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Wells Fargo/Gallup Investor and Retirement Optimism Index: Q3 2018

Seeking professional advice not a priority in spite of feeling unprepared

Highlights of the Investor and Retirement Optimism Index

Investors appear unlikely to seek professional advice for dealing with the financial implications of major life events—a tendency that could leave some feeling financially unprepared. For perhaps the most anticipated life event—retiring from full-time work—fewer than half seek professional advice. Even more, many do not realize that the need for planning is not just about retirement. There are likely to be many significant and expensive milestone events along life's journey. But when it comes to more emotional matters, getting married or divorced or having a child, fewer than one in 10 turn to a professional for financial advice.

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44% are not very well prepared for an unexpected $5,000 expense

Four in **10** retired investors say they turned to a professional advisor when retiring

Half have specific financial goals but lack detailed plans for reaching them

Only **55%** deem home ownership as essential to the American Dream

One in four working investors has stayed in a bad job for financial reasons

Investor optimism remains positive

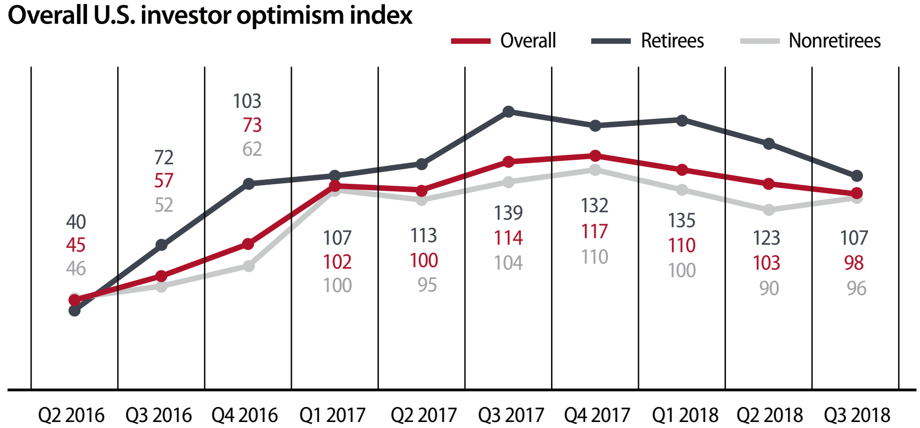
The Wells Fargo/Gallup Investor and Retirement Optimism Index was essentially unchanged this quarter, coming in at a relatively positive 98, similar to 103 in the second quarter. The index was a bit higher throughout most of 2017, ranging from 100 to 117. However, prior to 2017, the last time the index was as high as it is now was in November 2000.

Most components of the index were steady this quarter, including investors' optimism about achieving their 12-month investment targets and five-year investment goals. At the same time, investor optimism about the 12-month outlook for the economy and unemployment slipped a bit. Nevertheless, investors remain largely positive about these aspects of the economy.

In terms of their personal reaction to the stock market, just 2% of U.S. investors are "thrilled" with its performance, while 21% are "pleased," and 24% are "hopeful." At the same time, 23% are "nervous" and 6% "worried." Hardly any, just 1%, feel "panic stricken." About a quarter, 23%, feel "neutral."

Investor optimism was essentially unchanged

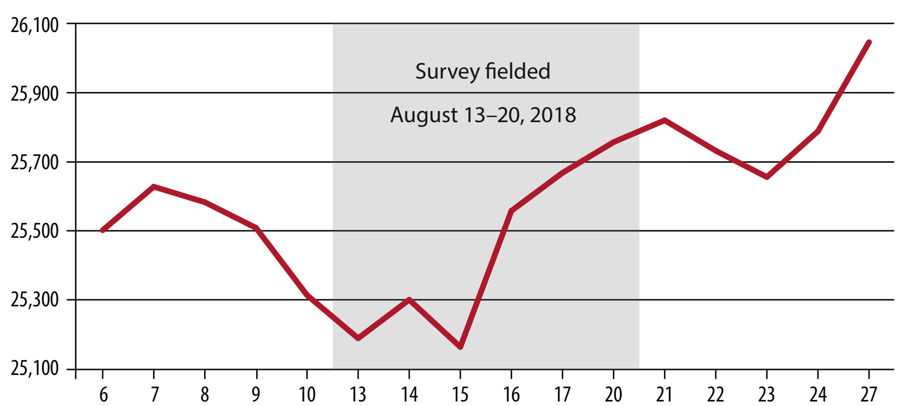
Overall U.S. investor optimism index



Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q3 2018

Dow closing prices ranged between 24,000 and 25,600

Closing price, Dow Jones Industrial Average



Source: Thomson Reuters, Dow Jones Industrial Average Closing Price, August 2018.
The Dow Jones Industrial Average is a price-weighted index of 30 "blue chip" industrial U.S. stocks.

