

Investors largely optimistic, but attentive

While investors continued to be broadly positive about the U.S. investment climate, their optimism was tempered by indicators of watchfulness.

The Wells Fargo/Gallup Investor and Retirement Optimism Index score in the second quarter of 2018 was 103, with investors' 12-month outlook for economic growth, U.S. unemployment, and their personal finances remaining strong. Although the index was a bit lower than the 117 recorded in November 2017, this was the sixth straight quarter it registered 100 or higher. This followed a 16-year period when investor optimism was consistently below that level.

Optimism
remains high

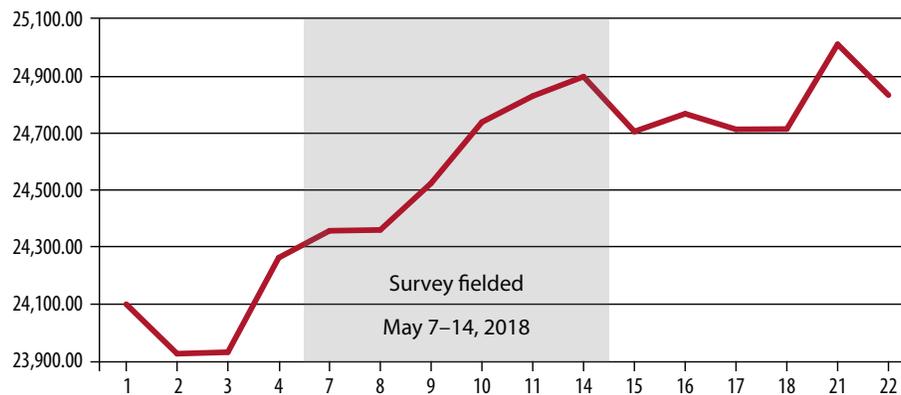
Overall U.S. investor optimism index



Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q2 2018

The full range of the index over its 22-year history extends from -81 in February 2009 to 152 in January 2000. (See facing note about changes to survey methods and index trends beginning this quarter.)

Closing price, Dow Jones Industrial Average



Source: Thomson Reuters, Dow Jones Industrial Average Closing Price, May 2018

The second quarter Investor and Retirement Optimism survey was conducted May 7–14, 2018, during a period of generally rising markets. This was three months after the stock market's sharp drop in February and shortly after the monthly U.S. labor report was released showing unemployment falling to 3.9% in April, the lowest since late 2000. Unemployment dropped further to 3.8% in May.

New survey
methodology

Methodology note

Starting with this quarter's 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 random digit dial technology. Because of expected differences in the way respondents answer questions online versus on the telephone, the index trends have been adjusted using statistical modeling, so they are comparable to the new web-panel results. The modeling was based on a comparison of Gallup Panel test data from the 2018 first quarter investor poll to parallel telephone poll data.

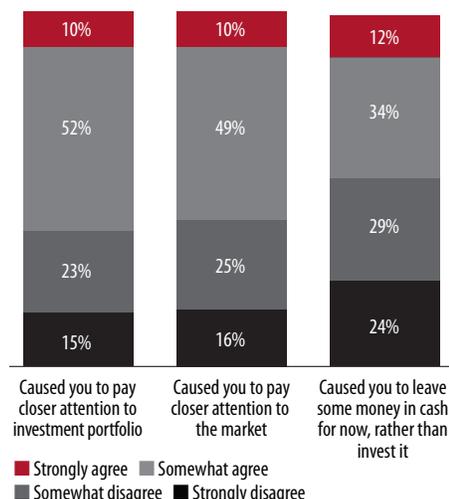
74%
of investors
said volatility
is normal

Majority retain confidence in the market for retirement

Most investors (89%) expressed only moderate or no concern about stock market volatility. Only 11% of investors reported they were very concerned about volatility, roughly consistent with the Q1 2018 survey, when 10% were very concerned.

Three in four investors (74%) said this year's stock market volatility is normal and to be expected, and has not made their life more stressful. Nearly one in five (19%) agreed the volatility "caught them off guard," but the majority of investors felt very or somewhat confident about investing in the stock market as a way to help build wealth for retirement (78%).

Result of stock market volatility



Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q2 2018

Most U.S. investors expected stock market volatility to continue throughout 2018 (81%) rather than settling down before year's end (19%). Despite the fact that two thirds (65%) said "the worst is ahead of us" in terms of volatility, only a minority are changing their existing investments, though a majority said they're paying closer attention to their investments (62%) and the market as a whole (59%).

