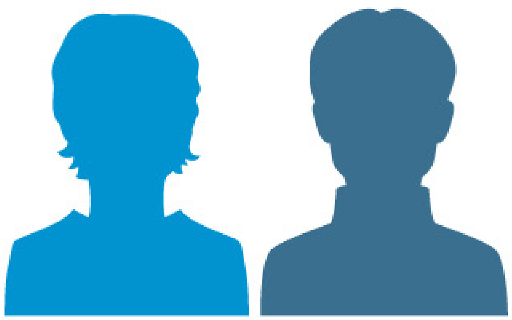
The Canadian Money State of Mind

RISK SURVEY 2014



INVESTOR RISK, BEHAVIOUR & BELIEFS

Executive Summary

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INVESTOR EDUCATION FUND™
OSC
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0.0 Executive Summary

- The main objective of this survey is to identify behavioural and economic factors that affect risk-taking when investing. Built into this are three key research questions.
  - How does the economic environment affect risk-taking?
  - How do attitudes and beliefs affect risk-taking?
  - How do past actions (or inaction) affect risk-taking and investment choices?

- This report is based on 2,002 responses to an Internet survey about 20 minutes in length. The survey was conducted across Canada in September 2013. All respondents were investors. Some quotas were imposed to ensure an appropriate mix of age and gender. Regional quotas were also used to ensure reliable information by region and for major Census Metropolitan Areas CMA. Overall accuracy is ±2% some 19 out of 20 times. Results are weighted by age, gender and region to reflect true population demographics.

Experience with Investments

- As risk levels of products increase, ownership levels decline. Looking at ownership, we note that more than nine out of 10 investors (92%) have owned one of the four low-risk products (Canada Savings Bonds (CSBs), Guaranteed Investment Certificates (GICs), money market funds, bonds) we asked about. Six out of 10 investors (59%) have owned a medium-risk product (Investment funds excluding money market products). Investment funds have the highest persistence of ownership of any product at 87%.

- About half of investors (51%) have owned one of the higher risk products, with Canadian equities by far the dominant product in the mix. The advanced investments (options, forwards, hedge funds, exempt market investments, limited partnerships) clearly trail with only 6% ownership. As product risk increases among the higher risk investments, we see persistence of ownership drop from a strong eight out of 10 among those who own Canadian stock to just under six out of 10 for the small group (6% of investors) who own advanced investments.

- Based on a simplified list of eight types of products, the number of types of investment products an individual owns at any one time does not change with age. The average of 2.27 investment products owned at any time is consistent for all age groups. But because products are bought for a time and then replaced by others, the number of products ever owned increases steadily with age from 3.1 to 3.6. This small increase over time suggests that most of the products people will invest in are owned by the time someone reaches 35. After that, the changes are relatively small for most people. Most new investments will be variations within the products they already own (e.g., an equity fund instead of a balanced fund).

- Low-risk investments are most likely to be described by investors as their “worst performing products.” CSBs are cited as the “worst performing product” by more than one-third of respondents. This judgment is backed by the low persistence of CSB ownership. “Worst performing products” generally give the lowest rates of return, even if the rate is guaranteed.

- The two products cited as “best performing products” by owners are investment funds and Canadian stocks. Both offer potentially higher rates of return and both have above-average persistence in product ownership. But after that, the picture is not so simple. The next three “best performing products” include money market funds, GICs and international investments. These products differ markedly in their risk profile and their persistence of ownership. The incongruities in judgment of “best performing product” suggest at least two different ways of judging “best.” This notion is borne out in later analysis when we look at risk profiles in comparison to “best” and “worst” product judgments.

Self-Perceived Risk-Taking, Knowledge & Success

- Risk-taking is not uniform across the population. Risk-taking is higher among men than women. Risk-taking declines with age and increases with household income. By region Vancouver and Toronto investors are the most risk-prone, with Kitchener-Waterloo following close behind.

