

Five Major Trends Among Investors in 2009-2010

Highlighting the groundbreaking changes and a massive generational divide in managing finances

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Introduction

The past year has been a challenging one for American investors, many of whom have watched their investments and savings zigzag alongside a volatile market. Now, as investors across the U.S. look toward 2010, attitudes are turning a corner.

A recent survey of over 1,000 Americans indicates that most have patiently stayed the course. Findings suggest that, alongside significant economic indicators such as consumer confidence and new home sales, investors' optimism about the economy as well as their outlook on their own financial recovery has begun to improve. In fact, the majority of investors said they expect the U.S. economy to improve by the middle of 2010, and slightly more than half of those who lost value in their investment portfolios in the last year feel they will recoup all of their losses by the middle of 2012, according to the survey.

The optimism found in this research is both surprising and promising. The behavioral changes that investors are exhibiting about how they manage all aspects of their personal finances are even more positive. Today's investors are less content to rely on a "set it and forget it" mentality of investing. In 2009, investors have increased their personal and proactive focus on personal finances and want to take control in ways they never have before.

Across all generations, Americans indicate that they are investing additional time and attention toward better understanding and more efficiently managing their financial lives. This survey found that as investors seek to become more informed and actively engaged in managing their own finances, their approaches and attitudes differ significantly by generation as well as gender. Generation Y, those ages 18 to 26, are leading all generations in their proactive approach to investing and have become the most bullish about the economy overall and their own financial situations.

As investors increasingly seek to take investing and financial management into their own hands, it has become essential that these Americans become more knowledgeable about the workings of their bank and brokerage accounts, the economy and the financial markets. This trend has highlighted a critical need for financial education for investors at every skill level.

Americans who plan to invest within the next year but are not currently investing show a typical fear of risk, but indicate that they are more inclined to begin investing in order to establish and grow emergency funds – presumably in reaction to this year's news surrounding economic declines in personal incomes, a soft job market and lower home values. This trend has pushed the focus of many investors from "building a nest egg" and retirement to more urgent and short-term needs, like building a bigger "emergency fund" to protect themselves. This trend is so new, it is unclear whether Americans are downgrading their long-term goals toward retirement or have just temporarily changed their focus.

Survey Background

For the fourth year in a row, Scottrade, a national online investing firm, commissioned a survey of current American viewpoints about investing and personal finance. This study, conducted in the third quarter of 2009 by Survey Sampling, Inc., was designed to further track trends previously identified in surveys commissioned by Scottrade in 2006, 2007 and 2008, and also aimed to identify current attitudes toward the market in this unusual economic climate.

The survey groups are divided by generation:

- Seniors (born before 1945, currently age 65+)
- Boomers (born 1945 to 1966, ages 43-64)
- Generation X, or Gen X, (born 1967 to 1982, ages 27-42)
- Generation Y, or Gen Y (born 1983 to 1991, ages 18-26)

The Five Key Trends for 2009-2010

1. Investors' Attitudes and Financial Management Activities are Trending Upward
2. Investing Approaches Differ by Generation and Gender
3. No Single Economic Indicator is Capturing Investor Attention
4. Investors Still Value IRAs and 401(k)s
5. Need for Emergency Funds Supersedes Prospective Investors' Nervousness About the Economy

1. Investors' Attitudes and Financial Management Activities Trending Upward

Optimism is on the rise. The majority of investors (56 percent) believe that the U.S. economy will improve before the middle of 2010, and more than three quarters (79 percent) are confident that the U.S. stock market is resilient and will provide solid long-term investment gains.

Over half (51 percent) of investors believe they'll recoup their investment losses before the middle of 2012.

Some of this confidence may be due to recent improvements in new home sales and reported consumer confidence. However, investors may be becoming more optimistic as a result of their increasing personal involvement and sense of ownership in their own financial situations. Investors are becoming more empowered over their personal finances, which is likely boosting their confidence overall.

