2017 Trends in Investing

Where financial advisers are investing now

A report by:

FPA FINANCIAL PLANNING ASSOCIATION

LONGBOARD

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2017 Trends in Investing Survey

About the 2017 Trends in Investing Survey

The 2017 Trends in Investing Survey, conducted by the Financial Planning Association® (FPA®), the *Journal of Financial Planning,* and sponsored by Longboard Asset Management, was fielded in late March and early April 2017 and received 302 online financial adviser responses.

Executive Summary

Exchange-traded funds continue to surpass mutual funds as an investment vehicle that advisers use and recommend, according to a recent survey conducted by the Financial Planning Association® (FPA®), the *Journal of Financial Planning*, and sponsored by Longboard Asset Management. And, for the first time since the survey began in 2006, cash and cash equivalents also surpassed mutual funds as a preferred investment vehicle currently used or recommended by survey respondents.

The 2017 Trends in Investing Survey showed that 85 percent of advisers surveyed currently use or recommend to clients cash and equivalents, and 80 percent currently use or recommend mutual funds (non-wrap). This reliance on cash and equivalents is a stark increase from the 53 percent of advisers surveyed in 2006 who used or recommended this category, and a slight increase from the 74 percent of advisers who indicated they used or recommended cash and equivalents in 2016.

Meanwhile, ETFs continue to gain in popularity as an investment vehicle, with 88 percent of advisers surveyed indicating they currently use or recommend ETFs with their clients—the most popular investment vehicle among 17 options and the highest usage rate since the survey's inception in 2006. This trend appears poised to continue. The 2017 survey indicated that 50 percent of advisers plan to increase their use or recommendation of ETFs with clients over the next 12 months. No other investment vehicle showed this level of anticipated increased usage.

The 2017 Trends in Investing Survey also showed that many advisers (47 percent) are looking for new ways to diversify portfolios, and another six percent are not yet, but expect to soon. And although 60 percent of advisers surveyed said they diversify using the same suite of investment vehicles regardless of market conditions, almost one-third (27 percent) say today's market conditions make diversification more difficult with current asset allocation. This is echoed in the more than one-third (36 percent) that doubt whether a traditional 60/40 stocks and bonds portfolio can still provide the returns it has historically.

Investments Used

Which investment vehicles do you *currently* use/recommend with your clients?

	2016	2017
Exchange-traded funds (ETFs)	83%	88%
Cash and equivalents	74%	85%
Mutual funds (non-wrap)	80%	80%
Individual stocks	56%	61%
Individual bonds	52%	52%
Mutual fund wrap program(s)	38%	33%
Variable annuities (immediate and/or deferred)	39%	32%
Fixed annuities (immediate and/or deferred)	30%	32%
Fixed permanent life insurance products	34%	28%
Individually traded REITs (not held in mutual fund)	24%	27%
Other alternatives (bought directly, not included in other investment vehicles)	17%	25%
Variable permanent life insurance	20%	21%
Indexed annuities	15%	16%
Options	8%	16%
Non-traded REITs	16%	15%
Private equity funds	8%	15%
Hedge funds (directly, not through mutual funds)	7%	9%
Other	1%	6%

Which investment vehicles do you expect to *increase* your use/recommendation of over the next 12 months?

	2016	2017
Exchange-traded funds (ETFs)	46%	50%
None. I do not plan to increase the use/recommendation of any investment vehicles	26%	25%
Mutual funds (non-wrap)	19%	20%
Individual stocks	23%	19%
Individual bonds	18%	16%
Cash and equivalents	15%	16%
Mutual fund wrap programs	21%	15%
Fixed annuities (immediate or deferred)	12%	10%
Fixed permanent life insurance products	10%	9%
Other alternatives (bought directly, not included in other investment vehicles)	9%	8%
Individually traded REITs (not held in mutual fund)	5%	6%
Variable annuities (immediate or deferred)	9%	5%
Indexed annuities	9%	5%
Private equity funds	4%	4%
Non-traded REITs	4%	2%
Hedge funds (directly, not through mutual funds)	2%	2%
Variable permanent life insurance	4%	1%
Options	3%	1%
Other	1%	1%