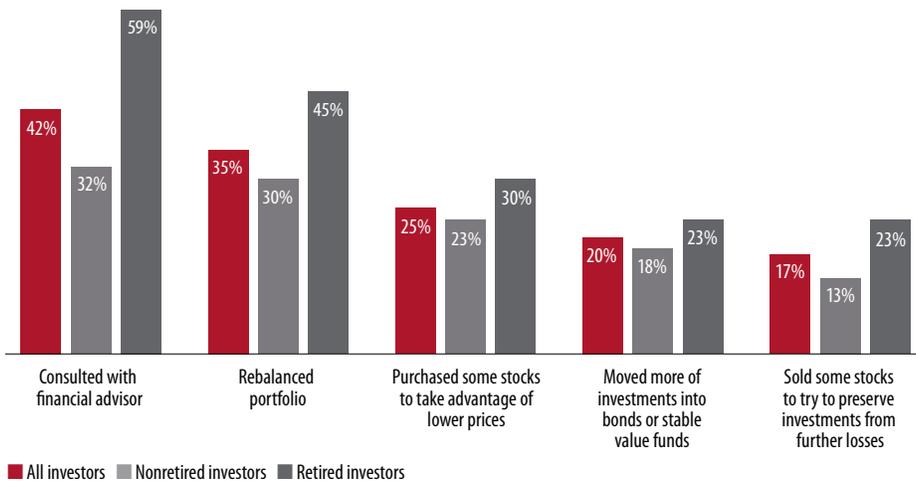
81%
said there's more
volatility to come
in 2018

Many consult with financial advisors, rebalance

Despite broad optimism, close to half of investors (46%) strongly or somewhat agreed that market volatility is causing them to leave some of their money in cash now, rather than to invest it. One in five investors (20%) have shifted some investments into assets perceived to be of lower risk, such as bonds or a stable value fund. Most commonly investors said they're consulting with a financial advisor (42%) and rebalancing their investments (35%), with retirees more likely to take these actions.

59%
of retirees have consulted with a financial advisor

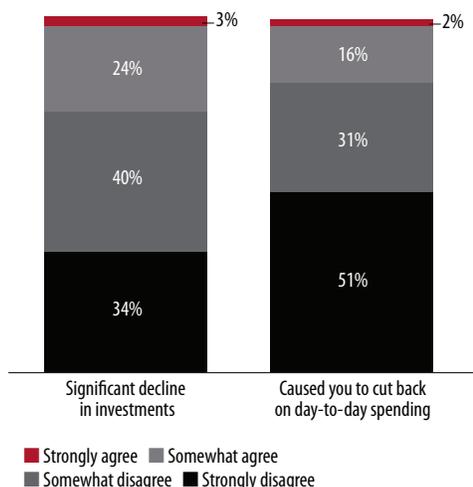
Actions taken as a result of market volatility



Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q2 2018

Relatively few investors said volatility has negatively impacted the value of their investments or caused a reduction in day-to-day spending. Just 17% said they've sold stocks to preserve their investments from further losses, while 25% said they purchased stocks to benefit from lower prices.

Impact of stock market volatility



Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q2 2018

A rational approach

In the face of volatile markets, we gave investors three chances to indicate whether they considered themselves emotional or rational investors. In all three questions, investors weighed in as rational, with no significant difference between genders or retired versus nonretired respondents. Separately, retirees and women were more likely than nonretirees and men, respectively, to say their investment choices were driven mainly by a fear of losing money versus a desire to earn a lot of money.

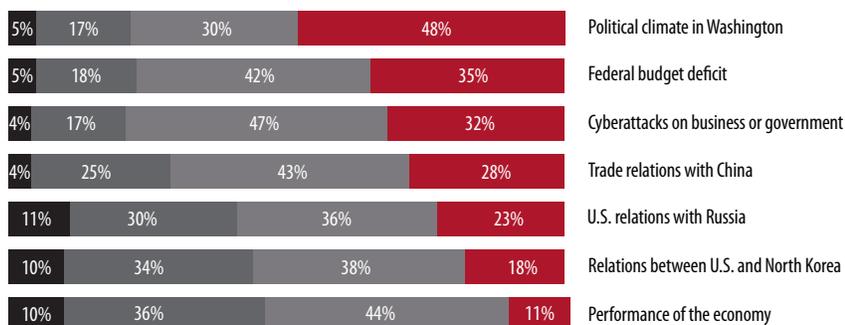
Which best describes the type of investor you are?	Rational: 96%	Emotional: 4%
Which of these statements better describes your reaction to market changes?	You maintain your cool even when the market is volatile: 95%	You tend to panic when the market falls too fast: 5%
Which of the following better describes how you feel about being invested in the stock market?	You are in the market for the long haul, regardless of ups and downs: 95%	You are ready to jump out of the market at any time if the market falls too far or too quickly: 5%

Nearly
Half
of investors
said that they're
very worried
about politics in
Washington

Washington, budget, cyberattacks top concerns

While investors have remained optimistic about the economy, and 41% said the market will go up in value in 2018, a number of issues have popped up on their radar.