70 percent of investors indicated that they are taking new measures toward more proactively managing and monitoring their finances this year. According to the survey, the top five new actions that investors are taking this year are (Figure 1):



Figure 1

1. **Checking accounts more frequently** – 29 percent of investors are checking their accounts more often. 43 percent of investors check on their investments once per week or more. Generation Y, which is the most self-directed generation (the least likely to seek advice through an “expert” like a financial advisor), is the most active in monitoring their accounts. More than half (52 percent) check accounts once a week or more.
2. **Becoming more familiar with their personal financial situations** – 25 percent of investors are spending more of their time working to better understand where they stand financially.
3. **Ensuring their accounts are diversified** – 19 percent of investors are personally revisiting their savings and investments to ensure their accounts have the right investment mix.
4. **Doing more research prior to making investments** – 18 percent of investors are taking initiative to become more knowledgeable than they were in the past before making investment decisions. For most investors, financial news Web sites (e.g. Yahoo! Finance, MSN Money, and WSJ.com) top the list of frequented sources of financial information. These finance sites draw 48 percent of the Gen Y segment, 41 percent of the Gen X segment, 43 percent of Boomers and 30 percent of Seniors.
5. **Learning more about how the economy works** – 16 percent of investors are taking steps to educate themselves on the overall economy and how it directly impacts them.

2. Investing Approaches Differ by Generation and Gender

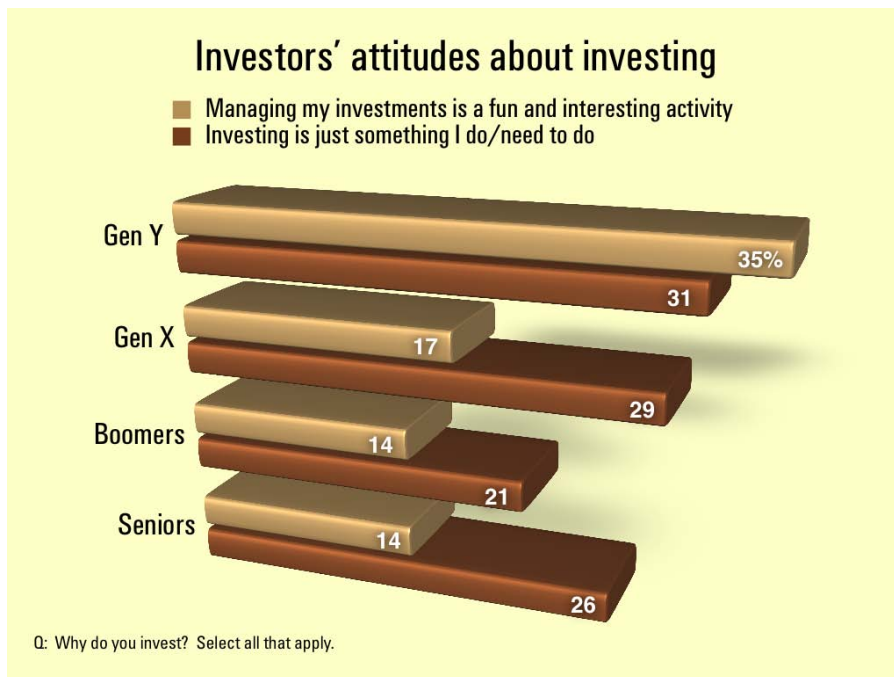


Figure 2

Investors across generations and gender are taking some action to more actively manage their investments, however, the approach for each group differs.

Generations that have not yet hit retirement age - Boomers, Gen X and Gen Y – check their accounts more frequently than ever before. Seniors' top priority is to become more familiar with their own financial situation.

The Gen Y segment is by far the most proactive generation when it comes to managing their financial lives, but this year's data shows that Gen Y investors are developing very differently than the generations that preceded them. This group mirrors older generations in citing saving for retirement and

building a nest egg as top reasons to save, but they diverge significantly when it comes to their overall attitudes about investing. Many investors of other generations say they invest because it “is just something I do or need to do,” but more than one-third of the Gen Y group says that they invest because “managing my investments is a fun and interesting activity.” (Figure 2) In fact, this response was the third highest reason that the Gen Y demographic invests and represents a significant increase from 2008 (35 percent in 2009 vs. 27 percent in 2008).