The third-quarter Investor and Retirement Optimism survey of adults with total savings and investments of $10,000 or more was conducted August 13–20, 2018, a period that saw the Dow Jones Industrial Average move up 571 points—although the average was little changed much of the quarter with closing prices generally between 24,000 and 25,600. July unemployment edged down to 3.9% after rising to 4.0% in June from May's 3.8%—a level not seen since back in early-2000.

Second survey using new methodology

Methodology note

Starting with the second-quarter 2018 poll, the Wells Fargo/Gallup Investor and Retirement Optimism Index is being conducted online using the Gallup Panel, a proprietary probability-based panel of U.S. adults recruited via random-digit-dial (RDD) methodology. The poll was previously conducted by telephone using RDD technology. Because of expected differences in the way respondents answer questions online versus on the telephone, statistical modeling was conducted to compute mode adjustment factors that could be applied to the telephone trends for interviews completed prior to 2018. All trend figures prior to 2018 cited in this white paper are the mode-adjusted figures.

Life events have financial effects—positive and negative

When asked about their experience with 14 different life events, some of which can occur suddenly and bring unexpected expenses, the most common challenging event, experienced by 25% of investors, is having to provide financial support to a parent or adult child. This is the so-called "sandwich generation" problem. It is followed by having a serious illness or accident (17%), being the victim of identity theft or fraud (17%), getting divorced (15%), and sustaining major property damage from a natural disaster (7%).

On the positive side, along with inheritances, which investors universally describe as positive, buying a home, getting married, and retiring are all seen as positive by more than seven in 10 investors.

A majority also say having a child was positive financially. However, given that the U.S. Department of Agriculture estimates the cost to raise a child through age 17 is more than $230,000 (not factoring in projected inflation)[1], this may partly reflect investors' feelings about having children generally rather than the financial effect specifically.

In the middle ground were saving or paying for a child's college education or paying for a wedding, which had a slightly more positive than negative financial effect, and getting divorced, which was a little more likely to affect investors' finances negatively than positively.

[1]Source: United States Department of Agriculture, "Expenditures on Children by Families, 2015," revised March 2017.

Life experiences' financial effects

	Positive	Negative	Net
Receiving an inheritance	85%	3%	82%
Buying a home	84%	7%	77%
Getting married	80%	10%	70%
Retiring from full-time work	71%	18%	53%
Having a child	53%	32%	21%
Saving or paying for a child's college education	41%	33%	8%
Paying for a wedding	32%	25%	7%
Getting divorced	41%	47%	-6%
Providing long-term care for family member	27%	49%	-22%
Providing financial support to an adult, child, or parent	22%	47%	-25%
Serious illness or accident	6%	58%	-52%
Victim of identity theft or financial fraud	2%	63%	-61%

53% say having a child was positive financially

Investors are more likely to turn to a professional financial advisor in some situations than others. They are least likely to do so for more emotional events, including getting divorced (9%) or married (4%) or having a child (4%). The most common reasons for seeking out a professional—all of which investors feel are net positives financially—are when retiring from full-time work (44%), followed by receiving an inheritance (27%), and saving or paying for a child's college education (25%).

Investors rarely turn to financial advisors when crisis strikes, including dealing with identify theft or fraud (19%), providing long-term care for a family member (19%), facing a serious illness or accident (10%), or providing financial support to an adult child or parent (10%).

Investors rarely seek professional advice for emotional events or crises

✔ **Implications:** Survey respondents said they are unlikely to experience identity theft or fraud, becoming a widow or widower, sustaining major property damage from a natural disaster, or getting divorced. Yet national trends continue to highlight these issues and their potential financial implications.