Impact on stock market



■ Not at all worried ■ Not too worried ■ Somewhat worried ■ Very worried

Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q2 2018

In a mid-term election year, the political climate in Washington heads the list, with 48% of investors saying they were very worried about its impact on the stock market—the highest level of extreme worry for any of the issues tested. Another 30% of investors said they were somewhat worried and only 5% indicated no worry at all.

Close behind in investor concerns were the federal budget deficit and cyberattacks on business or government, both with more than three quarters of respondents somewhat or very worried. Concerns related to trade with China, relations with Russia, and the ongoing dialog with North Korea followed, all with more than 50% of investors somewhat or very concerned. (The poll was conducted prior to the U.S.-North Korea nuclear talks in June.) Only 11% of investors said they were very concerned about the performance of the economy.

Retirement status, gender affect responses

Retirees responded differently to some questions versus nonretirees, and there were differences in responses between men and women.

Retirees generally seemed more optimistic than nonretirees about the 12-month outlook for the economy, unemployment, the stock market, and inflation. They also said they were more knowledgeable about the stock market and their own investments, and they said they follow the stock market more closely.

% Optimistic	Retired	Not retired	Difference
Economic growth	65	57	+8
Unemployment rate	66	58	+8
Stock market performance	52	44	+8
Inflation	30	24	+6
% Very/somewhat knowledgeable			
About investing in the market	59	48	+11
About own investments	88	75	+13
Follow stock market closely	60	45	+15

Retirees were less likely than nonretirees to think stock volatility will continue through the end of 2018 (76% for retirees versus 85%), and retirees were more likely to have taken several actions as a result of stock market volatility this year.

% Already done it	Retired	Not retired	Difference
Consulted with financial advisor	59	32	+27
Rebalanced portfolio	45	30	+15
Sold some stocks to prevent further losses	23	13	+10
Purchased stocks to get low prices	30	23	+7
Moved more into bonds/stable value funds	23	18	+5

Retirees were also more likely than nonretirees to think individual stocks are the best investment (17% retirees versus 8%), but less likely to think real estate investments (beyond owning their homes) are best (13% retirees versus 22%). Finally, retirees were more likely to say their investment choices are driven mainly by a fear of losing money (68% versus 53%).

✓ **Implications:** With the market approaching what is thought to be the final third of a long bull run, many investors are watching issues that may affect the economy, the markets, and international trade. The mid-term elections, rising government debt, a potential trade war, and other factors provide ample tinder for anticipated market volatility, though the outlook for the remainder of this year remains positive, if dynamic.¹

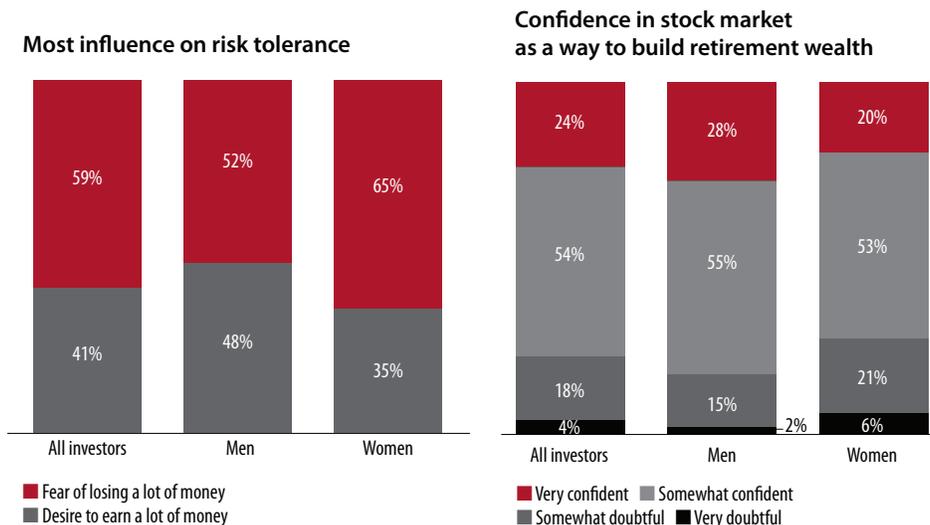
Retirees, men most optimistic on key measures

Men respond with more optimism

Men and women differed somewhat on their view of the stock market and economy, with men more optimistic about economic growth (64% versus 56% women), unemployment (67% versus 55%), and stock market performance (51% versus 43%).

Men were more likely to describe themselves as thrilled/pleased/hopeful about the stock market (53% versus 44% for women), and men claimed to be more knowledgeable about the stock market (65% men very or somewhat knowledgeable versus 40% for women) and about their own investments (85% for men versus 75%).

