2014

Trends in Investing Survey

Where financial advisers are investing now

A report by:

FPA Financial Planning Association

Journal of Financial Planning

FPA Research & Practice Institute

For more information on FPA membership, visit www.OneFPA.org.

2014 Trends in Investing Survey

About the 2014 Trends in Investing Survey

The 2014 survey, conducted by the Financial Planning Association (FPA), the *Journal of Financial Planning* and the FPA Research and Practice Institute™, was fielded in March 2014 and included input from 288 financial advisers of various backgrounds.

Executive Summary

Adviser use and recommendation of Exchange-Traded Funds (ETFs) continues to grow, out pacing all other investment vehicles surveyed, according to a recent survey conducted by the *Journal of Financial Planning* and the FPA Research and Practice Institute™. The 2014 Trends in Investing Survey showed that 79 percent of advisers currently use or recommend ETFs with clients, up from just 40 percent in 2006.

FPA has periodically surveyed its members since 2006 to gain an understanding of the investments products advisers are currently using, and which products they plan to increase their use of over the coming year. No other investment vehicle has shown more growth in its use/recommendation than ETFs. Thirty-nine percent of advisers surveyed in March indicated they plan to increase their use of ETFs over the next 12 months—the highest anticipated increase among 17 investment vehicles.

Survey results also indicate an overall increased use of cash and equivalents since 2006, when just 53 percent of advisers surveyed were using/recommending cash, compared to 79 percent today. Advisers also seem to be moving away from annuities, with 41 percent currently using/recommending variable annuities, compared to a high of 58 percent in both 2006 and 2008. And 29 percent of advisers surveyed say they are currently using/recommending fixed annuities with clients, down from a high of 49 percent in 2010.

The 2014 Trends in Investing Survey also showed that advisers' long-term economic outlook is positive, with 57 percent "bullish" for the next five years, compared to just 39 percent who are "bullish" over the next six months. Advisers were asked to gauge their economic outlook over the next six months, 12 months, two years, and five years on a scale of 1 to 5, with 1 being the most "bullish" and 5 being the most "bearish."

2014 Trends in Investing Survey

Economic Outlook

What is your economic outlook for the...

***next 6 months?* (1 Bullish, 5 Bearish)**

1	2	3	4	5
9%	30%	49%	10%	1%

next 12 months?

1	2	3	4	5
9%	42%	39%	9%	2%

next 2 years?

1	2	3	4	5
14%	34%	34%	16%	3%

next 5 years?

1	2	3	4	5
27%	30%	29%	8%	5%

Key Finding: Advisers' long-term economic outlook is positive, with 57% "bullish" for the next five years, compared to just 39% "bullish" (indicating a 1 or 2 on the scale) over the next six months.

Investments Used

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

Individual stocks	50%
Individual bonds	45%
Cash and equivalents	79%
Mutual fund wrap program(s)	40%
Mutual funds (non-wrap)	82%
Exchange-traded funds (ETFs)	79%
Fixed annuities (immediate and/or deferred)	29%
Variable annuities (immediate and/or deferred)	41%
Indexed annuities	9%
Hedge funds (directly, not through mutual funds)	9%
Options	11%
Fixed perm anent life insurance products	32%
Variable perm anent life insurance	23%
Private equity funds	11%
Individually traded REITs (not held in mutual fund)	24%
Non-traded REITs	20%
Other alternatives (bought directly, not included in other investment vehicles)	19%
Other	2%

2014 Trends in Investing Survey

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

Individual stocks	17%
Individual bonds	11%
Cash and equivalents	11%
Mutual fund wrap program(s)	20%
Mutual funds (non-wrap)	21%
Exchange-traded funds (ETFs)	39%
Fixed annuities (immediate or deferred)	8%
Variable annuities (immediate or deferred)	13%
Indexed annuities	4%
Hedge funds (directly, not through mutual funds)	5%
Options	2%
Fixed permanent life insurance products	8%
Variable permanent life insurance	5%
Private equity funds	4%
Individually traded REITs (not held in mutual fund)	4%
Non-traded REITs	5%
Other alternatives (bought directly, not included in other investment vehicles)	9%
None. I do not plan to increase the use/recommendation of any investment vehicles	31%
Other	2%