- While only one in 10 older Americans in a Wells Fargo survey felt they were personally susceptible to scams, nearly half said they know someone who has been a victim.[1]
- In 2015, 24.4% of Americans age 65 and older were widowed.[2]
- A Government Accountability Office performance audit said the Federal Emergency Management Agency was "overwhelmed" by natural disasters in 2017.[3]
- While 90% of people marry by age 50, between 40% and 50% of couples in the U.S. divorce.[4]

[1] 2018 Wells Fargo Elder Needs Survey
[2] United States Census Bureau Newsroom, Families and Living Arrangements, Table A1
[3] Washington Post, "FEMA 'overwhelmed' by natural disasters in 2017," September 4, 2018
[4] American Psychological Association, website article "Marriage & Divorce," adapted from the *Encyclopedia of Psychology*, September 2018

Few are well prepared for a significant unexpected expense

Many U.S. investors are but one emergency away from encountering expenses they would find challenging to cover. About eight in 10 investors (83%) say they are very well prepared to deal with an unexpected expense of $1,000, but this financial confidence drops to 55% for a $5,000 expense, and to 33% for a $10,000 expense.

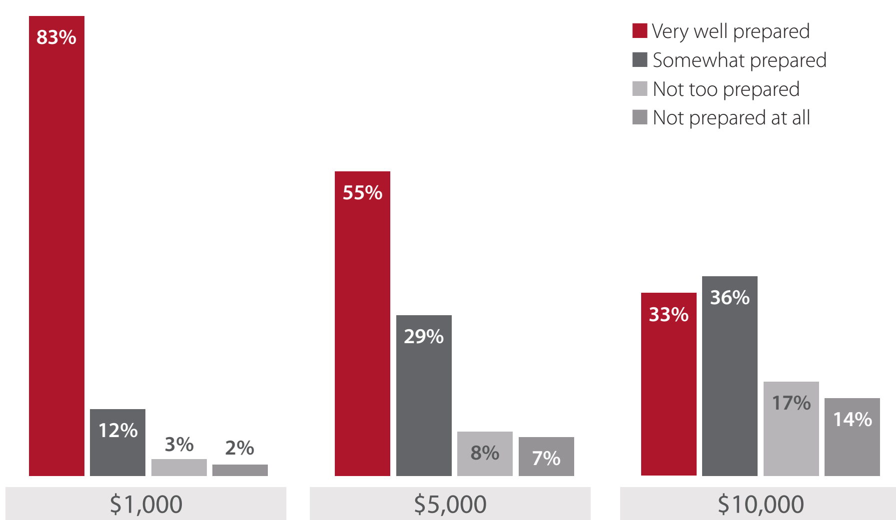
While most other investors describe themselves as "somewhat prepared" for each level of expense, 31% report they are not prepared for a $10,000 expense and 15% are similarly unprepared for a $5,000 expense.

The unexpected, by definition, can happen at any time—regardless of age. In spite of that, it appears that nonretirees are significantly less prepared than retirees to deal with unanticipated events. Retirees are much more likely to have an emergency fund, a will, a health care proxy, a written financial plan, and a power of attorney for financial matters. Consistent with their younger age, nonretirees are more likely to have access to financial help from friends and family and long-term disability insurance.

More than half (56%) of nonretired investors who want an emergency fund report they have completed or made a lot of progress toward saving three or more months of income for the fund, 31% have made only some progress, and 13% no progress.

Unexpected expenses could have dire consequences

Investors' ability to deal with unexpected expenses



As expense increases, preparedness decreases

Investors mostly do their financial planning solo

Asked how their household handles financial planning, only half of all investors indicate they receive professional advice. They either work closely with a dedicated professional financial advisor (13%) or mostly do their own planning with occasional advice from a professional advisor (38%). The other half either says they do all of their own financial planning (42%) or admits they do no such planning (7%).

Even though only a small number say they work closely with a dedicated professional financial advisor, that doesn't necessarily mean investors don't see value in it. Only 23% of those who do most of their own financial planning are very confident they will have as good a result on their own as they would by working closely with a professional advisor. Another 60% are somewhat confident in this while 17% are not too or not at all confident.

When it comes to overall planning, retirees are much more likely than nonretirees to work closely with an advisor (25% versus 9%) or to do their own financial planning with occasional advice from a professional (44% versus 36%). Nonretirees, on the other hand, are about twice as likely as retirees to say they do all their own financial planning with no professional advice (47% versus 24%).

