September 2024

Index fund evolution

Empowered by index funds and advisors, retail investors are building more sophisticated portfolios

FTSE RUSSELL
An LSEG Business

Contents

Executive summary

The rise of index funds is empowering retail investors to deploy the type of investment strategies applied by institutional investors while financial advisors are boosting their confidence.

But they're anxious about risk in an election year.

Retail investors have **staggeringly high levels of satisfaction** with their financial advisors. Further, those with financial advisors are happier with the performance of their portfolios over the past 12 months and more confident about the outlook than those without.

Index fund investing is equipping retail investors to narrow the gap with institutional investors as they benefit from the advantages of portfolio diversification, low fees and risk management, according to a FTSE Russell survey.

Yet investors (both those with and without advisors) are **anxious about the economy and inflation,** as well as feeling uncertain in a presidential election year.

While index fund use is growing across all age groups, the **Millennial generation** is leading the way as they are more likely than Gen X and Boomers to believe index funds are the best means to profit from the stock market's long-term growth.

With index fund investing continuing to take market share and altering the nature of investing, **advisors have a clear opportunity** to discuss the advantages with their clients and bolster engagement with Millennials in particular.

1.

Those with advisors are most satisfied with their portfolios.

Investors are full of praise for their advisors, citing shared values, comprehensive financial planning and investment performance as what they value most. Having a financial advisor is valued. It’s not only that levels of satisfaction remain at very high levels, but investors guided by advisors are more confident.

Investors are as satisfied with their advisors as two years ago. Almost all (94%) say they're satisfied. This is similar to the 2022 survey, when 92% said they were satisfied.

94%

of investors say they are satisfied with their advisors

Confident about opportunities

Notably, investors with advisors are more confident about opportunities for success in the stock market. Two thirds (66%) of those with an advisor are very or somewhat positive about the outlook for the US stock market over 12 months, materially higher than the 59% of those without. Even more striking, eight in ten (83%) investors with advisors are very or somewhat positive about the likely performance of their investment portfolios over 12 months, versus a smaller three quarters (73%) of those without.

Very or somewhat positive about the outlook for the US stock market over 12 months:

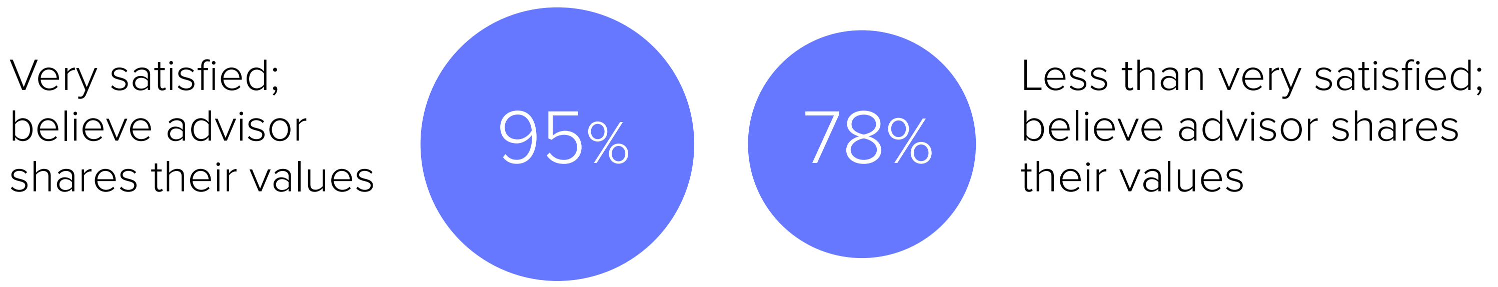
Happier with portfolio performance

Looking back over the past 12 months' stock market rally, investors with financial advisors are significantly happier with the performance of their portfolios. Nine in ten (90%) of those with advisors are satisfied, compared with three quarters (75%) of those without.

A relationship on three things

At the heart of the relationship between individual investors and their advisors lie three things above all: shared values, comprehensive financial planning and investment performance. These are what the 56% of investors who are very satisfied with advisors say that they value most. They're more likely, compared to those less than very satisfied, to believe they share the same values as their advisors (95% vs 78%); say they receive comprehensive financial planning (52% vs 41%); and to be happy with the past 12 months' investment performance (98% vs 80%).

Shared values and satisfaction levels:



Declining use of financial advisors

Yet despite the high levels of satisfaction, use of financial advisors is declining. 59% of retail investors work with an advisor in 2024, compared with 64% in 2022. The fall is led by Millennials: 53% of them use an advisor today, down sharply from 66% at year-end 2022.