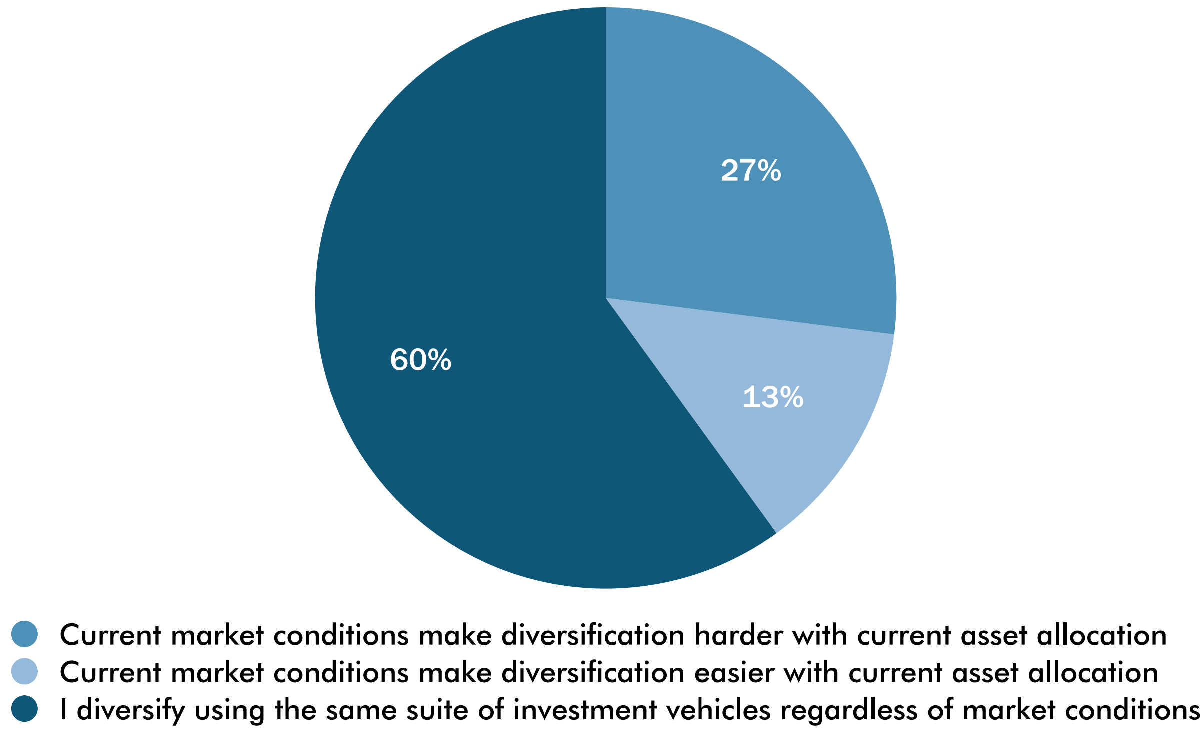
Which investment vehicles do you expect to *decrease* your use/recommendation of over the next 12 months?

	2016	2017
None. I do not plan to decrease the use/recommendation of any investment vehicles	51%	41%
Mutual funds (non-wrap)	16%	20%
Individual stocks	9%	16%
Variable annuities (immediate or deferred)	9%	14%
Individual bonds	9%	13%
Non-traded REITs	7%	11%
Cash and equivalents	6%	9%
Mutual fund wrap program(s)	6%	8%
Variable permanent life insurance	4%	5%
Exchange-traded funds (ETFs)	3%	5%
Fixed annuities (immediate or deferred)	3%	4%
Individually traded REITs (not held in mutual fund)	2%	3%
Hedge funds (directly, not through mutual funds)	3%	3%
Fixed permanent life insurance products	1%	2%
Private equity funds	1%	2%
Other alternatives (bought directly, not included in other investment vehicles)	3%	1%
Options	1%	1%
Indexed annuities	3%	1%
Other	0%	1%