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

Individual stocks	11%
Individual bonds	15%
Cash and equivalents	11%
Mutual fund wrap program(s)	4%
Mutual funds (non-wrap)	16%
Exchange-traded funds (ETFs)	3%
Fixed annuities (immediate or deferred)	4%
Variable annuities (immediate or deferred)	6%
Indexed annuities	2%
Hedge funds (directly, not through mutual funds)	2%
Options	1%
Fixed permanent life insurance products	2%
Variable permanent life insurance	4%
Private equity funds	0%
Individually traded REITs (not held in mutual fund)	1%
Non-traded REITs	5%
Other alternatives (bought directly, not included in other investment vehicles)	2%
None. I do not plan to decrease the use/recommendation of any investment vehicles	50%
Other	2%

2014 Trends in Investing Survey

Investment Vehicles Currently Used 2006-2014

Investment Vehicle	2006	2008	2010	2012	2014
Mutual funds (non-wrap)	85%	81%	88%	82%	82%
ETFs	40%	44%	72%	74%	79%
Cash and equivalents	53%	52%	84%	76%	79%
Individual stocks	66%	69%	49%	53%	50%
Individual bonds	60%	53%	52%	49%	45%
Mutual fund wrap program(s)	39%	44%	42%	38%	40%
Variable annuities	58%	58%	53%	49%	41%
Fixed annuities	36%	23%	49%	35%	29%
Private equity funds	3%	3%	8%	9%	11%
Hedge funds	9%	5%	13%	9%	9%
Other	5%	8%	5%	5%	2%

Source: FPA's Trends in Investing Surveys

Key Finding: ETFs continue to gain popularity.

Adviser use of exchange-traded funds continues to grow, as 79 percent of advisers currently use or recommend ETFs with clients, up from just 40 percent in 2006.

FPA has periodically surveyed its members since 2006 to gain an understanding of the investments products advisers are currently using, and which products they plan to increase their use of over the coming year.

Survey results also indicate an overall increased use of cash and equivalents since 2006, when just 53 percent of advisers surveyed were using/recommending cash. However, it appears advisers are easing off their cash positions, as 84 percent of advisers surveyed in 2010 were using/recommending cash and equivalents with clients. Today, that number has dropped to 79 percent, perhaps indicating a “return” to the market?

Advisers also seem to be moving away from annuities, with 41 percent currently using/recommending variable annuities, compared to a high of 58 percent in both 2006 and 2008. And 29 percent of advisers surveyed say they are currently using/recommending fixed annuities with clients, down from a high of 49 percent in 2010.

No other investment vehicle has shown more growth in its use/recommendation than ETFs. Thirty-nine percent of advisers surveyed in April indicated they plan to increase their use of ETFs over the next 12 months—the highest anticipated increase among 17 investment vehicles. This may come as no surprise, as the number of ETFs available has grown over the last eight years as well. According to the Investment Company Institute, 356 ETFs were available to investors by the end of 2006, compared to 1,194 by the end of 2012 (excluding ETFs that primarily invest in other ETFs). However, the ETF marketplace seems to be stabilizing, as 81 ETFs were liquidated in 2012, compared to just 1 in 2006.

2014 Trends in Investing Survey

Active vs. Passive

What type of management do you think provides the best overall investment performance, taking into account costs associated with each style?

Active	18%
Passive	25%
Blend of the two	57%

How has your use of *actively* managed funds changed over the last year?

Increased	18%
Decreased	22%
Stayed the same	60%

How has your use of *passively* managed funds changed over the last year?

Increased	30%
Decreased	14%
Stayed the same	56%

Key Finding: Advisers may be leaning more toward passive management.

Although the majority of advisers (57 percent) believe a blend of active and passive management provides the best overall investment performance (taking into account costs associated with each style), more advisers are likely to have increased their use of passively managed funds over the last year (30 percent), then actively managed funds (18 percent).

2014 Trends in Investing Survey

Inflation

What do you think the average annual inflation rate will be over the next …

12 months (March 2015)	2.09%
2 years (March 2016)	2.66%
5 years (March 2019)	3.26%

(Percentages are averages of 196 valid responses.)

Which of the following, if any, do you typically use as inflation hedges?