"Q20 - If a friend asked you what you appreciate most about your financial advisor, what would you tell them?"

"Transparency, detailed information provided on performance, and ability to provide insights into where markets may be heading."

– BABY-BOOMER INVESTOR

2.

Index fund investing is empowering.

Survey results show retail investors make use of index funds to improve investment techniques. Those that use index funds are more optimistic about performance.

Retail investors use index funds to build more sophisticated portfolios. The efficiency and ease-of-use helps them incorporate the investing techniques of professional investors, such as family offices, endowments and other institutional investors.

Performance over time is the top reason for using, or planning to use, index funds, as cited by 58% of survey respondents (up from 44% in the previous retail investor survey, conducted in 2022).

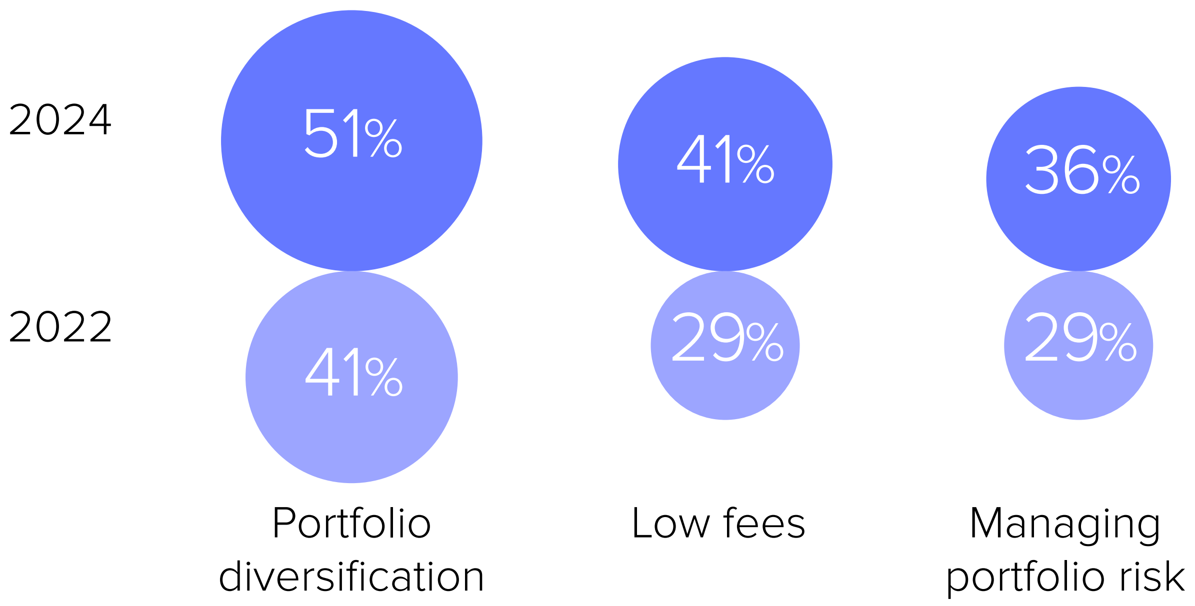
58%

say performance was the top reason versus 44% in 2022

Why index funds are used

However, there are big jumps in the proportion of investors using index funds for other benefits. 51% are doing so for portfolio diversification (up from 42% in 2022), and 41% for low fees (up from 29% in 2022). There are also large increases in investors using index funds to manage portfolio risk, with 36% doing so (up from 29%).

Investors are using index funds for:



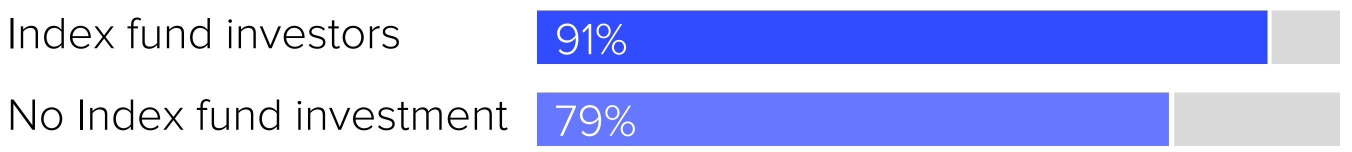
Increased optimism

This empowerment is making investors more assured. Investors in index funds are three times more likely to be optimistic about the performance of their portfolios over the next 12 months than those who are aware but don't own index funds.

Greater satisfaction

There's greater satisfaction with the gains reaped during the past 12 months too. Index fund investors are more satisfied: 91% of them express satisfaction versus 79% of those not investing in index funds.