Gen Y investors are also leading the evolution toward “anywhere, anytime” investing as they embrace the latest technology to make managing finances more convenient. More Gen Y investors are using their mobile phones or hand-held devices to get stock quotes and to buy or sell securities than any other generation (Figure 3), and more than one-third (35 percent) of those with Internet-enabled cellular phones are making more than half of their trades using a mobile phone or device. As this group gains momentum and as the value of their investments grows, their progressive approach to investing will undoubtedly have an affect on how the brokerage industry evolves and how future generations invest.

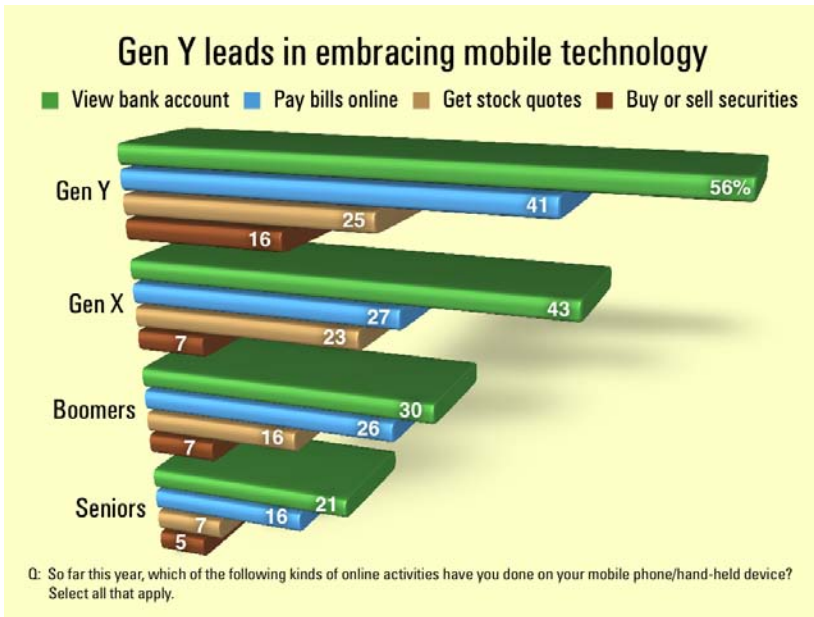


Figure 3

Despite their positive, proactive and progressive attitudes toward investing, they are as stressed as Generation X. Both groups have become the most likely to be “very stressed” about their financial situations, despite the fact that the Boomer generation have the least time to recover from the fallout of the economic challenges of the past two years. Their concerns may reflect generational differences in short-term stresses. Generations X and Y are the most likely to worry about having enough money to pay the bills and the mortgage or rent, and they are additionally stressed about the price of gas and food. Boomers are less worried about these immediate needs.

Levels of concern about immediate financial stresses also show a gender gap. Women are more likely than men to be stressed about paying the bills, mortgage and/or rent, as well as the price of gas and food. Nonetheless, women are slightly more optimistic than men about the economy’s recovery. Fifty-seven percent of women think the economy will show improvement by mid-2010, versus 54 percent of men. Thirty-one percent of women believe that the stock market will be up this year, versus 28 percent of men.

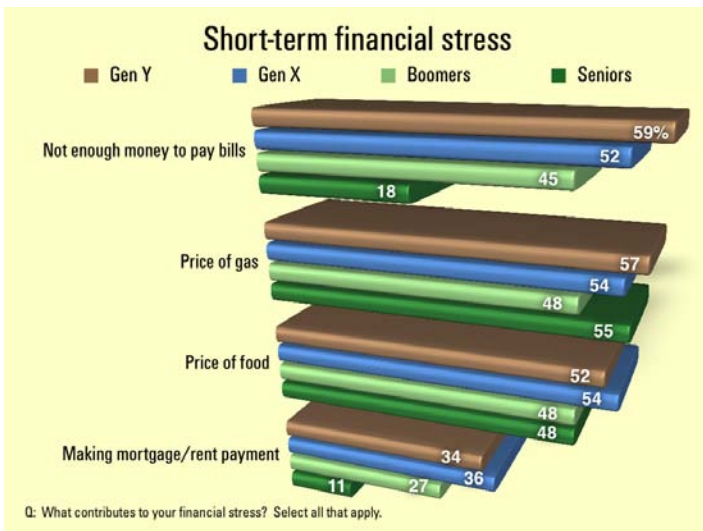


Figure 4



Figure 5

3. No Single Economic Indicator is Capturing Investors' Attention

In past years, investors' decisions were impacted by concerns around specific, pressing issues such as gas prices or the strength of the dollar. This year, however, no one issue is capturing investors' overall attention. Investors' concerns have become more varied, with no one issue dominating. (Figure 6)