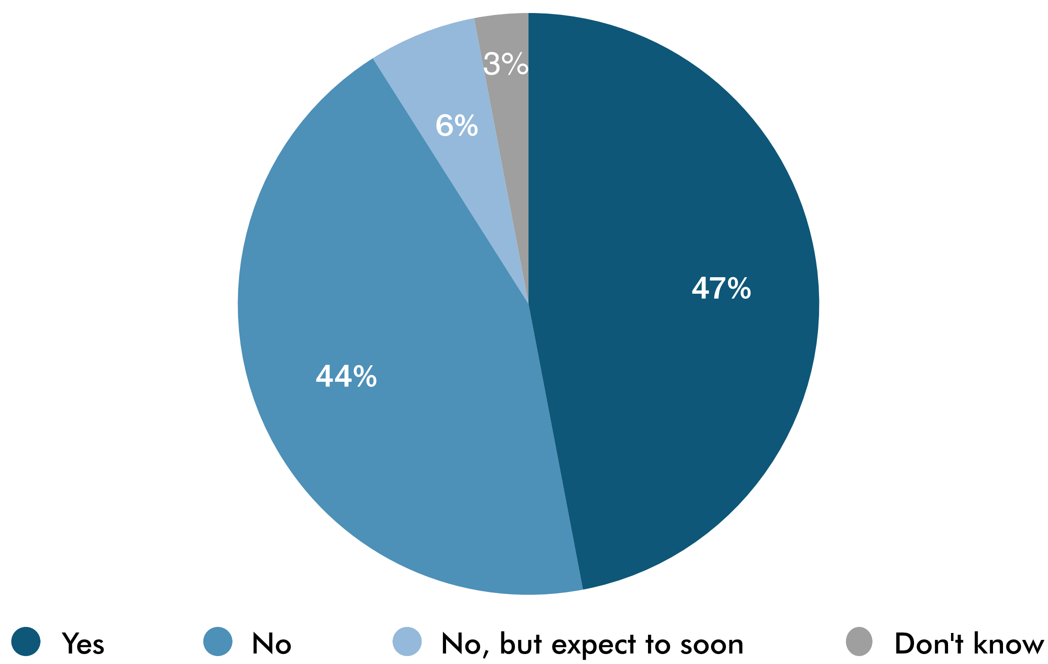
Key Finding: Cash is making a comeback.
Advisers appear to be using and recommending cash and equivalents more in 2017 than in 2016. Meanwhile, variable annuities continue to fall from favor, with 14 percent of advisers surveyed indicating they plan to decrease their use/recommendation of immediate and deferred variable annuities this year. Also, advisers indicated that a lack of client understanding and emotional client decisions are the biggest barriers to adding new investment vehicles to portfolios.

Diversification

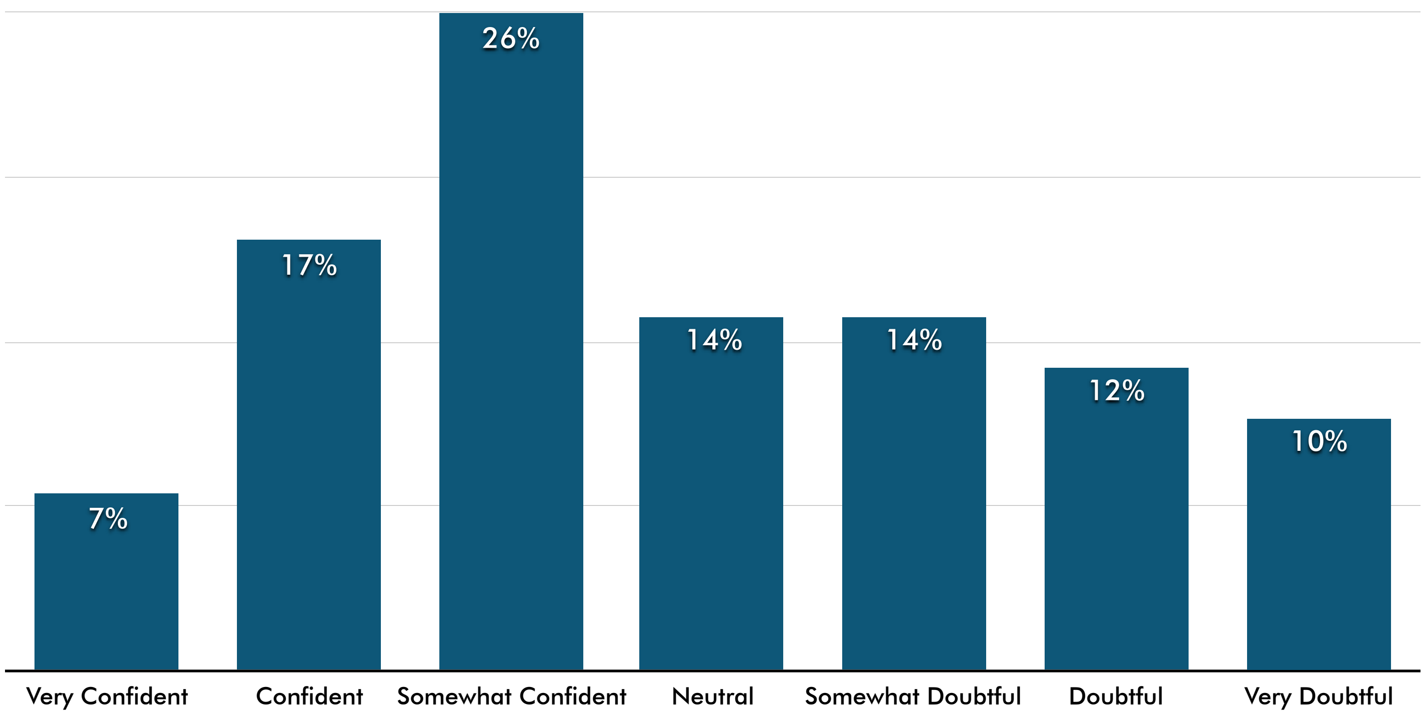
How have market conditions affected your attitude on diversification?