Equities	60%
REITs	46%
Commodities	43%
Alternatives	40%
TIPs	38%
Inflation-indexed bonds	28%
Foreign securities	25%
High-yield bonds	24%
Cash equivalents	7%
None / N/A	6%
I don't know	1%
Other	6%

Key Finding: Advisers expect inflation to rise over the next five years to more than 3 percent.

They are primarily using equities as inflation hedges, although alternative investments such as REITs and commodities are also commonly used as hedges.

2014 Trends in Investing Survey

Asset Allocation / Rebalancing

Did you recently (within the last three months), or are you currently re-evaluating the asset allocating you typically recommend/implement?

Yes 57%
No 43%

Why are re-evaluating the asset allocation strategy you typically recommend?

Reason	%
I continually re-evaluate the asset allocation strategy I typically recommend/implement	67%
Anticipated/existing changes in the economy in general	56%
Anticipated/existing changes in specific investments	45%
Anticipated/existing changes in inflation	28%
Anticipated/existing changes in income tax legislation	18%
Anticipated/existing changes in investment tax (capital gains, interest, etc.) legislation	18%
Anticipated/existing changes in health care law	10%
Anticipated/existing changes in administrative aspects of investments (cost, lead manager, etc.)	10%
Anticipated/existing changes in estate tax legislation	5%
Other anticipated/existing changes in legislation	2%
Other	9%

In the past 12 months (since March 2013), has the number of times you are rebalancing:
Increased 21%
Decreased 6%
Not changed 73 %

In the past 12 months (since March 2013), has the number of changes to your asset allocation:
Increased 22%
Decreased 5%
Not changed 73 %

In the past 12 months (since March 2013), has the number of changes to your investment selections:
Increased 39%
Decreased 2%
Not changed 59%

Key Finding: Evolving economy spurs asset allocation changes.
The majority of advisers are currently re-evaluating the current asset allocation they typically recommend or implement. When asked why, 56 percent of those advisers said anticipated or existing changes in the economy in general are spurring changes to their asset allocations. Forty-five percent said anticipated or existing changes to specific investments are making them re-evaluate asset allocations, and 28 percent said it's anticipated changes in inflation that are making them reconsider allocations.

2014 Trends in Investing Survey

About the Respondents

What is your primary practice model/registration status?

Registered rep working as an employee for a B-D	3%
Registered rep working as an independent adviser affiliated with a B-D	17%
Registered rep working for a bank, credit union, or savings & loan	1%
Dually registered adviser (registered with FINRA as well as one or more IAR Registrations with the state or SEC)	19%
Independent IAR/RIA	53%
Unregistered Adviser/adviser	4%
Other	5%

How are you compensated by your clients for your investment services?

Fee only	54%
Commission only	1%
Fee and commission	45%

Which of the following best describes how you/your financial planning practice handles investment recommendations or portfolio management for the majority of your clients?

I/my practice offers investment advice/ recommendations but does not implement	10%
I/my practice implements investment recommendations on a non-discretionary basis	41%
I/my practice manages ongoing investments on a discretionary basis	60%
None of the above	3%

2014 Trends in Investing Survey

About the Financial Planning Association

Since 2000, the Financial Planning Association® (FPA®) has been the professional organization for CERTIFIED FINANCIAL PLANNER™ (CFP®) professionals, educators, financial services professionals and students who seek advancement in a growing, dynamic profession. More than 23,000 FPA members adhere to the highest standards of professional competence, ethical conduct and clear, complete disclosure to those they serve. Through a collaborative effort to provide members with One Connection™ to tools and resources for professional education, business success, advocacy and community, FPA has become an indispensable force in the advancement of today's CFP® professional. Learn more about FPA at OneFPA.org and follow on Twitter at twitter.com/fpassociation.

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 here.

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The FPA Research and Practice Institute™ is the CFP® professional's One Connection™ to practice and business management insights that help financial advisers achieve business success. A program of the Financial Planning Association® (FPA®), the Institute conducts original research on business-centric topics and issues, including operations, personnel, human resources, marketing and technology. Detailed analyses, reports, whitepapers and resources, based on the research, are made available to financial planning professionals to help them identify their business gaps and address them. Learn more here.