MacroMonitor Market Trends

October 2009

MacroMonitor Market Trends is a monthly newsletter from the Consumer Financial Decisions group 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, Jon Gray, or Chris Taylor at +1 609 734 2048.

IN THIS ISSUE:

- The Rational Consumer: Spending, Saving, and Investing
- Attracting Brokerage-Oriented Households: An Uphill Battle
- Biggest Losers: Those Who Don't Obtain Advice from a Financial Professional

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THE RATIONAL CONSUMER: SPENDING, SAVING, AND INVESTING

The personal-savings rate is steadily approaching 5%, and many experts expect a continued rise as consumers hunker down and prepare for the possibility of a prolonged recession. The **2008–09 MacroMonitor** data show that even before the financial crisis, consumers were scaling back on spending and trying to pay down debt, and the financial crisis has precipitated an even stronger and more dynamic shift in consumer behavior and attitudes. The **2008–09 MacroMonitor Recontact Study** shows that:

- 80% are doing something different to save money.
- 16% are making changes to retirement accounts.
- The downturn has changed the outlook for retirement for 48% of households.
- The downturn will change the way 38% of households invest in the next year.

The conventional wisdom among financial advisors is that consumers should stick to their guns when preparing for retirement: continue with their strategy of "soundly" contributing to their retirement accounts and making sure that they are properly diversified, attempting to influence consumers to concentrate on the long-term trend line in the value of financial investments and not on the short-term ups and downs of the financial markets. But for better or worse, consumers don't make decisions purely on the basis of Pareto-optimal financial outcomes. Psychological factors have a significant impact on the way consumers make decisions. And the significant downturns in equity and housing values have had a dramatic effect on the psychological responses of consumers. Those effects are not universal, but marketers must measure them by segmenting the marketplace.

One key to meeting these households' shifting demands and changed perspective on saving, spending, and investing must be messaging and message delivery. How these households perceive a company's brand and its product and service offerings (that is, some consumers may value safety; others may value performance) is a strong driver of decision making, especially in this new economic environment. We do not say that marketers should be deceptive in their marketing practice, but they must give careful thought to messaging, message delivery, and consumer perceptions.

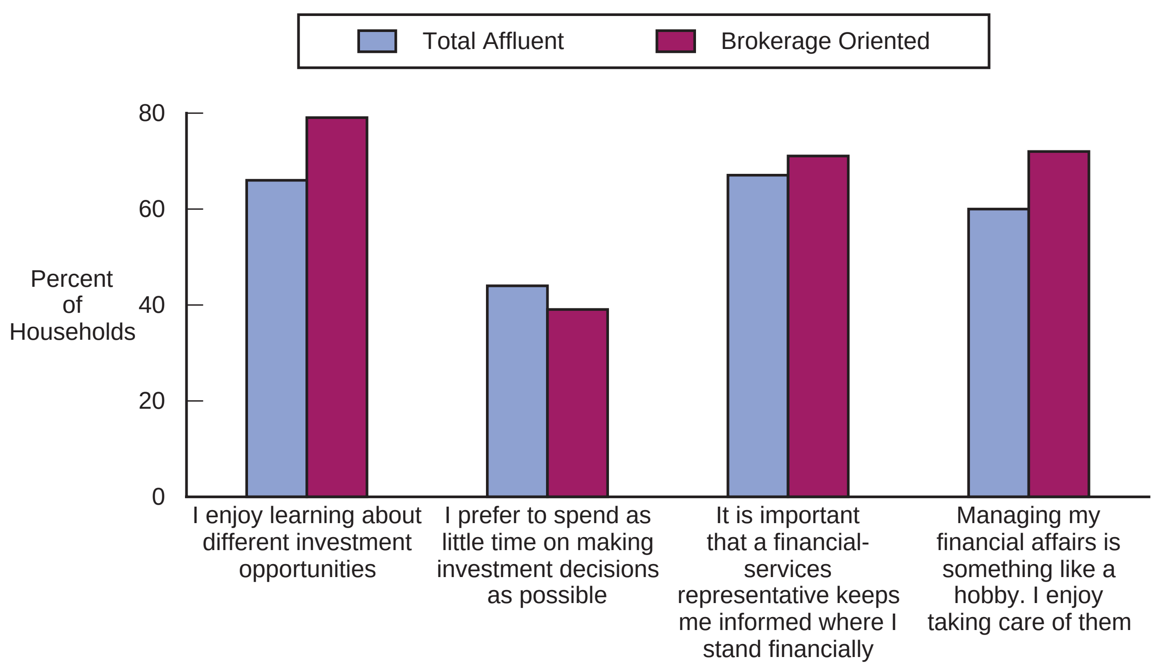
ATTRACTING BROKERAGE-ORIENTED HOUSEHOLDS: AN UPHILL BATTLE

Given the historic tendency of affluent households to shy away from brokerage firms in times of economic turbulence, in combination with record-low levels of trust in investment professionals, stockbrokerages may find it increasingly difficult to strengthen and grow their customer base in the current economy. Therefore, no time is better than now to recognize and implement strategy that effectively focuses on retaining brokerage firms' most loyal customers: the Brokerage Oriented. The Brokerage Oriented are affluent households (households with an income of $100,000 or more or total assets excluding the value of the primary home of $500,000 or more) that entrust either a discount or a full-service stockbrokerage with the greatest proportion of their savings and investments. **MacroMonitor** data show that one way to retain brokerage-oriented affluent households is by actively engaging them in the financial decision-making process and focusing on building long-lasting personal relationships with these investors.

