2015

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.

2015 Trends in Investing Survey

About the 2015 Trends in Investing Survey

The 2015 survey, conducted by the *Journal of Financial Planning* and the FPA Research and Practice Institute™, was fielded in March 2015 and received 303 online financial adviser responses.

Executive Summary

As an investment vehicle that advisers use and recommend, exchange-traded funds now surpass mutual funds in popularity, according to a recent survey conducted by the *Journal of Financial Planning* and the FPA Research and Practice Institute™.

The 2015 Trends in Investing Survey showed that 81 percent of financial advisers surveyed currently use or recommend ETFs with their clients—the most popular investment vehicle among 17 options. Seventy-eight percent of advisers surveyed currently use or recommend mutual funds (non-wrap) with clients.

FPA's Trends in Investing Survey has shown continued growth in the popularity of ETFs since 2006, when 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 using/recommending them).

The 2015 survey, which was fielded in March and received 303 online responses, also indicated that 51 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. For example, 23 percent of respondents plan to increase their use of mutual fund wrap programs, and 22 percent plan to increase their use of individual stocks.

Although the concept of smart beta has gotten a lot of media attention recently, survey results indicate that only 22 percent of advisers have used smart beta ETFs with clients in the last 12 months. When asked how their use/recommendation of smart beta ETFs has changed over the last 12 months, 14 percent of advisers surveyed said it has increased.

The 2015 Trends in Investing Survey also showed that advisers continue to be moving away from annuities, with 38 percent currently using/recommending variable annuities, compared to 41 percent last year, and a high of 58 percent in both 2006 and 2008. And 28 percent of advisers surveyed say they are currently using/recommending fixed annuities with clients, down slightly from 29 percent last year and a high of 49 percent in 2010.

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Economic Outlook

What is your economic outlook for the...

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

1	2	3	4	5
13%	28%	45%	13%	2%

next 12 months?

1	2	3	4	5
10%	32%	41%	13%	3%

next 2 years?

1	2	3	4	5
8%	28%	43%	18%	3%

next 5 years?

1	2	3	4	5
16%	35%	33%	13%	4%

Key Finding: Advisers' long-term economic outlook remains positive, with 51% "bullish" for the next five years, compared to 41% "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?

	2014	2015
Individual stocks	50%	53%
Individual bonds	45%	41%
Cash and equivalents	79%	78%
Mutual fund wrap program(s)	40%	41%
Mutual funds (non-wrap)	82%	78%
Exchange-traded funds (ETFs)	79%	81%
Fixed annuities (immediate and/or deferred)	29%	28%
Variable annuities (immediate and/or deferred)	41%	38%
Indexed annuities	9%	10%
Hedge funds (directly, not through mutual funds)	9%	9%
Options	11%	9%
Fixed perm anent life insurance products	32%	28%
Variable perm anent life insurance	23%	21%
Private equity funds	11%	8%
Individually traded REITs (not held in mutual fund)	24%	30%
Non-traded REITs	20%	18%
Other alternatives (bought directly, not included in other investment vehicles)	19%	20%
Other	2%	2%

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

	2014	2015
Individual stocks	17%	22%
Individual bonds	11%	11%
Cash and equivalents	11%	14%
Mutual fund wrap program(s)	20%	23%
Mutual funds (non-wrap)	21%	20%
Exchange-traded funds (ETFs)	39%	51%
Fixed annuities (immediate or deferred)	8%	10%
Variable annuities (immediate or deferred)	13%	14%
Indexed annuities	4%	5%
Hedge funds (directly, not through mutual funds)	5%	4%
Options	2%	3%
Fixed permanent life insurance products	8%	9%
Variable permanent life insurance	5%	5%
Private equity funds	4%	3%
Individually traded REITs (not held in mutual fund)	4%	6%
Non-traded REITs	5%	5%
Other alternatives (bought directly, not included in other investment vehicles)	9%	9%
None. I do not plan to increase the use/recommendation of any investment vehicles	31%	25%
Other	2%	1%

