2019 Trends in Investing Survey

Where financial advisers are investing today and tomorrow

An annual survey by:

FPA FINANCIAL PLANNING ASSOCIATION

Journal of Financial Planning

FPA FINANCIAL PLANNING ASSOCIATION RESEARCH & PRACTICE INSTITUTE™

About the 2019 Trends in Investing Survey

The 2019 Trends in Investing Survey, conducted by the *Journal of Financial Planning* and the FPA Research and Practice Institute™ was fielded in April 2019 and received 392 online responses from financial advisers who offer clients investment advice and/or implement investment recommendations.

Executive Summary

When it comes to investing, advisers remain wary of cryptocurrencies, although clients continue to be curious about this emerging asset class. Virtually no advisers surveyed (less than 1 percent) are currently using or recommending cyrptocurrencies in client portfolios. And yet, one-quarter of advisers reported that clients have inquired about investing in crytpocurrencies in the last six months. Clients are also asking advisers about investing in marijuana or cannabis stocks/companies. The majority of advisers surveyed (55 percent) reported that clients have asked about investing in such stocks or companies in the last six months. Meanwhile, advisers remain steadfast in their use/recommendation of ETFs, which once again, was the most popular investment vehicle used or recommended from a list of 22 options.

The 2019 Trends in Investing Survey, conducted by the *Journal of Financial Planning* and the FPA Research and Practice Institute™, showed that 88 percent of advisers surveyed currently use or recommend ETFs with clients, and 70 percent currently use or recommend mutual funds (non wrap). Prior to 2015, more advisers were using/recommending mutual funds than ETFs. Since ETFs "overtook" mutual funds four years ago as a preferred investment vehicle, their use/recommendation has continued to dominate.

The 2019 survey also showed that 80 percent of advisers are using/recommending cash and equivalents with clients, similar to the 85 percent reported in 2017, and 83 percent reported in 2018. This is, perhaps, an indication that advisers are continuing to be somewhat cautious when investing. The reliance on cash and equivalents in 2019 is a significant increase from the 53 percent of advisers surveyed in 2006 who used or recommended this category.

FPA's annual Trends in Investing survey was first conducted in 2006. Year-over-year results illustrate the effects of the 2007–2008 financial crisis, with a clear shift out of individual stocks and into index products including ETFs and mutual funds, as well as cash and equivalents (see graph on page 3). The list of investment vehicles has evolved since the first 2006 survey, with ESG funds, cryptocurrencies, and separately managed accounts now included. With the 2019 survey showing clear client interest in marijuana/cannabis investments, this category will be added to the list of possible investment vehicles in the 2020 survey.

Investments Used

Which investment vehicles do you currently use/ recommend with your clients? (Ordered here by 2019 percentage)

