ThinkAdvisor

June 21, 2017

Investors Fail to Adjust Portfolios as Investment Landscape Shifts

Study finds older investors ignoring past market precedents in adjusting portfolios

Eight years into the economic recovery, 49% of investors in a study released Monday by Dreyfus, a BNY Mellon company, reported that they had yet to reevaluate their investment approach given the possibility of a shifting investment landscape.

"As long-term risk/return expectations have shifted with an increase in inflation, the rise of U.S. nationalism and record-low volatility, investors would be well served to reevaluate their portfolios in light of changed circumstances to determine if they will continue to meet their investment objectives," Dreyfus chief executive Mark Santero said in a statement.

Toluna International conducted the study online with 1,250 individual investors 21 or older with at least $50,000 in investable assets, along with 200 independent and institutionally based financial advisors.

Dreyfus noted that older investors were ignoring past market precedents they had lived through in adjusting their portfolios: a variety of stock market highs—the bull markets from 1987 to 2000 and 2009 to the present—and lows—the savings and loan crisis in the 1980s, the 1987 stock market crash and the 2008 financial crisis.

In the current low-volatility environment, one specialist sees 50/50 odds that the Federal Reserve will follow its June 14 rate hike with a third one later this year. A late spring survey of global investors showed that many think equities are overvalued.

Even with past knowledge, the Dreyfus research found that 61% of investors 55 and older said they had not or would not reevaluate their investment approach in today's existing investing environment.

In comparison, millennial investors who experienced the 2008 market meltdown and who began saving early in their careers showed a forward-thinking approach to reevaluating their portfolios.

Sixty-five percent of millennials reported that they had already evaluated their investment approach, compared with 51% of their Gen-X counterparts and just 39% of those aged 55 and older.

In addition, 63% of millennials said they had worked with an advisor in reevaluating their investments, while only 38% of those 55 and up had done so.

"Our survey revealed that younger investors have demonstrated in greater numbers a more proactive approach to reassessing their portfolios and seeking out their advisors for counsel, some of whom might lack the historical market experience and accumulated wealth of older investors," Santero said.

A recent report said millennials' main focus for saving was financial freedom. Another study assessed how millennials are changing investing, giving and work.

The Dreyfus survey also examined at what investment actions mass affluent investors had taken.

Forty-three percent of the total mass affluent investor segment, those who had investable income between $250,000 and $2.5 million, said they had not reevaluated their investment approach in this new investment environment. This compared with 38% of mass affluent investors working with an advisor who had not reevaluated their investment approach.

Advisor Navigation

Uncertainty is very much a reality in U.S. and global markets, despite eight years of a U.S. bull market, Dreyfus said, yet a majority of investors remain on the sidelines.

Sixty-two percent of respondents without a financial advisor said they would most likely put off plans to address today's market challenges, while only 24% said they planned to address challenges they face at some point in 2017.

"We believe investors who don't work with a professional advisor could greatly benefit from the insights an advisor can provide in tailoring a goals-based approach for their individual circumstances against today's investing environment of uneven economic growth," Santero said.

"Options might include diversifying their U.S. exposure with global fixed income and equities or considering dividend or alternative investing strategies."

Those individual investors who worked with an advisor were likelier to have adjusted their portfolios.

Sixty-one percent of survey participants reported that they had reevaluated their investment approach, compared with 38% who had not worked with an advisor.

Seventy-three percent of advisors' clients changed their approach as a result of advice.