Are you currently looking for new ways to diversify portfolios?



How confident are you in the ability of the traditional 60/40 stocks and bonds portfolio to provide similar returns as it has historically?



Key Finding: Advisers are cautiously optimistic about diversification in the future.
Advisers seem to be split on whether or not what they've used in the past will help their clients achieve their financial goals in the future. Nearly 1 in 4 (27 percent) advisers think diversification is harder today than before, and although half of financial planning professionals feel at least somewhat confident that a traditional 60/40 stocks and bonds portfolio can produce the returns it has historically, more than 1 in 3 (36 percent) have doubts that it will.

Alternative Investments

How much of your clients' portfolios are currently allocated to alternative investment vehicles?

Answer Choices	Response
1 to 10%	73%
11 to 20%	20%
21 to 30%	4%
31 to 40%	2%
More than 40%	1%

Key Finding: Alternative investments have room to grow.

Despite some (47 percent) advisers indicating they are looking for new ways to diversify a portfolio, most advisers (73 percent) are allocating no more than 10 percent of client portfolios to alternative investments. This small allocation might also be why only 8 percent of advisers are considering adding alternatives into portfolios in the future.

Economic Outlook

What is your economic outlook for the… (1=Bullish, 5=Bearish)

Next 6 Months				
1	**2**	**3**	**4**	**5**
20%	32%	35%	13%	1%

Next 12 Months				
1	**2**	**3**	**4**	**5**
12%	39%	33%	12%	4%

Next 2 Years				
1	**2**	**3**	**4**	**5**
15%	32%	32%	19%	2%

Next 5 Years				
1	**2**	**3**	**4**	**5**
17%	26%	34%	16%	7%

Key Finding: Advisers have a more bullish short-term outlook today than in 2016.
The majority (52 percent) of advisers are "bullish" for the next six months (indicating a 1 or 2 on the 5-point scale) today, compared to just 26 percent of advisers who were asked this same question in April 2016.

ETFs

Which investment vehicles do you currently use/recommend with clients?

Investment Vehicle	2006	2008	2010	2012	2014	2015	2016	2017
Exchange-traded funds (ETFs)	40%	44%	72%	74%	79%	81%	83%	88%
Cash and equivalents	53%	52%	84%	76%	79%	78%	74%	85%
Mutual funds (non-wrap)	85%	81%	88%	82%	82%	78%	80%	80%
Individual stocks	66%	69%	49%	53%	50%	53%	56%	61%
Individual bonds	60%	53%	52%	49%	45%	41%	52%	52%
Mutual fund wrap program(s)	39%	44%	42%	38%	40%	41%	38%	33%
Variable annuities	58%	58%	53%	49%	41%	38%	39%	32%
Fixed annuities	36%	23%	49%	35%	29%	28%	30%	32%
Private equity funds	3%	3%	8%	9%	11%	8%	8%	15%
Hedge funds	9%	5%	13%	9%	9%	9%	7%	9%