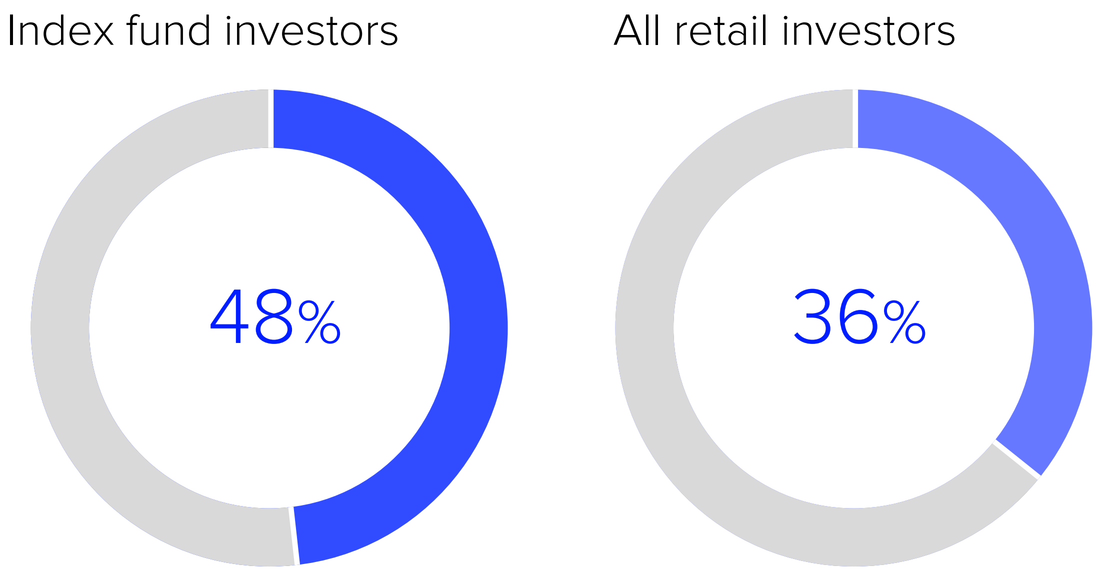
Satisfaction with gains reaped in past 12 months:



"Risk on"

Asked about their risk appetite for the remainder of 2024, almost half (48%) of index fund investors said they were 'risk on'. This compares with just over a third (36%) of all retail investors surveyed.

Risk appetite for the remainder of 2024:



3.

But there's caution about the economy and the stock market in an election year.

There's mounting caution about the economy and inflation, with a material number of investors intent on avoiding risk for the rest of 2024.

Caution is shining through.

Investors are nervous about the economy, stock market and the uncertainty generally associated with a presidential election. More than three quarters (76%) say they're worried about inflation, while almost two thirds (60%) are negative about the economy.

76%
say they're worried about inflation

60%
say they're negative about the economy

Top concern: US election

When it comes to investing concerns, the US presidential election tops the list (46% rank it a top three concern). It's closely followed by the potential for stock market volatility (45%) and the impact of a potential recession (44%).

Top investing concerns 2024:

46%
US presidential election

45%
Stock market volatility

44%
Impact of recession

95% investors believe that the upcoming election will impact their finances

"Risk off"

Perhaps indicative of election year trepidation, more investors describe themselves as "risk off". During the remainder of 2024, some 42% of investors say they'll be "risk off". For comparison purposes, 37% characterized themselves as "risk off" at the time of the last investor survey in 2022. Returning to 2024, just 36% of investors say they'll be "risk on" for the rest of the year, with 22% undecided.

Financial impact of elections?

Nearly all investors believe that the upcoming election will impact their finances, with 95% stating this will be the case. Indeed, one in three (30%) believe it will have a "major" impact. Yet only a fifth (21%) plan to adjust their investment portfolios based on the outcome of the election, reflecting the fact that personal finances extend beyond investments to broader issues like mortgages and taxes that may be influenced by political change.

95% believe that the upcoming election will impact their finances

yet only 21% plan to adjust their investment portfolios based on the outcome

Investor attitude is strong

Yet in a tale of two cities, investor caution about the economy and the stock market is not reflected in attitudes to their portfolios. Eight in ten (84%) investors are satisfied with their portfolio's performance over the past 12 months. And three out of four (73%) would ride out a major market decline or even see it as a buying opportunity.

4.

Millennials view index funds as the route to stock market gains.

While index fund investing is growing across all ages, Millennials (ages 28–43) are leading the way in the belief that it's the best way to profit from the stock market. Just as Millennials are known for adopting newer areas of investing such as alternatives and cryptocurrencies, so too they're leading the surge in index fund investing.