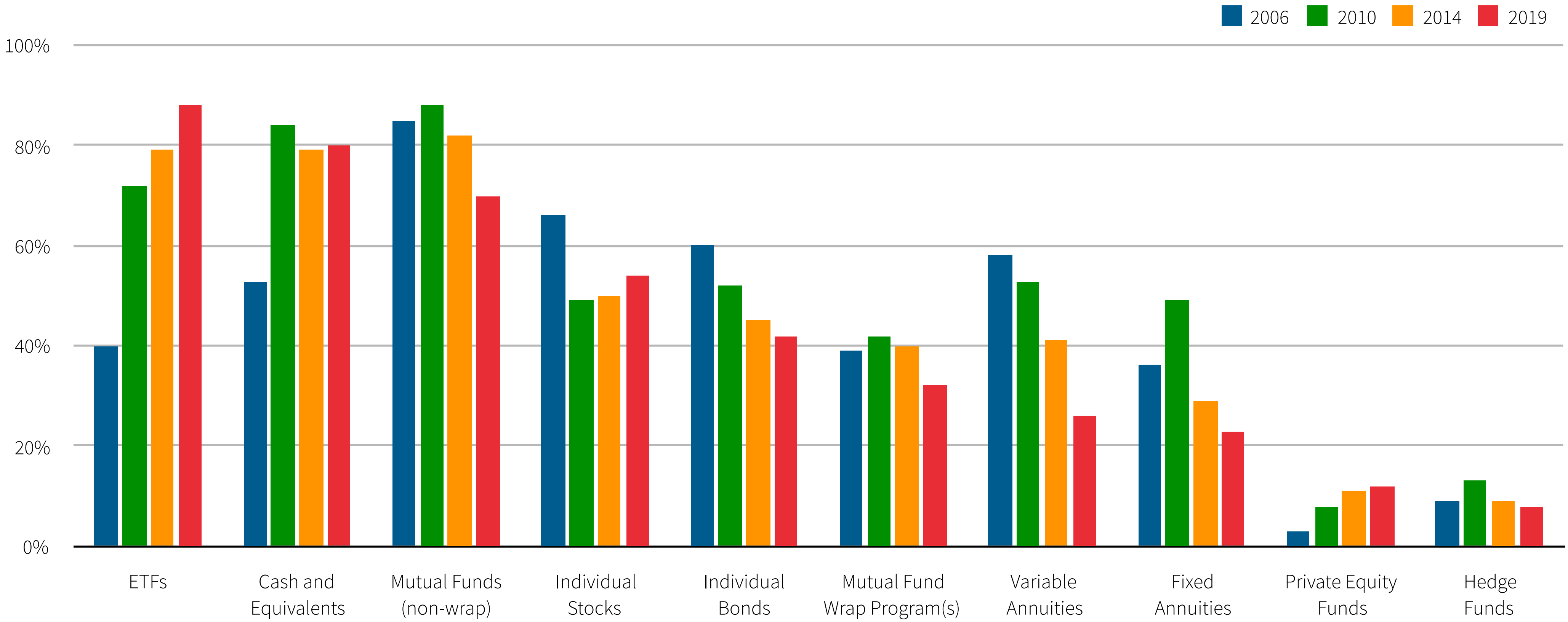
	2017	2018	2019
Exchange-traded funds (ETFs)	88%	87%	88%
Cash and equivalents	85%	83%	80%
Mutual funds (non-wrap)	83%	70%	70%
Individual stocks	61%	56%	54%
Individual bonds	52%	46%	42%
Mutual fund wrap program(s)	33%	32%	31%
Variable annuities (variable and/or deferred)	32%	28%	26%
Separately managed accounts	N/A	N/A	26%*
ESG funds	N/A	26%	26%**
Fixed permanent life insurance products	28%	23%	24%
Fixed annuities (immediate and/or deferred)	32%	26%	23%
Individually traded REITs (not held in mutual fund)	27%	22%	20%
Indexed annuities	16%	16%	15%
Variable permanent life insurance	21%	18%	14%
Non-traded REITs	15%	13%	13%
Other alternative investments (if bought directly, not included in other investment vehicles)	25%	17%	13%
Private equity funds	15%	12%	12%
Structured products	N/A	N/A	11%*
Options	16%	13%	9%
Hedge funds (directly, not through mutual funds)	9%	9%	8%
Precious metals	N/A	N/A	5%*
Other	6%	9%	4%
Cryptocurrencies	N/A	1%	<1%**

**Separately managed accounts, structured products, and precious metals were not included prior to the 2019 survey.*
***ESG funds and cryptocurrencies were not included prior to the 2018 survey.*

Investments Used

Changes to Investment Usage, 2006–2019

Q: Which investment vehicles do you currently use/recommend with your clients? (select all that apply)



Source: FPA Trends in Investing Surveys (not all options are displayed here, only ones comparable year-over-year; respondents could select all that apply).

Key Finding: A Shift to ETFs

Year-over-year survey data from 2006 through 2019 (shown in four- and five-year increments in the bar graph) indicate a possible shift from individual stock and bond usage to ETFs products. For example, in 2006, 60 percent of advisers surveyed said they currently used or recommended individual bonds in client portfolios. In the 2019 survey, this dropped to 42 percent of advisers. Meanwhile, ETF usage has increased from 40 percent of advisers in 2006 to 88 percent in 2019. For the first time in 2019, the Trends in Investing survey added “separately managed accounts” to the list of investment vehicle options (this was a result of analyzing the detailed responses for “other” in the 2018 survey). More than one-quarter (26 percent) of survey respondents currently use or recommend separately managed accounts, and 9 percent indicated they plan to increase their use of SMAs over the next 12 months.