Source: FPA's Trends in Investing Surveys (not all options are displayed here, only ones comparable year-over-year)

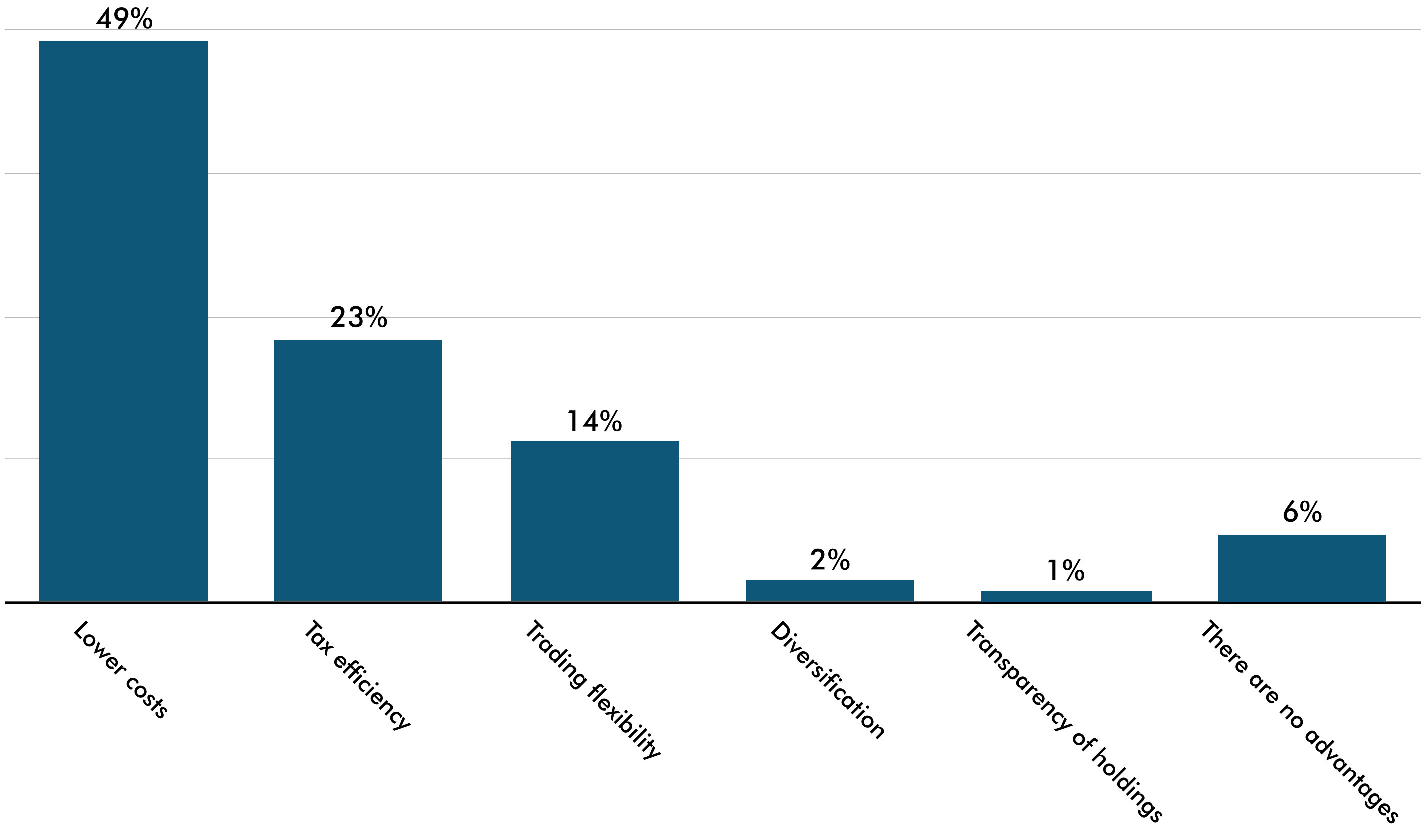
Key Finding: ETFs continue to be the most popular investment vehicle among advisers. When asked about the investment vehicles they currently use or recommend with clients, financial planning professionals have indicated a continued preference for exchange-traded funds.

