Market Trends

April 2010

MacroMonitor Market Trends is a monthly newsletter from Consumer Financial Decisions that highlights topical news and trends of interest to you and your colleagues. If you would like more information about the items in the newsletter or would like to discuss other ways that we can assist you in your research and marketing efforts, please contact Larry Cohen, Chris Taylor, or Karen Montecuollo at +1 609 734 2048.

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VALS™ HIGHLIGHTS REPORT: *YOUNG ADULTS AND THE FINANCIAL CRISIS*

How are young adults—an increasingly difficult group of survey respondents to reach—reacting to the worst financial crisis since the Great Depression?

This past summer, the CFD and VALS™ teams of Strategic Business Insights (SBI) set out to answer this question by conducting an online survey of young adults between the ages of 18 and 34 who visited the VALS survey Web site. SBI invited adults in this age group, upon receiving their VALS type, to participate in an additional survey about their reactions to the ongoing economic and financial crisis. The results of this survey shed light on the current financial focus and future goals of the next generation of U.S. leaders. The key findings from this report follow.

- The majority of young adults have lost money as a result of the crisis and are making a concerted effort to cut back spending—especially, for eating out, shopping, and travel and entertainment, for example.
- Even though seven in ten respondents admit that they have experienced negative emotions as a result of the economy, young people are still surprisingly resilient and optimistic about their financial situation in the next 12 months.
- Despite the fact that the majority of sampled adults ages 18 to 34 are currently in debt (primarily because of education loans), their attitudes about using credit and spending are somewhat more conservative than we expected.
- Investing and preparing for retirement are not top priorities for young people. However, signs suggest that some young adults (especially the upper-resource VALS segments who are working) are trying to take advantage of the long-term investment opportunities, given historically low equity prices.
- Overall, our convenience-sample members are relatively engaged in their finances—most say not only that they are interested in financial matters but that they are at least somewhat knowledgeable about investments. Right now, their financial needs are not very complicated, but many would like to learn more about choosing investments and how to budget better.

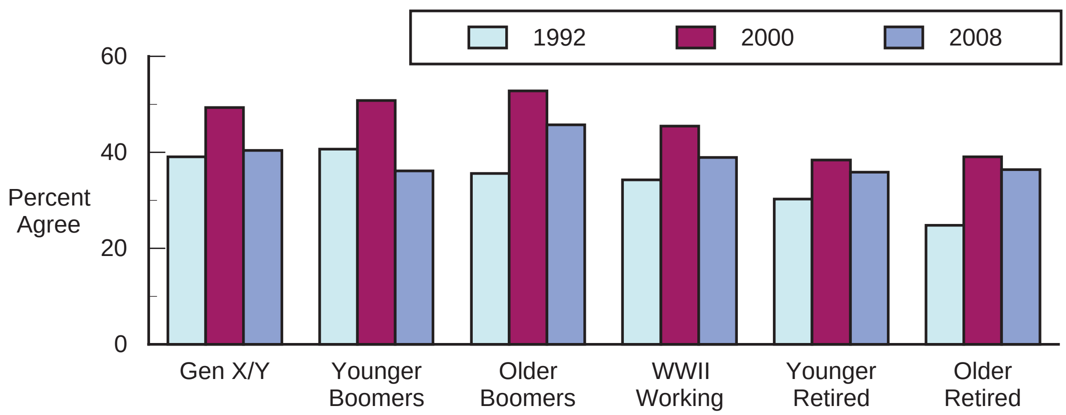
For many young people, with much less exposure to and experience in dealing with financial markets, this current downturn represents much of what they know about investing and may likely shape the way in which they deal with their finances in the long run. Thus, for financial institutions, understanding the underlying psychology that motivates these young consumers' behavior now and how to speak to them in ways that will initiate action in the future is more important than ever. The **MacroMonitor** and VALS combine to provide a data-grounded basis to reach this goal and offer a fresh perspective by stepping into the heads of these young consumers.

For a complimentary copy of the report *Highlights: Young Adults and the Financial Crisis*, visit the VALS Web site: www.strategicbusinessinsights.com/vals/free/2010-02yngadultsfincrisis.shtml . For more information about how your institution can best implement VALS to meet your marketing goals, call +1 609 734 2048 or e-mail us at cfdinfo@sbi-i.com .