Investors' top issues of 2009 are:

- The "Bailout" and the state of the financial industry
- Unemployment rates
- Inflation rates
- The Obama administration
- The value of the U.S. dollar vs. foreign currency

The "Bailout" as a top issue displaced the price of gas, which was the number one concern among investors last year but fell to number six this year. Unemployment rates beat out investors' fears about the strength of the U.S. dollar for the number two spot. The financial "Bailout" appears to be a top concern for investors as a result of both their relationships with these financial institutions and a fear about the downstream economic and political impact of this situation.

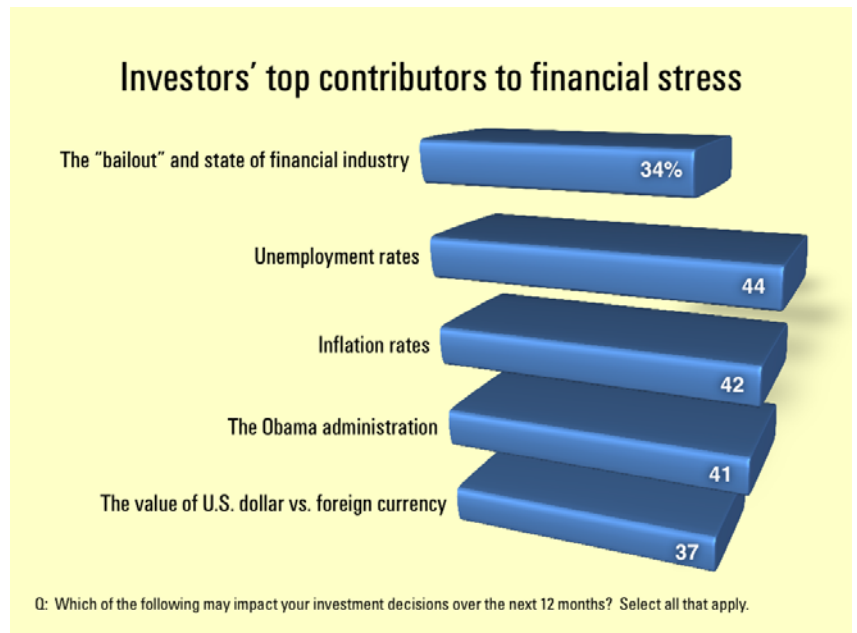


Figure 6

4. Investors Still Value IRAs and 401(k)s

IRAs and 401(k)s still rank at the top of investors' lists as investment vehicles. IRAs are the top investing vehicle, with 54 percent of investors owning one. Forty-six percent of investors have a 401(k). (Figure 7)

Fifty-eight percent of investors think that IRAs and 401(k)s are very useful tools when balanced with other investing methods, and 29 percent think they are the best tool for long-term investments.