Investments Used

Which investment vehicles do you expect to *increase* your use/recommendation of over the next 12 months? (Ordered here by 2019 percentage)

	2018	2019
Exchange-traded funds (ETFs)	46%	45%
Cash and equivalents	24%	25%
ESG funds	20%	19%
Mutual funds (non-wrap)	19%	19%
None. I do not plan to increase the use/recommendation of any investment vehicles.	21%	18%
Individual bonds	15%	16%
Individual stocks	19%	15%
Mutual fund wrap program(s)	15%	14%
Fixed annuities (immediate and/or deferred)	9%	11%
Separately managed accounts	N/A	9%*
Variable annuities (immediate and/or deferred)	9%	8%
Indexed annuities	7%	8%
Other alternative investments (if bought directly, not included in other investment vehicles)	11%	7%
Private equity funds	7%	6%
Fixed permanent life insurance products	7%	6%
Structured products	N/A	6%*
Individually traded REITs (not held in mutual fund)	6%	4%
Hedge funds (directly, not through mutual funds)	5%	4%
Variable permanent life insurance	3%	4%
Other	7%	4%
Non-traded REITs	3%	3%
Precious metals	N/A	3%*
Options	4%	2%
Cryptocurrencies	2%	<1%

**These options were not included prior to the 2019 survey.*

Which investment vehicles do you expect to *decrease* your use/recommendation of over the next 12 months? (Ordered here by 2019 percentage)

	2018	2019
None. I do not plan to increase the use/recommendation of any investment vehicles.	41%	36%
Individual stocks	18%	23%
Mutual funds (non-wrap)	17%	19%
Individual bonds	13%	13%
Variable annuities (immediate and/or deferred)	8%	9%
Exchange-traded funds (ETFs)	8%	6%
Cash and equivalents	6%	5%
Fixed annuities (immediate and/or deferred)	7%	5%
Mutual fund wrap program(s)	8%	5%
Non-traded REITs	7%	4%
Indexed annuities	4%	3%
Individually traded REITs (not held in mutual fund)	1%	3%
Variable permanent life insurance	2%	2%
Options	2%	2%
Fixed permanent life insurance products	1%	2%
Other	4%	2%
Hedge funds (directly, not through mutual funds)	1%	1%
Structured products	N/A	1%*
Separately managed accounts	N/A	1%*
Private equity funds	1%	<1%
ESG funds	1%	<1%
Precious metals	N/A	<1%*
Other alternative investments (if bought directly, not included in other investment vehicles)	2%	<1%
Cryptocurrencies	1%	0%

These options were not included prior to the 2019 survey.

Key Finding: SMAs on the Radar

For the first time in 2019, the Trends in Investing survey added “separately managed accounts” to the list of investment vehicle options (this was a result of analyzing the detailed responses for “other” in the 2018 survey). More than one-quarter (26 percent) of survey respondents currently use or recommend separately managed accounts, and 9 percent indicated they plan to increase their use of SMAs over the next 12 months.

Clients Curious About Cannabis Investments

Which topics have clients inquired about in the past 6 months? (Ordered here by 2019 percentage)

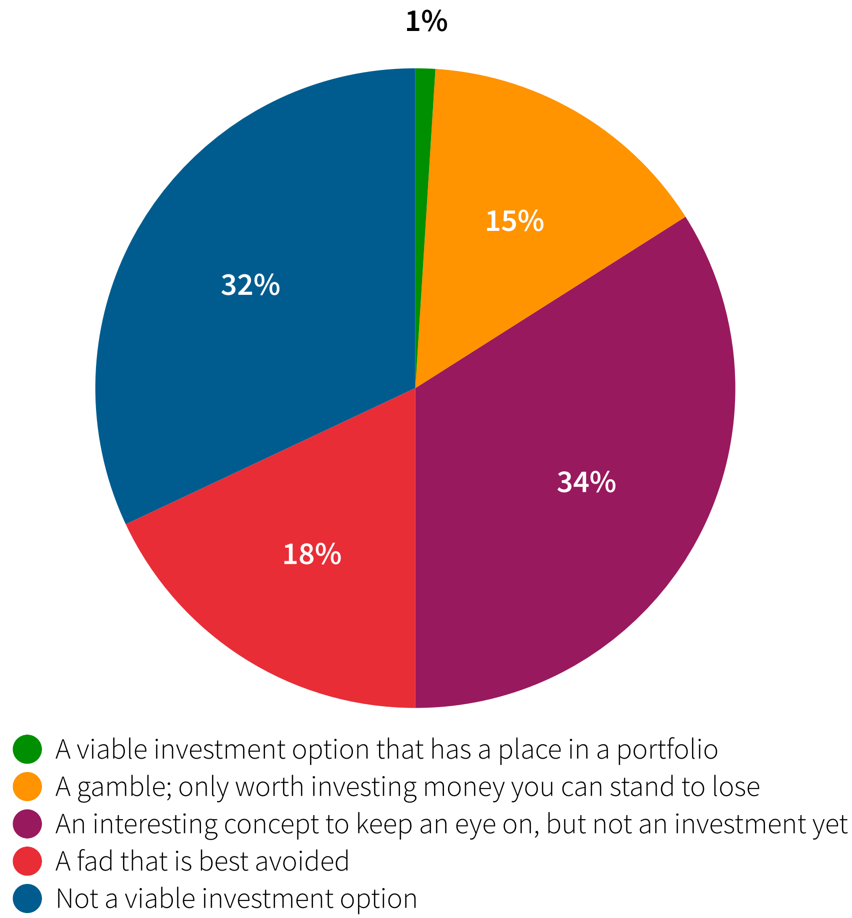
	2018	2019
Effects of volatility on their portfolio	76%	70%
Investing in marijuana or cannabis stocks/companies	N/A	55%*
Effects of tax reform (Tax Cuts and Jobs Act) on their portfolio	68%	51%
Fees and other costs of investments	49%	50%
Investing in ESG/socially responsible investing	38%	35%
Investing in cryptocurrencies	53%	25%
Other	6%	4%