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

	2014	2015
Individual stocks	11%	14%
Individual bonds	15%	11%
Cash and equivalents	11%	8%
Mutual fund wrap program(s)	4%	8%
Mutual funds (non-wrap)	16%	16%
Exchange-traded funds (ETFs)	3%	3%
Fixed annuities (immediate or deferred)	4%	7%
Variable annuities (immediate or deferred)	6%	7%
Indexed annuities	2%	3%
Hedge funds (directly, not through mutual funds)	2%	3%
Options	1%	3%
Fixed permanent life insurance products	2%	2%
Variable permanent life insurance	4%	4%
Private equity funds	0%	1%
Individually traded REITs (not held in mutual fund)	1%	3%
Non-traded REITs	5%	9%
Other alternatives (bought directly, not included in other investment vehicles)	2%	3%
None. I do not plan to decrease the use/recommendation of any investment vehicles	50%	48%
Other	2%	1%

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Which Investment Vehicles Do You Currently Use/Recommend with Clients?

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

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

Key Finding: ETFs Surpass Mutual Funds in Popularity

For the first time since FPA began surveying planning professionals on their use and recommendation of various investments in 2006, ETFs have surpassed mutual funds in popularity.

The 2015 Trends in Investing Survey, conducted by the *Journal of Financial Planning* and the FPA Research and Practice Institute™, found that 81 percent of financial advisers surveyed currently use or recommend ETFs with their clients—the most popular investment vehicle among 17 options. Seventy-eight percent of advisers surveyed currently use or recommend mutual funds (non-wrap) with client.

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

Lower costs	76%
Tax efficiency	55%
Trading flexibility	50%
Transparency of holdings	22%
Diversification	12%
There are no advantages	4%
Not applicable	4%

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Smart Beta ETFs

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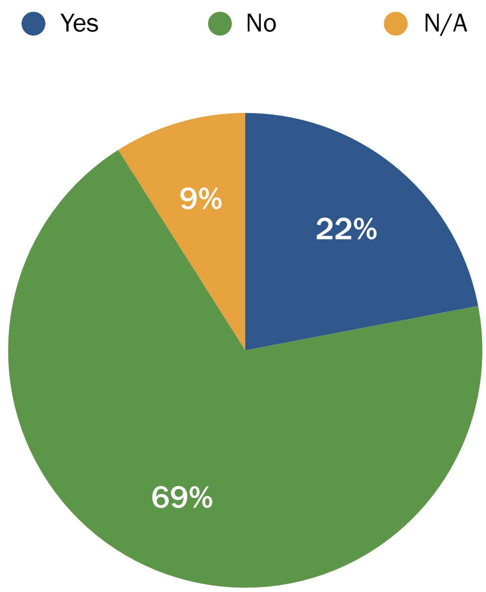
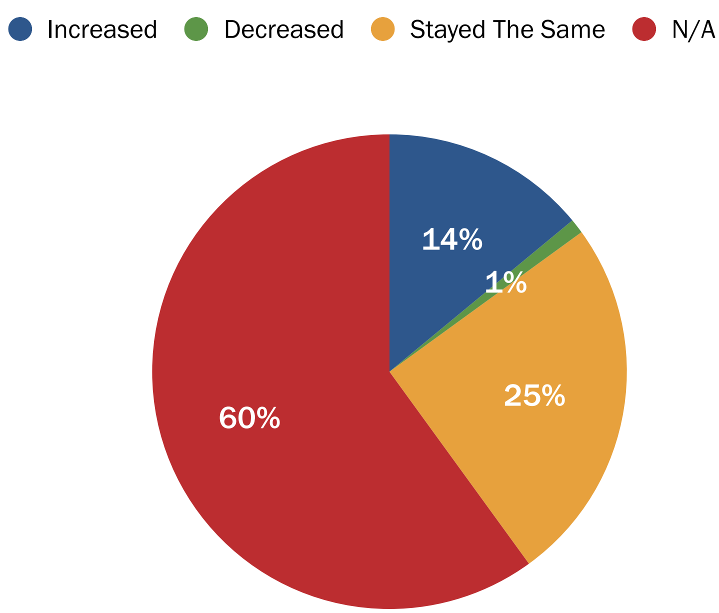
Have you used/recommended smart beta ETFs with clients in the last 12 months (since March 2014)?