The 2017 FPA Trends in Investing Survey found that 88 percent of financial advisers surveyed currently use or recommend ETFs with their clients—the most popular investment vehicle among 17 options—followed by cash and equivalents (85 percent) and mutual funds (non-wrap), which 80 percent of advisers surveyed currently use or recommend.

Since its inception in 2006, this annual survey has shown a growing interest in ETFs, and in 2015 ETFs surpassed mutual funds as the investment product most commonly used. In 2006, just 40 percent of survey participants indicated they used or recommended ETFs. This percentage grew to 44 percent in 2008, and to 79 percent in 2014 (when mutual funds still reigned with 82 percent of advisers reporting they used/recommended them). In 2015, ETFs surpassed mutual funds for the first time in the survey's history, with 81 percent of advisers reporting they used or recommended ETFs with clients, compared to 78 percent who did so with mutual funds.

Advisers continue to indicate that low costs and tax efficiency are the most significant advantages of ETFs over mutual funds.

What do you believe are the most significant advantages of ETFs over mutual funds?



Active vs. Passive

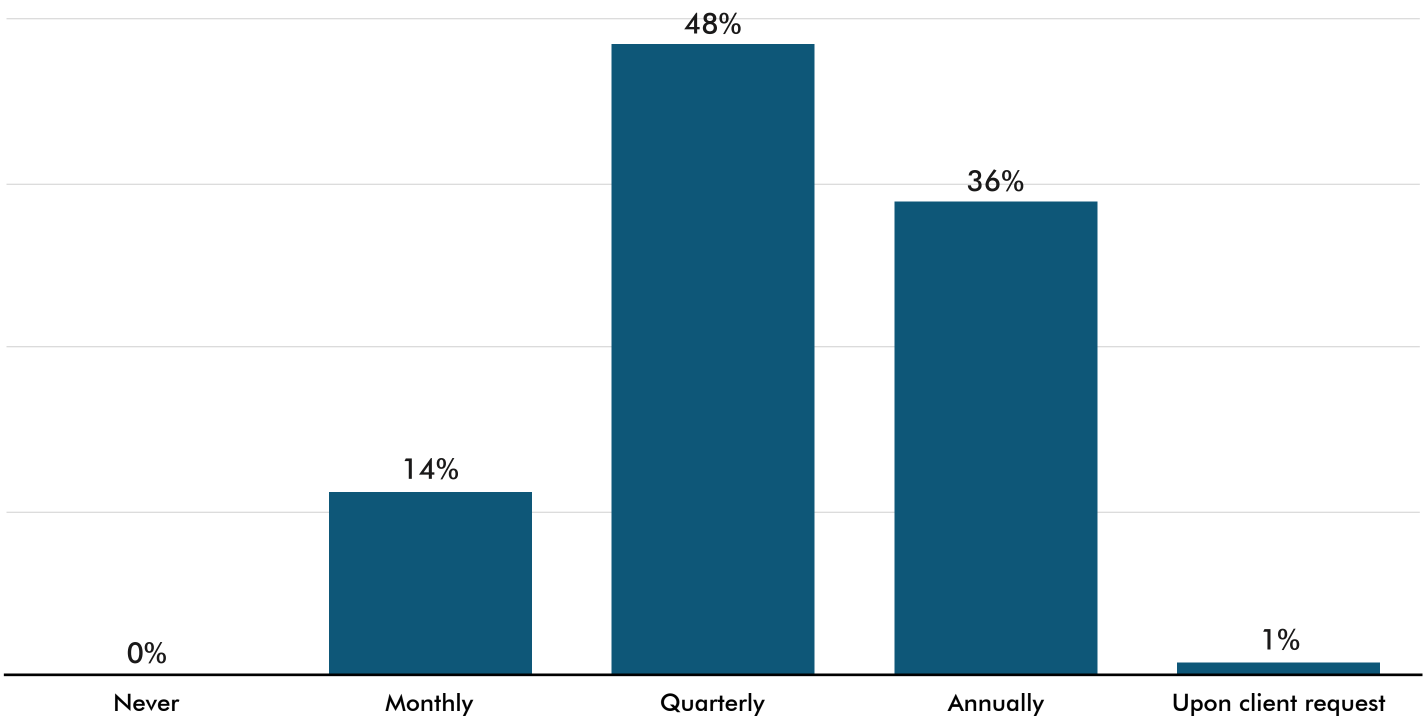
What type of management do you think provides the best overall investment performance, taking into account costs associated with each style?	2014	2015	2016	2017
Active	18%	15%	15%	7%
Passive	25%	24%	19%	15%
Blend of the two	57%	61%	64%	77%