**This option was not included prior to the 2019 survey.*

Key Finding: Clients are Curious

The majority of advisers (55 percent) are fielding questions from clients about investing in marijuana/cannabis stocks or companies. Clients are also curious about ESG investing and cryptocurrencies.

What do you think of cryptocurrencies as an investment?



Additional Resource: If you're grappling with the topic of cryptoassets, access the June 2019 *Journal of Financial Planning* article, "Should Cryptoassets Be a Part of a Client's Portfolio?" This feature article, by crypto experts Ryan Firth, Bobby Henebry, and Tyrone Ross, explores this important question.

Taking Another Look at Asset Allocation

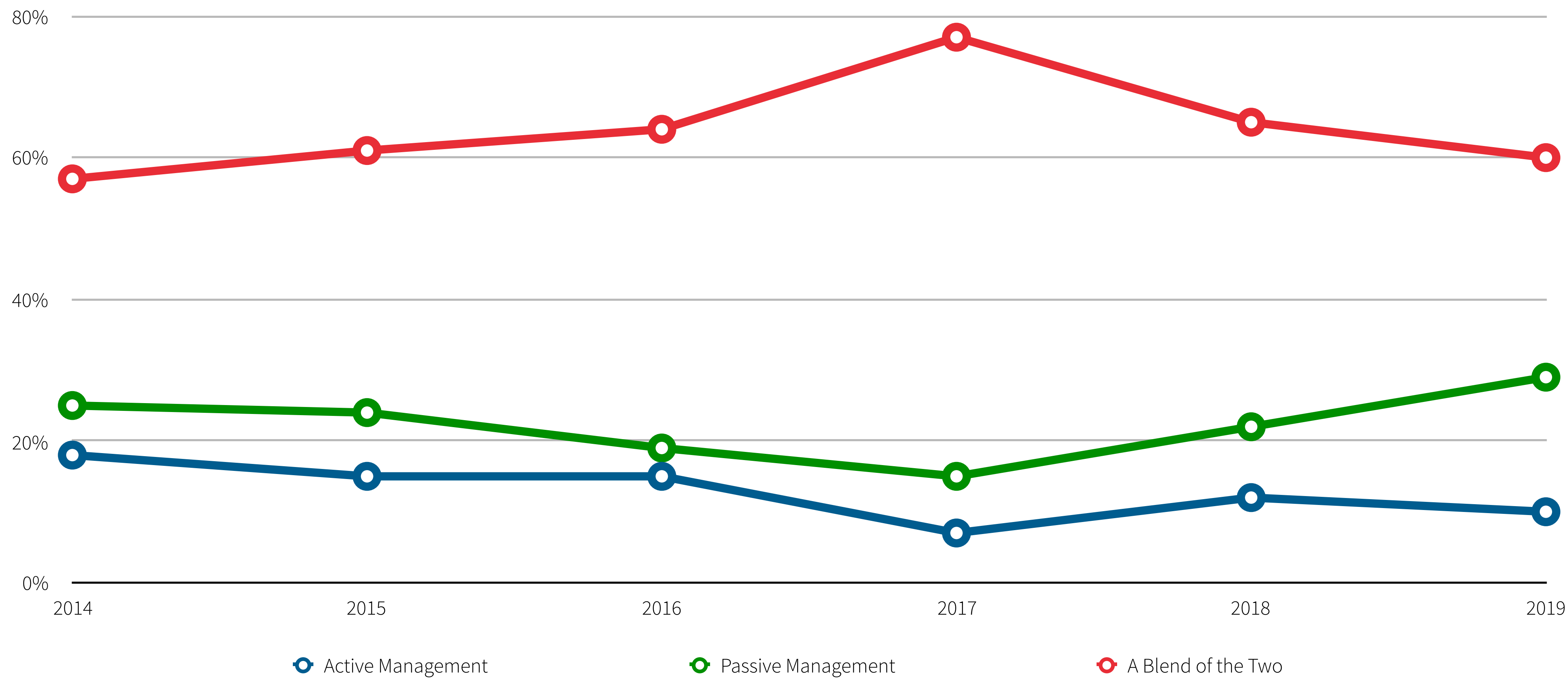
Similar to previous years, the 2019 survey results show that the majority of advisers (61 percent) reported they had re-evaluated their asset allocation recommendation within the last three months. And among those advisers, 62 percent said the reason for doing so was simply because they continually re-evaluate the asset allocation they typically recommend and/or implement. However, other, more specific reasons for taking another look at asset allocation include economic conditions, market volatility, and tax legislation (see the table below).