Brokerage-oriented affluent investors enjoy taking care of and learning about their finances more than the average affluent household does. As Figure 1 points out, more than seven in ten brokerage-oriented households (72%)—versus only three in five total affluent households—consider managing their financial affairs a hobby and enjoy taking care of them. Moreover, 79% of brokerage-oriented households enjoy learning about various investment opportunities, as opposed to only 66% of the total affluent. Brokerage-oriented households are also more likely to consider it important that a financial-services representative keep them informed about where they stand financially; they are less likely to prefer to spend as little time as possible in making investment decisions.

In the same light, personal relationships are also very important to the success of brokerage firms. In 2008, 42% of brokerage-oriented households believe continuity of an existing relationship to be extremely important in selecting a financial professional, in comparison with only 37% of the total affluent. Thus, it is important for brokers to continue to develop deep, ongoing personal relationships with investors. Moreover, to grow their customer base, brokerage firms would do well to appeal to the inquisitive nature of brokerage-oriented households by offering products and services that keep their investors active and informed about the investment decision-making process.

Figure 1
BROKERAGE ORIENTED ATTITUDES TOWARD INVESTING



Base: Affluent Households

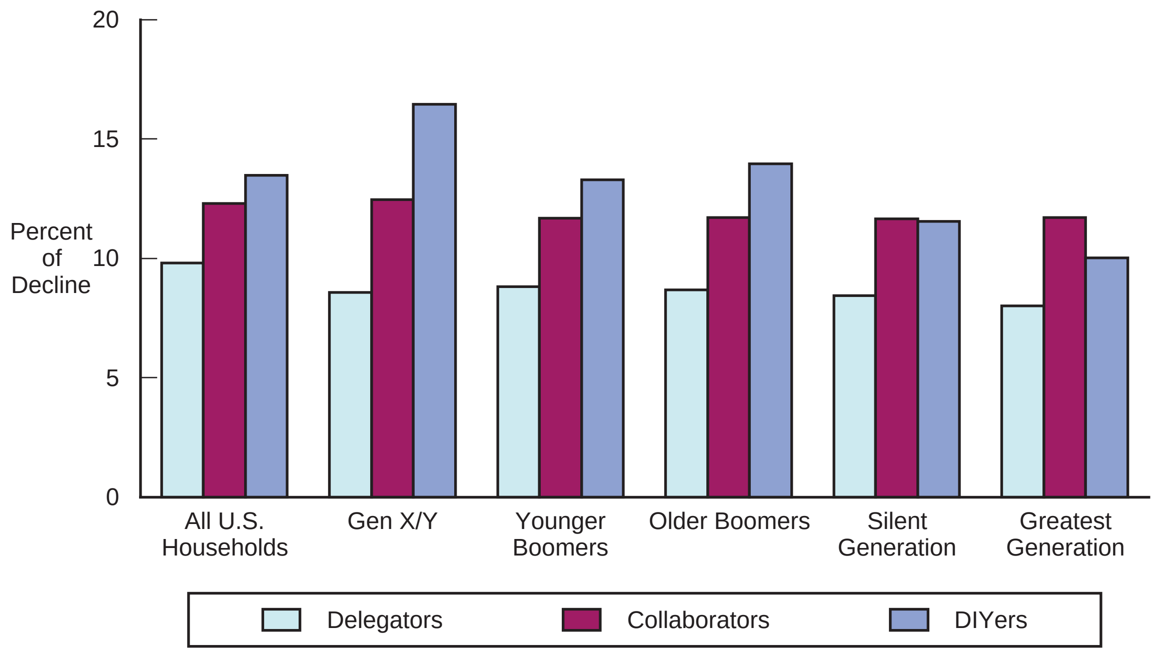
Source: **2008–09 MacroMonitor**

BIGGEST LOSERS: THOSE WHO DON'T OBTAIN ADVICE FROM A FINANCIAL PROFESSIONAL

We fielded the last full **MacroMonitor** study in the summer of 2008—on the market down slope but before complete disaster struck. In September 2009, the CFD team conducted an updated wealth analysis to estimate how households have fared financially in the past year. In the **MacroMonitor,** we calculate net worth by summing all the asset and account values that a household owns and subtracting the sum of all the liabilities that the household has. To estimate the new net worth of each individual household, we categorize each asset class and then make adjustments on the basis of wide-based bond, equity, and housing-price indices.

The findings indicate that households that tend to use an advisor fare significantly better than those that do not—the mean value of Delegators' total net worth is down only 9.8%, in comparison with a drop of 13.5% for Do-It-Yourself (DIY) households. We define these populations by looking at responses on a 5-point scale of who controls household finances: At one end of the continuum (Delegators) a financial professional makes most decisions; at the other end (Do-It-Yourselfers), the household has total control. An early hypothesis was that the difference might be that younger households—which are more likely to be aggressively invested—are less likely to use advice, so the age differences could be skewing the results. This hypothesis, however, turned out to be false. In fact, when looking at the results by generational cohort, Delegator households fared significantly better than DIY households in the past year among every single age cohort!

Figure 2
PERCENTAGE DROP IN AVERAGE NET WORTH
(Summer 2008 to September 2009)



Base: All U.S. Households

Source: **2008–09 MacroMonitor**

This finding is one that we might expect and serves as validation for financial institutions' serving the need for financial guidance. Proper asset allocation and understanding a household's specific needs and goals provide tremendous value to a household's building and protecting wealth. One powerful application of the **MacroMonitor** is needs-based analysis. We consistently identify a large number of households that have an unmet need for financial advice. The vast demographic and attitudinal information in the **MacroMonitor** and our expertise in interpreting and putting the findings into action can help you to target these underserved households and assist them by providing advice and relevant financial products and services.