Despite a wide range of financial publications and online tools now available to guide individuals in financial matters, investors who do all or most of their own financial planning say they mainly rely on "their own knowledge or experience" to make decisions (42%) or the advice of trusted friends or family (20%). Less than half of the do-it-yourself group utilizes expert sources such as online financial tools (24%), financial advice publications (10%), or financial courses or videos (4%).

Half
of investors receive **professional advice**

✔ **Implications:** Although investors tend to turn away from professional advice, year after year, stock mutual fund investors in the Dalbar, Inc. "Quantitative Analysis of Investor Behavior" study underperform the average stock mutual fund.[1] Dalbar found that more than half the gap in returns could be attributed to performance chasing and other bad investing habits. Presumably, working with a professional advisor could help investors avoid falling victim to these behaviors.

Only
15%
have both **specific goals and detailed plans**

Investors are goal setters, not detailed planners

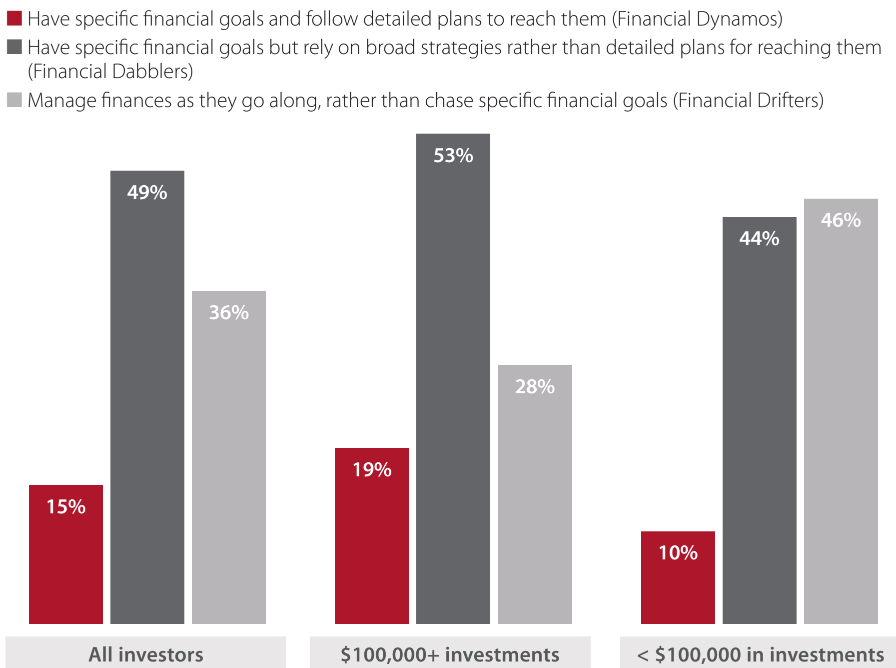
Approximately half of all investors might be termed "Financial Dabblers." They have specific goals but rely on broad strategies rather than detailed plans for reaching them. Around one-third are relatively unanchored "Financial Drifters" (36%) who manage their finances as they go along rather than pursue specific goals. Only 15% are "Financial Dynamos" who both have specific goals and follow detailed plans to reach them.

Taking a closer look shows investors' approach to financial goal-setting and planning varies somewhat based on their level of investments. Notably, those with less than

[1] Dalbar, Inc., 2018. Based on performance for 1998–2017.

$100,000 in investments are half as likely to be Financial Dynamos versus investors with more than $100,000 in investments. This seems counter-intuitive given that the former may actually need to work harder to help reach their goals. It's important to note that even among those with more than $100,000, only a minority (19%) fall into this group.

Approach to financial goal-setting and planning



Investors with greater assets are more likely to plan

The data suggest that Financial Dynamos generally benefit in some ways from their detailed planning—they are a bit more confident than Financial Dabblers that they will have enough money to maintain their preferred lifestyle in retirement (81% versus 72%). They are also more likely to say they can handle an unexpected $5,000 expense (70% versus 59%).

However, on both of these important indicators of financial preparedness, Financial Drifters are far worse off than Dynamos and Dabblers. Less than half of Drifters, 48%, are confident about their retirement funding and just 35% are very well prepared for a $5,000 expense.