I re-evaluate the asset allocation strategy I typically recommend/implement because of anticipated/existing changes in:

The economy in general	58%
Market volatility	48%
Specific investments	28%
The Tax Cuts and Jobs Act	25%
Administrative aspects of investments (cost, lead manager, etc.)	18%
Inflation	18%
Health care law	4%

Active vs. Passive

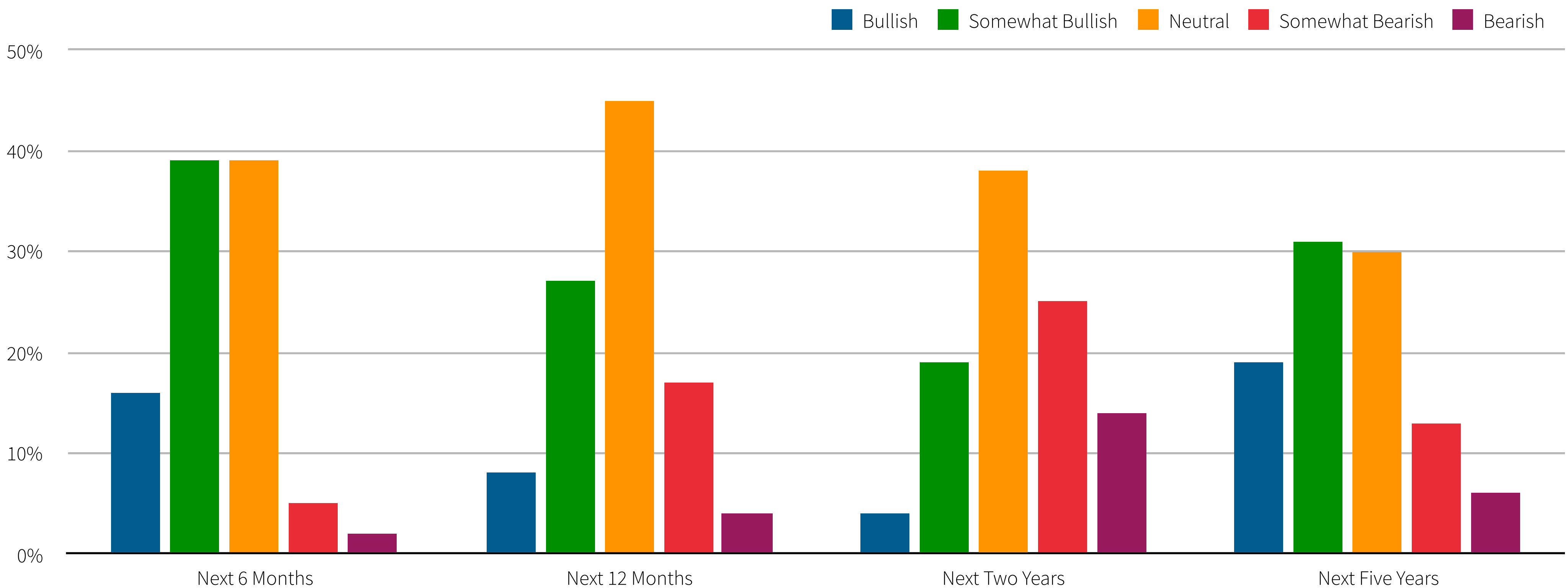
Q: In general, which type of management do you think provides the best overall investment performance taking into account costs associated with each management style?