Source: 2015 Trends in Investing Survey

How has your use/recommendation of smart beta ETFs changed over the last 12 months (since March 2014)?



Source: 2015 Trends in Investing Survey

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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
Active	18%	15%
Passive	25%	24%
Blend of the two	57%	61%

Key Finding: Advisers favoring a blend of active and passive.

Although slightly fewer advisers favor active management in 2015 (15 percent) compared to 2014 (18 percent), the majority of advisers (61 percent) believe a blend of active and passive management provides the best overall investment performance (taking into account costs associated with each style). This is slight increase from the 57 percent that reported favoring a blend of the two in 2014.

Inflation

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

12 months (March 2016)	1.8%
2 years (March 2017)	2.3%
5 years (March 2020)	2.8%

(Percentages are averages of 289 valid responses.)

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

	2014	2015
Equities	60%	64%
REITs	46%	47%
Commodities	43%	39%
Alternatives	40%	40%
TIPs	38%	41%
Inflation-indexed bonds	28%	25%
Foreign securities	25%	23%
High-yield bonds	24%	21%
Cash equivalents	7%	8%
None / N/A	6%	2%

Key Finding: Advisers temper inflation projections, expecting inflation to remain below 3 percent over next five years. They are primarily using equities as inflation hedges, although alternative investments such as REITs and commodities remain common hedges.

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Asset Allocation / Rebalancing

Did you recently (within the last 3 months) or are you currently re-evaluating the asset allocation you typically recommend/implement?

	2014	2015
Yes	57%	64%
No	43%	35%
Don't know	0%	1%

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

Reason	2014	2015
I continually re-evaluate the asset allocation strategy I typically recommend/implement	67%	74%
Anticipated/existing changes in the economy in general	56%	68%
Anticipated/existing changes in specific investments	45%	47%
Anticipated/existing changes in inflation	28%	34%
Anticipated/existing changes in income tax legislation	18%	24%
Anticipated/existing changes in investment tax (capital gains, interest, etc.) legislation	18%	28%
Anticipated/existing changes in health care law	10%	6%
Anticipated/existing changes in administrative aspects of investments (cost, lead manager, etc.)	10%	22%
Anticipated/existing changes in estate tax legislation	5%	9%

In the past 12 months (since March 2014), has the number of changes to your specific investment selections:

Increased	32%
Decreased	4%
Not changed	64%

Key Finding: Uncertain tax landscape spurs asset allocation changes.

The majority of advisers (64 percent) are currently re-evaluating the current asset allocation they typically recommend or implement. An interesting finding in 2015 was that more adviser respondents are re-evaluating asset allocation strategies because of anticipated or existing changes in income tax legislation and investment tax legislation—with the former up to 24 percent in 2015 from 18 percent in 2014, and the latter up to 28 percent in 2015 from 18 percent last year.

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About the Respondents

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

Fee only	51%
Commission only	1%
Fee and commission	44%
Other	5%

Which of the following best describes how you/your financial planning practice handles investment recommendations or portfolio management for the majority of your clients? (more than one option could be selected)

I/my practice offers investment advice/ recommendations but does not implement	9%
I/my practice implements investment recommendations on a non-discretionary basis	40%
I/my practice manages ongoing investments on a discretionary basis	62%
None of the above	3%

Are you a CFP® professional?

Yes: 93%
No: 7%

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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 24,000 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.

About the FPA Research and Practice Institute™

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.