RESISTANCE TO RISK RETURNS FOR MOST PEOPLE

In 1991, in the middle of the great bull market from 1982 through 2000, a mild recession occurred. After the market peaked during early 2000, we saw a series of ups and downs, culminating in the most recent recession in 2008. As we consider what the lessons of the past couple of decades are—specifically with regard to people's taking on risk and what people are likely to do now—looking at specific age cohorts and how their attitudes have changed can provide some insight into what is the New Normal. In other words, what have the Boomers, Gen X/Y, or any of the older cohorts learned from their experiences of the past 20 years that might reveal what they will do now?

Figure 1
"IT IS WISE TO PUT SOME PORTION OF SAVINGS IN UNINSURED INVESTMENTS TO GET A HIGH YIELD"



Base: All U.S. Households

Source: **The MacroMonitor**

The **MacroMonitor** asks respondents to agree or disagree with the following statement: "It is unwise to put some portion of savings in uninsured investments to get a high yield." This statement provides a measure of willingness to put "some portion" of savings (a more conservative type of accumulation than investments) in a nonguaranteed type of investment (in other words in some instrument other than an interest-bearing account, CD, government bond, and so forth) in order to obtain a higher yield—a reasonable, minimal practice for allocating some risk in return for higher yield. Most advisors would probably subscribe to this type of approach, although they have many differences about what proportion investors should assign to riskier investments and what type of return or time they should consider. And given that we're talking about savings, these funds are assumably not necessary for immediate consumption.

Because this approach demonstrates a minimal level of risk taking, the first, most obvious finding is that a majority of all households are not comfortable with even this degree of risk taking. Except the Boomers and Gen X/Y during the time when the market had reached its peak, most other cohorts are uncomfortable with putting any portion of their savings at risk. Fewer than half of every cohort's members agreed with the statement in 1992, and fewer than half agree with it now. Back in 1992, the receptivity (or resistance) to taking on risk was directly associated with how old one was—younger households were more open to risk, and the proportion declined linearly with age (light blue bars). However, at the peak of the market, all households up to the oldest Boomers exhibited a similar, higher propensity toward some risk, which then declined with age. Which leads to the second most obvious finding: The level of each cohort willing to take on risk was significantly greater in 2000 than in 1992.

Which brings us to today: The experiences of the past decade have not had the same effect on each of the cohorts. The proportion of Younger Boomers and Gen X/Y that are open to risk has returned to the levels during the time around the recession of 1991. At the same time, little change has occurred in the proportion of retirees willing to take on some risk for some return. And among the Older Boomers and other older nonretired households, the proportion expressing risk receptivity remains somewhere in between—not at the levels during the peak but not back to the levels of 1992.

What does it mean? One possible explanation is that in reacting to shared experiences of the market's ups and downs, each cohort is learning a lesson based on its unique experiences and timelines. Younger Boomers and Gen X/Y who have more time ahead of them and fewer visceral experiences except experiences of hard times are taking a better-safe-than-sorry approach and ramping back their receptivity to any risk. The yield may be meager, but at least it isn't negative, and they take great solace in knowing that the money they save will be available when they need it.

Retirees remember if not the recession, then the 1960s when the elderly—their parents—were the poorest of all Americans. Although retirees have the least time to worry about, they are cognizant of the fact that they may have more time than they saved or planned for. They also have seen enough markets that go up and down and sideways that they know what the risks are as well as the costs of not taking some risks. Putting some of their savings in a place where they may see a higher yield makes sense provided the proportion and the risk are manageable. Because they are already retired, they know what they need to live on, so any savings that they put at risk would be above that floor.

The older Boomers and other nonretired households are stuck in the middle again. They have lived long enough to be familiar with all types of markets, although for most of their saving and investing lives, most of their experience (until now) has been of long up markets punctuated by short mild recessions. The amount of time they have to look forward to remains much an unknown as life expectancy continues to increase. Many Boomers have lived in denial of growing older, relying on modern medicine to treat the inconveniences of aging, and on soaring portfolios and real estate to address their future asset needs. As the inevitable health degeneration becomes unignorable and as their homes and nest eggs have shrunk, this group has seen the greatest increase in the uncertainties they face. It is not clear how these uncertainties will pan out for the Older Boomers—the assertions that they will simply work longer may not be possible or sustainable. Their trust in financial intermediaries, institutions, and regulators has eroded significantly right when they need them the most. They are pushed to take on more risk to maximize their returns for retirement right when they have learned the lesson and value of regular saving, compounding over time, asset allocation, and safety. And just to make the challenge more interesting, this cohort is the one that will be inheriting, rolling over, consolidating, and redeploying its significant assets in the near term. For the Older Boomers and other nonretired households, the risks are greater, the returns are lower, and the way forward is the most nebulous.