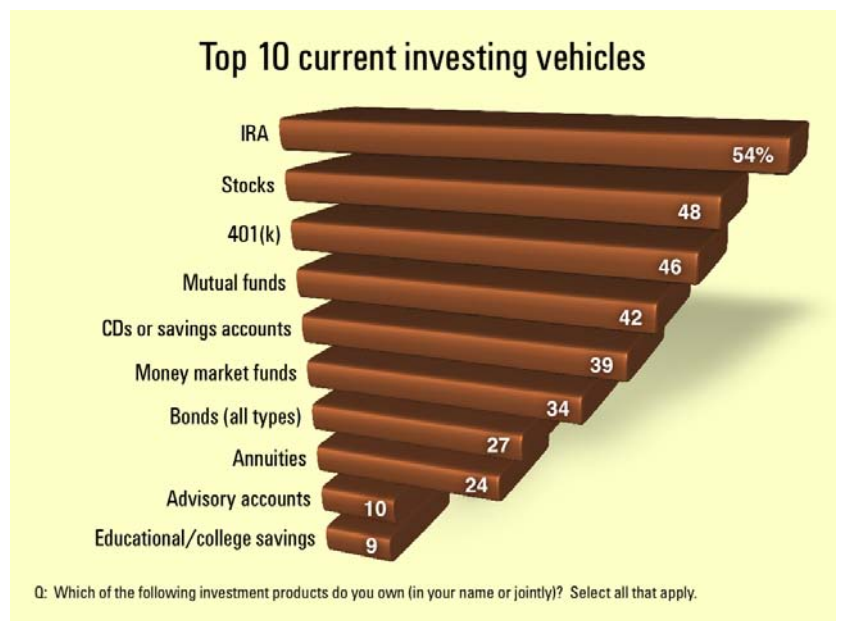


Figure 7

Investors' confidence in these vehicles is apparent in their future investing plans – 401(k)s are the top choice for investors who plan to invest additional money in the next 12 months, and IRAs are number three. (Figure 8)

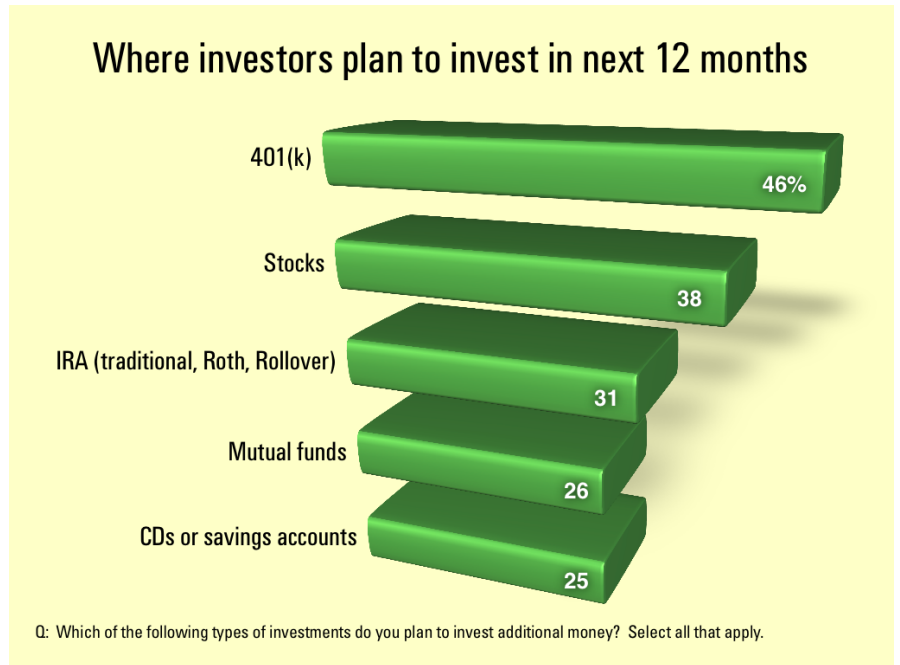


Figure 8

5. Need for Emergency Funds Supersedes Prospective Investors' Nervousness About Economy

The discomfort prospective investors (non-investors who plan to invest in the next 12 months) feel about the risks of investing has risen from 10 percent to 15 percent since last year. However, despite their nervousness about the economy, the number of prospective investors who plan to invest in the next 12 months because they want to save for an emergency has jumped dramatically – to 42 percent in 2009 from 27 percent in 2007. Additionally, retirement has declined as a reason for investing, dropping to 44 percent in 2009 from 56 percent in 2007. (Figure 9)