Index fund use has grown over the two years across all age groups, rising from 27% (2022) of all investors to 39% (2024). Yet Millennials' ownership has grown the most—up from 27% in 2022 to 45% in 2024. Younger Millennials are most enthusiastic of all. More than half (51%) of those aged 28–34 invest in index funds.

In 2024, index ownership among Millennials has grown to

45%

up from 27% in 2022

High allocations

Reflecting this, the Millennials who invest in index funds have the highest allocations in their portfolios. For instance, their average portfolio allocation to index funds in 2024 is 44%, notably higher than 36% of Baby Boomers (60-78) and 37% of Gen-X (aged 44-59) who invest in index funds.

Belief in index funds

This corresponds with Millennials' strong belief that index funds are the best way to participate in the stock market's long-term growth. Almost a third (30%) of them view index funds as the best investment product for long-term growth; far more than Boomers (18%) and Gen-X (20%).

Workplace and beyond

Millennial index investors tend to hold index funds in both workplace and non-workplace accounts (as do Gen-X investors). About three quarters (74%) of Millennials do so (and almost two thirds [63%] of Gen-X). By contrast, just under a third (32%) of Boomers do.

Likely to increase use

Looking to the future, Millennials are the most likely to increase their index fund allocations. Six in ten (59%) of those already investing index funds intend to lift their allocations, substantially more than the third (32%) of Gen-X and fifth (21%) of Boomers. Among those who are aware of index funds but not already invested, 48% of Millennials plan to invest for the first time. Again, that's a lot more than the 32% of Gen-X and 18% of Boomers.

Plan to invest in index funds for the first time:

Millennials	Gen-X	Boomers
48%	32%	18%

"Q20 - If a friend asked you what you appreciate most about your financial advisor, what would you tell them?"

> "That my advisor gives me confidence in my choices and helps educate me. It also gives me a peace of mind knowing I am cared for."

– MILLENNIAL INVESTOR

5.

Advisors have a clear opportunity.

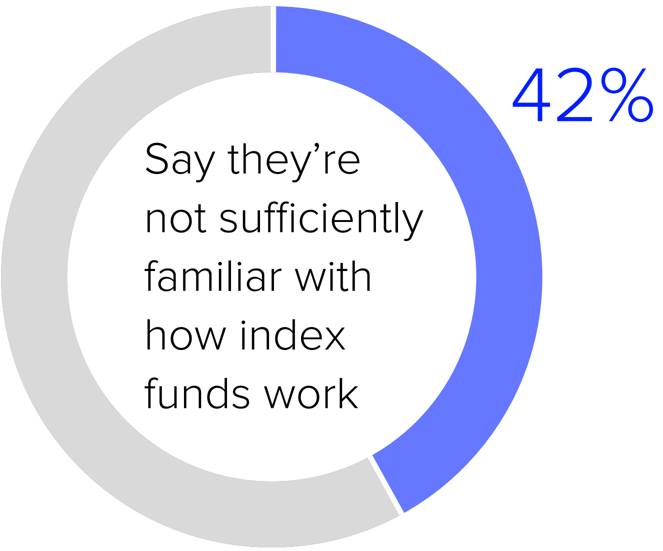
As index fund assets continue to take market share, fundamentally changing the nature of investing, advisors have a distinct opportunity to enhance their high levels of service by educating and guiding investors.

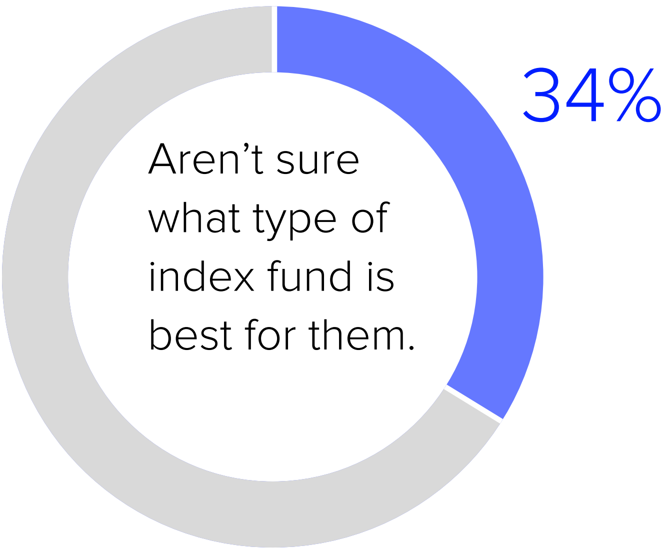
Retail investors who haven't invested yet in the index fund surge blame their lack of understanding and express a desire for more information from their advisors.