Half of working investors willing to sacrifice for goals

When it comes to sacrificing for their financial goals, nonretired investors are divided into two groups. About half (52%) say they expect to have to change or give up a lot or fair amount to achieve their goals, while 48% say they will have to give up only a little or nothing.

Financial sacrifice is strongly related to investors' level of financial discipline. Only one-third of those who describe themselves as extremely disciplined (32%) expect to have to give up a lot or fair amount to achieve their goals, but this increases to 50% among the “fairly” disciplined and 67% among those not too or not at all disciplined.

When asked what actions they are likely to take, or have already taken, to achieve their personal financial goals, half or more indicate a willingness to hold onto cars longer, work longer than they’d prefer, cancel their TV subscription, cut back on daily living expenses, get a cheaper cellphone plan, cut down on vacations, or even stay in a job or career they don’t like.

Investors are less likely to say they already have or are likely to downsize to a smaller home, get a second job, forego saving for a child’s education, or delay having children or have a smaller family than they’d prefer.

Strategies to help achieve personal financial goals*

	Have already done	Likely to do	Not likely to do
Keep cars for longer than you would prefer before replacing them	42%	39%	19%
Work for more years than you would otherwise prefer	9%	61%	30%
Cancel TV subscription (cable/satellite)	45%	20%	35%
Cut back sharply on daily living expenses (food, clothing, entertainment)	25%	37%	38%
Get a less expensive cellphone plan	32%	25%	43%
Reduce or stop taking vacations	26%	27%	46%
Stay in a job or career you don't like	27%	25%	49%
Downsize to a smaller home	7%	35%	58%
Get a second job	13%	19%	68%
Forego saving for a child's education	14%	14%	73%
Delay having children or have a smaller family than you would otherwise prefer	17%	9%	74%

*Sorted by total of have done and likely to do.

Rethinking the American Dream?

Home ownership has long been widely considered foundational to the American Dream, but when asked, only 55% of investors deemed it essential. Another assumed bedrock, having a better standard of living than your parents, came in dead last in a list of 10 possible elements investors were asked to choose from.

Of greater importance were a number of intangibles. Having equality of opportunity (74%), having a good education (63%), achieving your full potential (58%), and making a positive difference in the world (57%) were all highly ranked as being essential.

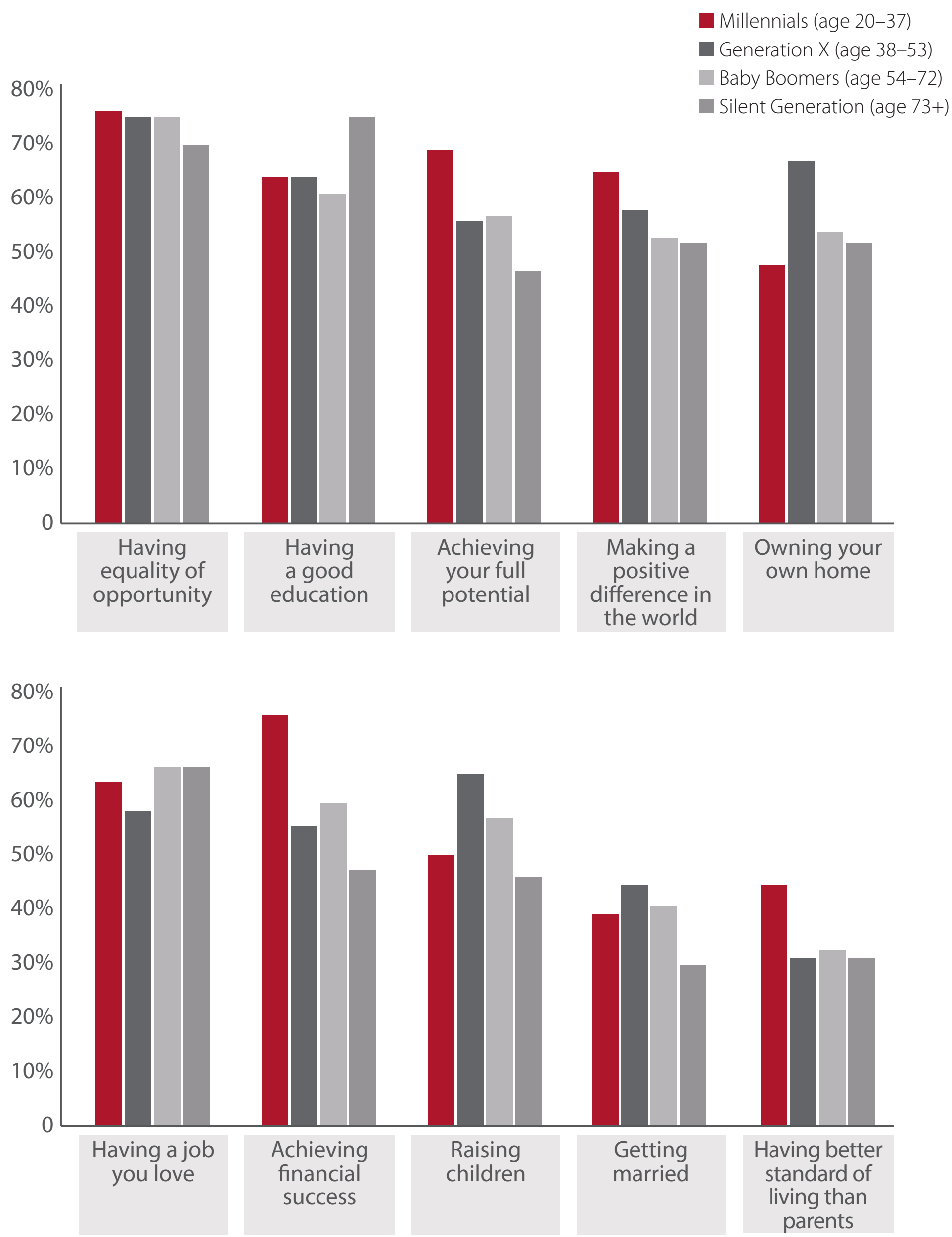
Intangibles seen as more important than home ownership