Key Finding: An Uptick in Passive

Although the majority of planners continue to favor a blend of active and passive management, 2019 results show a continued uptick in a passive approach. Twenty-nine percent of survey respondents said passive management provides the best overall investment performance (taking costs into account)—the largest amount since 2014.

Economic Outlook



Key Finding: Advisers are Generally Bullish

Advisers were asked about their economic outlook for the next six months, 12 months, two years, and five years. Results show that advisers are somewhat bullish for the next six months, and their five-year outlook is positive as well. Could a slight uptick in a bearish outlook for the next two years indicate anticipated uncertainty following the 2020 election?

Equity Returns

For the first time this year, advisers were asked: What do you think the average rate of return for equity markets will be over the next 12 months? This was an optional question, and 330 advisers offered their input. Responses ranged from 12.8 percent to -20.0 percent, with an average rate of 5.8 percent, and a median rate of 6.0 percent.

Fixed-Income Returns

Advisers were also asked: What do you think the average rate of return for fixed-income markets will be over the next 12 months? Three-hundred thirty-two advisers offered their input. Responses ranged from 0.5 percent to 7.0 percent, with an average rate of 2.9 percent, and a median rate of 3.0 percent.

About the Respondents

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

Fee-Only	66%
Fee and Commission	33%
Commission Only	1%

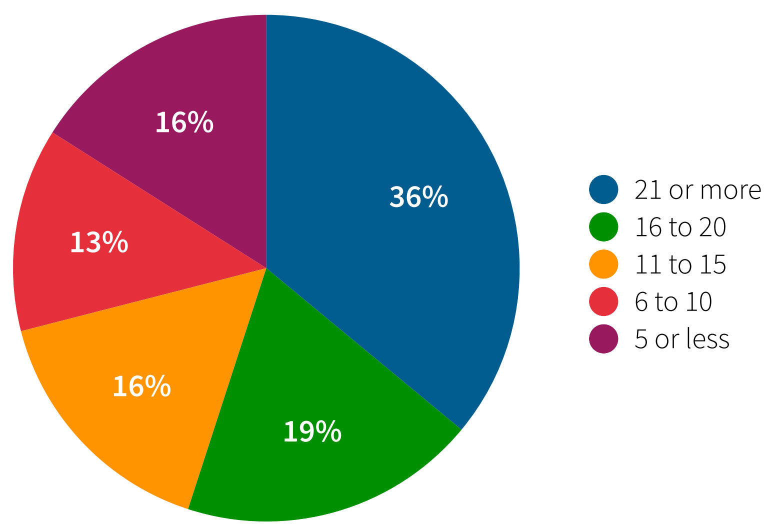
What designations do you hold?

CFP®	83%
FINRA registered rep	29%
AIF®	9%
ChFC®	7%
CFA	7%
None	9%

What is your primary practice model/ registration status?

Independent IAR/RIA	53%
Dually registered adviser	16%
Registered rep, independent adviser affiliated with a B-D	12%
Unregistered planner/adviser	9%
Registered rep, employee for a B-D	3%
Registered rep working for a bank, credit union, or savings and loan	3%
Other	4%

How many years have you been in the financial services profession?



About Us

About the Financial Planning Association® (FPA®)

The Financial Planning Association® (FPA®) is the principal membership organization for CERTIFIED FINANCIAL PLANNERTM professionals, educators, financial services professionals and students who are committed to elevating the profession that transforms lives through the power of financial planning. Through a collaborative effort to provide members with tools and resources for professional education, business support, advocacy and community, FPA is the indispensable resource in the advancement of today's CERTIFIED FINANCIAL PLANNERTM 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 InstituteTM

The FPA Research and Practice InstituteTM is the professional's 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.

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