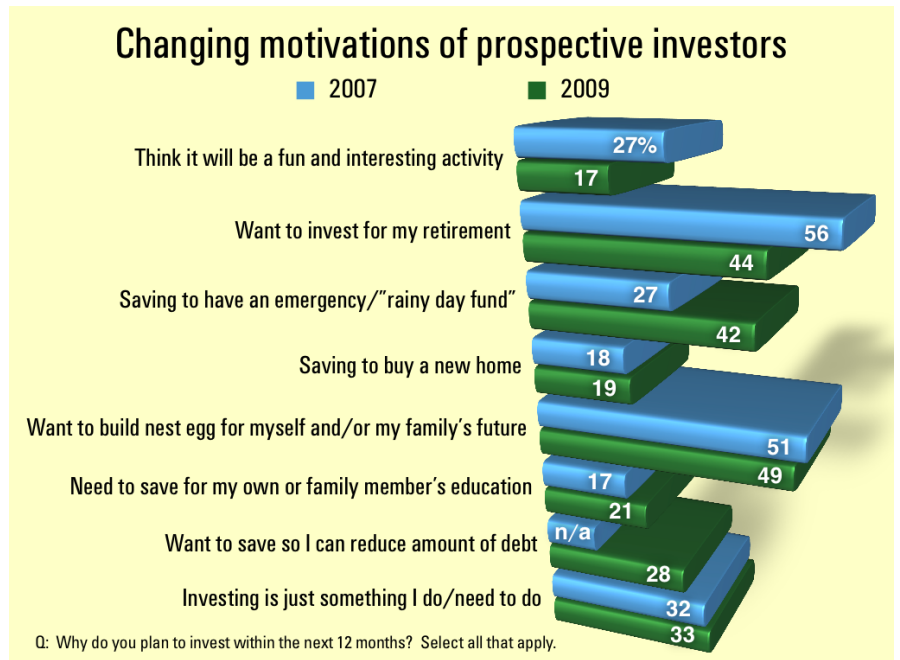


Figure 9

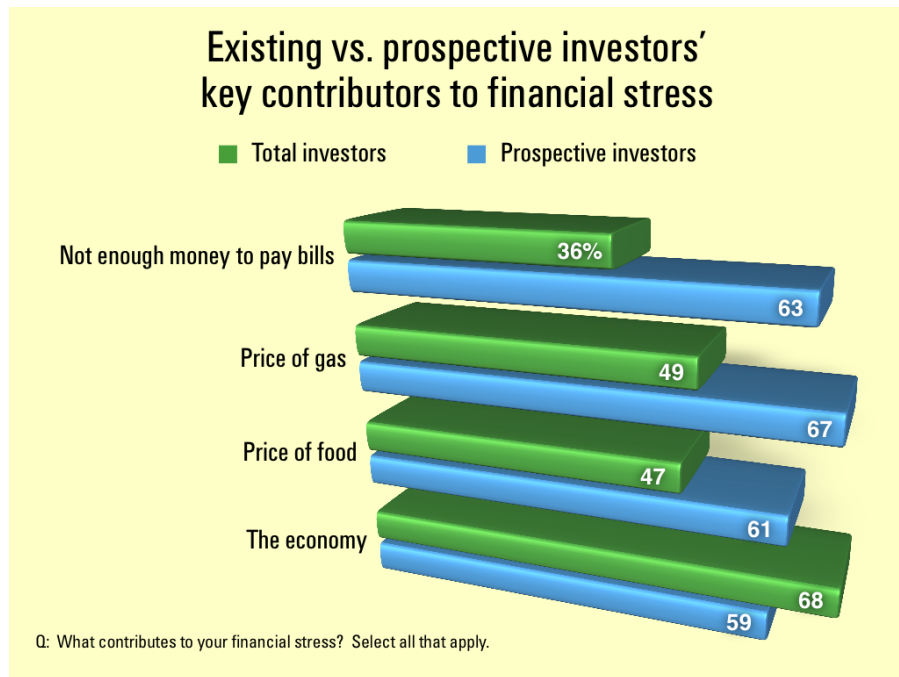


Figure 10

This trend toward financial emergency preparedness and away from retirement planning may be due to where prospective investors' stresses lie – they are more stressed about immediate needs, ranking the price of gas and food at the top of their lists, while those already investing are most stressed about the overall economy. (Figure 10) The potential long-term impact on Americans' overall views toward retirement was not clear from this research.

Summary

Study Methodology Overview

Study Size: 1,143 U.S. adults, Age 18+ in the contiguous United States, 627 male, 516 female

Generalizability: The study was designed to mirror the U.S. population. The most conservative maximum error range is between +/- 2.6percent and +/- 3.1percent of the U.S. population

Method: Opt-in Internet survey, SurveySampling Inc. SurveySpot consumer panel, data collection was July 15-29, 2009

About the Publishers

Scottrade, Inc. is a leading online investing firm, featuring the largest branch network in the online brokerage industry. The company offers a full line of investment products, online trading platforms and market research tools to help investors take control of their financial futures.

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