- Contrary to initial expectations, investors aiming to earn investment income for day-to-day living are prone to take disproportionately more risk than many others. More than four out of 10 in this group are over 55 years old. These are generally lower risk age groups, but we can see that not earning enough income sometimes pushes the individuals in this group to take more risk than is typical for their age.

- Self-rating on investment success shows a very narrow band compared to ratings of investment risk or knowledge. People are likely to see themselves as more like others when judging investment success than when judging risk-taking or knowledge.

- People who say they take more risks judge themselves as more successful investors. The same is true for people who claim more investment knowledge. Tying this together, we find the more knowledge investors think they have, the more risk they are willing to take.

- At some time in their life one out of three investors has lost at least 20% of their investment value in one year. The likelihood of experiencing a major loss like this increases as risk level rises. At high risk levels, at least four out of 10 have experienced a major loss. Experiencing a major loss does not visibly affect how people judge their investment success in the long run.

- It seems counter-intuitive that the more you know about investing, the more likely you are to experience a major loss. However, it’s clear that more knowledgeable investors take more risks, thereby making greater losses more likely.

- High-risk investors rate CSBs and GICs as the “worst performing products.” Low-risk investors rate Canadian stocks as the “worst performing product.” Overall, we conclude that high-risk investors weigh good and bad by investment returns, while low-risk investors more typically judge by investment losses.

- Risk-taking attitudes and buying behaviour differ. Almost one-quarter of low-risk investors own “medium- to very high-risk” products, and conversely, seven out of 10 high-risk investors own “low- to medium-risk” products. With the exception of “medium- to very high-risk” investment products, there is little differentiation in product buying according to self-assessed investment risk-taking.

- Based on patterns of product ownership, we find that older investors with substantial investments who believe their investments should be earning more are the most likely to exceed their self-assessed risk profile.

Perspectives on Investing

- The demographics of major investment loss reflect the risk profile of the demographic groups. In accord with their willingness to take more investment risk, men are much more likely to have experienced a major investment loss than women. Risk of major loss increases with age (and time investing) until age 46–55 and then levels off. Given that amount saved and invested (and household income) also increase with time, it is the same pattern we see there.

- There are two dominant patterns of response to major loss: do nothing (51%) or flee to safety (36%) either for a short time or permanently. There is a small group (13%), relatively high risk in profile, which tries to recoup their loss by buying more of the losing investment at a lower price in hope of recouping losses when the price rises. High-income households are more likely to just monitor their accounts, while low-income households are more likely to switch to safer investments and cut back on spending.

- Six out of 10 investors say their investment decisions are based on careful analysis, while only one out of six say that "gut feelings" guide their decision. The remainder analyzes and brings emotion into their decisions.

- Six out of 10 investors say that emotion is neutral in its effect on investment decisions, and this group is made up of more women than men. Among the remaining four out of 10, two-thirds feel the decisions are "worse" and the remainder feels they are "better." It is the youngest investors, age 20-35, who are most likely to believe that emotions lead to better decisions.

- Just over half of investors have made an investment decision based on an emotional reaction that they subsequently regretted, although most have done so only once or twice. People who have made more emotional decisions they regret are more likely to have experienced a major investment loss.

- People don't worry much about their own lack of investment knowledge compared to other concerns. Only one-third thought an absence of knowledge would hurt their investments.

- Under four different economic scenarios (interest rate rise, stock market rise, signs of recession, unpredictable economy), willingness to invest in GICs declined and willingness to invest in stocks increased as personal risk level increased. There was typically a big jump in willingness to invest in stocks when we moved from medium-high risk to high-risk profiles.

Summary and Conclusions

- Different economic scenarios spur different buying responses from investors. While economic environment affects product choices, an underlying current is also driven by risk preference regardless of economic conditions.

- Self-perceived investment risk is a fundamental driving force for the investor. It has at least as much influence as economic conditions for driving investor behaviour.

- A stated belief in risk-taking is not the same as risk-taking behaviour. The attitude is affected by self-perceived knowledge and success, as well as the social desirability (for some groups) of being a "risk-taker." Behaviour is more influenced by past investment experience and beliefs about the future.