Sufficiently familiar

Four in ten (42%) say they're not sufficiently familiar with how index funds work, while a third (34%) aren't sure what type of index fund is best for them.

But more than a fifth (21%) report not being invested simply because their advisor hasn't recommended it. This proportion is similarly high to the number (23%) who gave this answer in the 2022 survey.





Engage through education

Building on the strong evidence that advisors are trusted to deliver a high-quality service, they have a clear opportunity to engage with clients through education. Among those investors with a financial advisor, just half (52%) say they've discussed index fund investing.

Among those who haven't had a discussion, three quarters (77%) would like to.

Of investors who haven't had a discussion with their financial advisor about index funds

77%

would like to.

Help them understand benefits

With retail investors steadily increasing their use of index funds, advisors can help them to understand the benefits. They have a particular opportunity to engage with Millennials, who are leading the move into index investing but using advisors less.

Conclusion

The increasing use of index funds by retail investors is leading to more sophisticated portfolios and a sharper understanding of the benefits of index investing.

Our survey reveals how index funds are changing the nature of investing, giving retail investors the tools to become better at profiting from financial markets. Led by the Millennial generation, they're benefiting from the potential of portfolio diversification, lower fees and risk management. In other words, index funds are empowering them to evolve and enhance their investing strategies.

The investors we surveyed were also full of praise for their financial advisors, with a staggering 94% saying they were satisfied. But with index fund investing on the rise, advisors evidently have an opportunity to educate clients about its advantages, especially the Millennial generation.

While it's well known that retail investors are increasing their use of index funds, it is not well understood the degree to which it's empowering them and making them more sophisticated. As this trend progresses, and retail investors become more discerning about the difference between indexes, the choice of index provider will likely become more important than ever.

Learn more about this report and FTSE Russell wealth solutions

Visit Index solutions for wealth management | LSEG.

Or let one of our team members help you directly:

Jason Meyer
Head of Americas Asset Owners, Consultants & Wealth
Jason.meyer@lseg.com

Jorge López-Quintana
Regional Director, Index Investments Group,
Americas Wealth Specialist
Jorge.lopez-quintana@lseg.com

A few facts about our research

This is the second FTSE Russell thought leadership survey, following the original 2022 research. It was an online quantitative survey of 1,009 US retail investors conducted by independent research firm 8 Acre Perspective. The respondents were aged 25+ with household income of $50,000 or more and $25,000 or more investable assets. They were either the main decision maker for household money decisions or shared the responsibility. All owned individual stocks, mutual funds and/or ETFs outside the workplace. The surveys were collected between May 30 and June 6, 2024.

What we do

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives.

As a trusted investment partner, we help investors make better-informed investment decisions, manage risk, and seize opportunities. Institutional and retail investors look to us for our expertise and products.

Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell indices to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives.

Our clients use FTSE Russell indices for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

About FTSE Russell

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

To learn more, email info@ftserussell.com; or call your regional Client Service Team office:

EMEA
+44 (0) 20 7866 1810

North America
+1 877 503 6437

Asia-Pacific
HONG KONG +852 2164 3333
TOKYO +81 (3) 6441 1430
SYDNEY +61 (0) 2 7228 5659

Visit lseg.com/en/ftse-russell

FTSE RUSSELL
An LSEG Business

Disclaimer

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL, and BR. "FTSE®" "Russell®", "FTSE Russell®", "FTSE4Good®", "ICB®", "Refinitiv", "Beyond Ratings®", "WMRTM", "FRTM" and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of LSEG or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL or BR. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator. Refinitiv Benchmark Services (UK) Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by LSEG, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical inaccuracy as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or LSEG Products, or of results to be obtained from the use of LSEG products, including but not limited to indices, rates, data and analytics, or the fitness or suitability of the LSEG products for any particular purpose to which they might be put. The user of the information assumes the entire risk of any use it may make or permit to be made of the information.

No responsibility or liability can be accepted by any member of LSEG nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any inaccuracy (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of LSEG is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of LSEG nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indices and rates cannot be invested in directly. Inclusion of an asset in an index or rate is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index or rate containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index and/or rate returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index or rate inception date is back-tested performance. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index or rate was officially launched. However, back-tested data may reflect the application of the index or rate methodology with the benefit of hindsight, and the historic calculations of an index or rate may change from month to month based on revisions to the underlying economic data used in the calculation of the index or rate.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Such forward-looking assessments are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially. No member of LSEG nor their licensors assume any duty to and do not undertake to update forward-looking assessments.

Visit lseg.com/en/ftse-russell

FTSE RUSSELL
An LSEG Business