Key Finding: More advisers favor a blend of active and passive management.
Since 2014, an increasing percentage of survey respondents have indicated that the type of management that provides the best overall investment performance (taking into account costs associated with each style) is a blend of active and passive, with 77 percent of advisers surveyed indicating so in 2017, compared to 57 percent in 2014.

Asset Allocation/Rebalancing

Did you recently (within the last 3 months) or are you currently re-evaluating the asset allocation you typically recommend/ implement?	**2015**	**2016**	**2017**
Yes	64%	60%	59%
No	35%	39%	40%
Don't know	1%	1%	1%

How often do you re-evaluate the asset allocation in your clients' portfolios?



I re-evaluate the asset allocation strategy I typically recommend/implement because of anticipated/existing changes in:	2015	2016	2017
The economy in general	68%	74%	67%
I continually re-evaluate asset allocation	74%	74%	64%
Specific investments	47%	43%	39%
Administrative aspects of investments (cost, lead manager, etc.)	22%	30%	18%
Inflation	34%	28%	40%
Income tax legislation	24%	24%	35%
Investment tax legislation (capital gains, interest, etc.)	28%	21%	32%
Health care law	6%	5%	9%

Key Finding: Changes in inflation and uncertainty around possible tax changes are causing more advisers to re-evaluate asset allocation.

The 2017 survey shows that advisers are increasingly re-evaluating the asset allocation strategy they typically recommend/implement due to changes in inflation (40 percent, compared to 28 percent in 2016), and anticipated changes to income taxes (35 percent, compared to 24 percent in 2016), and investment taxes (32 percent, compared to 21 percent in 2016).

About the Respondents

How are you compensated by your clients for your investment services?	
Fee-Only	55%
Commission Only	1%
Fee and Commission	45%

What is your primary practice model/registration status?	
Independent IAR/RIA	47%
Dually registered adviser	26%
Registered rep, independent adviser affiliated with a B-D	11%
Unregistered planner/adviser	7%
Registered rep, employee for a B-D	4%
Trust officer	4%
Registered rep working for a bank, credit union, or savings & loan	1%

Are you a CFP® practitioner?	
Yes	95%
No	5%

How many years have you been in the financial services profession?	
5 or less	4%
6 to 10	14%
11 to 15	13%
16 to 20	18%
21 or more	51%

Research Partners

About the Financial Planning Association
The Financial Planning Association® (FPA®) is the principal professional organization for CERTIFIED FINANCIAL PLANNER™ (CFP®) professionals, educators, financial services professionals and students who seek advancement in a growing, dynamic profession. Through a collaborative effort to provide more than 23,000 members with OneConnection™ to tools and resources for professional development, business success, advocacy and community, FPA is the indispensable force in the advancement of today's CFP® professional. Learn more about FPA at www.OneFPA.org and follow on Twitter at twitter.com/fpassociation.

About Longboard Asset Management
Longboard is a strategic partner in alternative investments. Our rigorous approach is built on nearly two decades of original research and development. Longboard investments have historically delivered returns at the top of their categories, and have provided non-correlation to the markets and to other alternatives. Learn more at www.longboardfunds.com.

About the Journal of Financial Planning
First published in 1979, the mission of the Journal of Financial Planning is to expand the body of knowledge of the financial planning profession. With monthly feature articles, interviews, columns, and peer-reviewed technical contributions, the Journal's content is dynamic, innovative, thought-provoking, and directly beneficial to financial advisers in their work. Learn more at www.FPAJournal.org.

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To speak with a representative of the Financial Planning Association, Longboard Asset Management, or the *Journal of Financial Planning*, please contact one of the following representatives:

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