Although it may seem U.S. citizens can find little to agree about these days, investors as a whole are generally optimistic about the American Dream—however they define it. More than half (55%) say they have achieved it, and 36% say they expect to someday. Just 10% don't expect to achieve it—a level that is consistent across generations.

There are significant differences by age in expectations for achieving the American Dream, with the rate increasing from 39% of investors aged 18 to 49, 59% of those aged 50 to 64, and 87% of those 65 and older.

Investors remain optimistic about achieving the American Dream

Importance of different elements to the American Dream



About the Wells Fargo/Gallup Investor and Retirement Optimism Index

The results of this Wells Fargo/Gallup Investor and Retirement Optimism Index are based on a Gallup Panel web study completed by 1,059 U.S. investors, aged 18 and older, from August 13 to 20, 2018. The Gallup Panel is a probability-based longitudinal panel of U.S. adults who Gallup selects using random-digit-dial phone interviews that cover landline and cellphones. Gallup also uses address-based sampling methods to recruit Panel members. The Gallup Panel is not an opt-in panel. The sample for this study was weighted to be demographically representative of the U.S. adult population, using the most recent Current Population Survey figures. For results based on this sample, one can say that the maximum margin of sampling error is ±5.0 percentage points at the 95% confidence level. Margins of error are higher for subsamples. In addition to sampling error, question wording and practical difficulties in conducting surveys can introduce error and bias into the findings of public opinion polls.

For this study, the American investor is defined as an adult in a household with total savings and investments of $10,000 or more. About two in five U.S. households have at least $10,000 in savings and investments. The sample consists of 62% nonretirees and 38% retirees. Of total respondents, 43% reported annual incomes of less than $90,000; 57% reported $90,000 or more. The Wells Fargo/Gallup Investor and Retirement Optimism Index is an enhanced version of Gallup's Index of Investor Optimism, which provides the historical trend data. The median age of the nonretired investor is 48, and the retiree is 69.

The Index of Investor Optimism has an adjusted baseline score of 100 from when it was established in October 1996. It peaked at +152 in January 2000, at the height of the dot-com boom, and hit a low of -81 in February 2009

About Wells Fargo

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About Gallup

Gallup delivers analytics and advice to help leaders and organizations solve their most pressing problems. Combining more than 80 years of experience with its global reach, Gallup knows more about the attitudes and behaviors of employees, customers, students, and citizens than any other organization in the world.

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