Men were more confident in the stock market as a way to help build retirement wealth, and women were more likely to say their risk tolerance was driven by a fear of losing money. While women were more concerned than men about recent volatility (62% versus 48% for men), men were more likely than women to have sold or purchased stocks in response to volatility recently (22% sold versus 12% women; 34% purchased versus 17% women).



Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q2 2018

Investors unfamiliar with bitcoin, consider it risky

Bitcoin may have visibility with investors, but it has a long way to go in building familiarity and credibility, not to mention buyers. In an initial measurement of investor interest by Wells Fargo/Gallup, conducted before the news that cryptocurrencies were hacked,* fewer than three in 10 investors (29%) said they have some familiarity with Bitcoin or other cryptocurrencies. Another 67% said they have heard of but don't know much about them. Five percent said they had never heard of them.

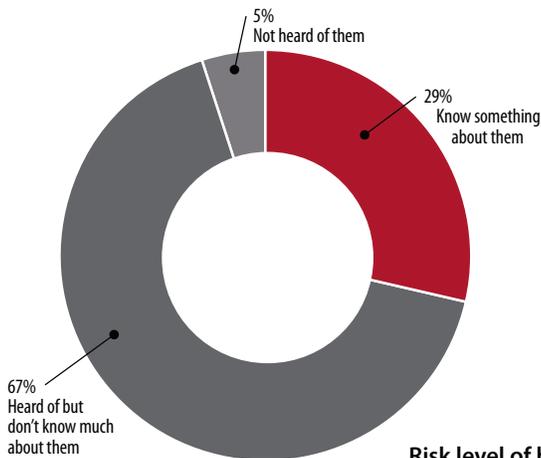
Only 2% of investors who had heard of Bitcoin and other cryptocurrencies said they currently own bitcoin. Of the rest, less than one-half of 1% said they plan to buy

*On June 10 Bloomberg reported Bitcoin had declined more than 53% this year.²

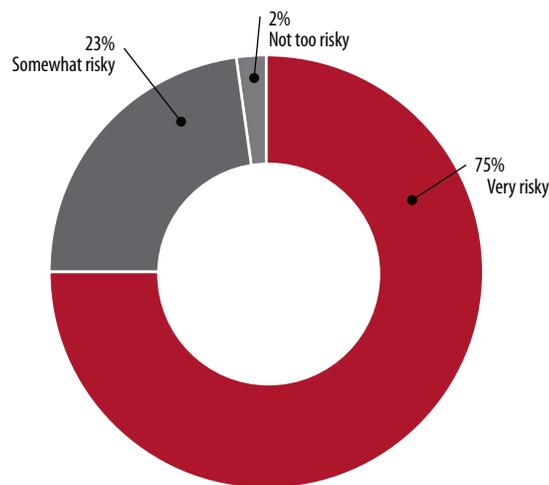
bitcoin in the near future; 26% said they are intrigued by it but won't be buying it anytime soon. Fully 72% said they have no interest in ever buying bitcoin.

Three in four investors who had heard of the currency rated bitcoin a "very risky" investment, with most of the rest calling it somewhat risky (23%). Only 2% say it is not too risky.

Familiarity with Bitcoin or other cryptocurrencies



Risk level of bitcoin as an investment*



Three in four said bitcoin is very risky

*Base: Have heard of bitcoin.

Source: Wells Fargo/Gallup Investor and Retirement Optimism Index, Q2 2018

Wells Fargo does not offer guidance on these new type of virtual currencies. It is important that investors understand the risks to investing in Bitcoin and other cryptocurrencies, including regulatory risk, security risk, fraud risk, and market risk.

✓ **Implications:** In its "2018 Midyear Outlook: Late Cycle Doesn't Mean End of Cycle,"³⁷ Wells Fargo Investment Institute said, "We believe that investors should focus on the ongoing U.S. economic expansion, which appears to have more room to run. In our view, the economy is in the final third of its expansion—but likely only at the beginning of that phase." The report concluded that volatility and opportunity could be expected in the last half of 2018. Investors' caution regarding bitcoin, their focus upon long-term goals, their rational approach to volatility, and their tendency to consult with financial advisors and rebalance portfolios, may be positive signs given that scenario.

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 1,921 U.S. investors, aged 18 and older, from May 7 to 14, 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 ± 5.4 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 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.

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1. Wells Fargo Investment Institute, "Investing Late in a Bull Market, Essential Strategies for Today's Investor," April 2018
2. Bloomberg, "Cryptocurrencies Lose \$42 Billion After South Korean Bourse Hack," June 10, 2018
3. Wells Fargo Investment Institute, "2018 Midyear Outlook, Late Cycle Doesn't Mean End of Cycle," June 2018

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