Press Release

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FTSE Russell Wealth Survey Reveals Investors' Surprising Views on Their Advisors and Index Funds Highlight Need for Education

- 92% of Retail Investors Satisfied with their Advisors
- Performance - Top Reason Investors Choose Index-Based Strategies
- Investors' Confusion About Indexes and Index Funds Presents Untapped Educational Opportunity for Advisors

FTSE Russell has released the results of its inaugural Wealth Survey today. While the findings offered much good news for financial advisors, it also revealed surprising gaps in retail investors' understanding of index-based investing as well mixed views on their outlook for 2023.

US investors were overwhelmingly satisfied with the performance of their index funds and their advisors during a turbulent 2022, and many intend to increase their use of index-based strategies. Yet, despite broad awareness, only about a quarter of retail investors report they are using index funds, and most indicate they are not very knowledgeable. Perhaps most surprising, half of respondents note their advisors have never discussed index strategies with them, despite two thirds (66%) of investors indicating they would want to discuss index investing with them – presenting a significant, untapped opportunity.

Susan Quintin, Head of Business Management, Investment & Wealth Solutions at LSEG, said: "Historically, investors have been very risk intolerant and were attracted to index funds primarily for their low cost. Our survey reveals that today investors are choosing index funds for performance and diversification above cost but at the same time acknowledge poor understanding of indexes and index-based strategies. This open invitation to advisors represents a significant and likely overlooked opportunity to engage with clients."

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Investors Embrace Index Funds, But Not Necessarily for the "Traditional" Reasons

Contrary to perception, cost was not among investors' top reasons for choosing to use index funds. More important were good performance over time (44%), creating a diversified portfolio (42%) and ease of use (38%). However, once an investor chooses to use index funds, they prioritize fees, diversification (# of holdings) and recommendations from trusted sources. Based on the survey results, that trusted source is most likely their advisor.

"Untapped" Opportunity for Advisors

Advisors are extremely well positioned to engage with and deepen relationships with their clients. The vast majority of investors (92%) report being satisfied with their advisor, with 59% very satisfied. In addition, 90% agree their advisor helps them manage expectations during volatility or times of uncertainty.

Retail investors plan to increase their index-based holdings, creating an opening for advisors, yet almost half of investors with advisors (45%) say they have not discussed this. What's more, two thirds of those with advisors would like to do so – showing the scale of this missed new business opportunity. In fact, virtually all investors with advisors are happy for their advisors to incorporate index-based strategies into their portfolios to varying degrees – 32% are happy with an allocation of over 25%, and 29% with one of 10-24%. Only 7% are averse to this.

"Traditionally, many advisors believed that recommending index-based solutions wouldn't be seen as an opportunity to demonstrate value, but investors are telling us that not only are they seeking to incorporate more index funds into their portfolio, they would also like more guidance from their advisors on how best to use these strategies," added Ms. Quintin.

Among those investors who don't invest in index-based strategies, the number one barrier to investing is lack of knowledge. They're either not familiar with how they work or simply don't know what kind of index would be most suitable.

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Trend Toward Passive Likely to Accelerate, Based on Investors' Views

Data from Lipper showed that for 2022, U.S. ETPs attracted a net $593.4 billion, while conventional U.S. funds handed back a net $1.074 trillion. Combined the fund business (including ETFs) experienced $480.5 trillion in net outflows. This shift to index-based strategies looks set to continue or even accelerate in 2023 based on feedback from investors. Reflecting the stark falls in equity and bond markets, index strategies made losses in 2022, yet investors remain highly satisfied with them. Three-quarters (77%) feel their index funds have outperformed other investments in their portfolios. This finding contrasts with conventional expectations that stark losses in turbulent markets would undermine index-based strategies' popularity, when in fact, the opposite is true.

Suggesting that 2023 will be another year of investors favoring index-based strategies, nearly four in 10 (38%) US retail investors who invest in these strategies plan to up their investments this year. Even some of those not already investing in index-based strategies plan to start. The FTSE Russell research found that a third (32%) of those individuals aware of index strategies but not already investing plan to do so this year.

Investors Revealed Mixed Views on their Investment Outlook, Approach for 2023

On the stock markets, 46% believe the markets won't return to previous highs until 2024 or later, but views overall were mixed with 28% expecting hitting previous highs by mid-2023 or sooner. This mixed sentiment may explain the split views of how to navigate 2023. Investors are as likely to take chances for larger gains in 2023 as they are to avoid investment risk.

When asked if they will take a "Risk On" or "Risk Off" approach next year, investors were evenly split at 37% with 26% "Not Sure." Unsurprisingly, younger investors were more willing to take on risk. However, when asked about their likely action if the major stock markets should decline in 2023, 40% said they would maintain their current portfolio and 35% see it as a buying opportunity. Only 13% said they would move to a more conservative portfolio.

Conducted in November 2022, FTSE Russell surveyed more than 1,000 US retail investors owning stocks, mutual funds or ETFs outside the workplace on a range of topics related to indexes, index investing and their economic outlook for 2023. For more information, visit the FTSE Russell website.

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About FTSE Russell:

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FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. Approximately $17.9 trillion is currently benchmarked to FTSE Russell indexes. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on applying the highest industry standards in index design and governance and embraces the IOSCO Principles. FTSE Russell is also focused on index innovation and customer partnerships as it seeks to enhance the breadth, depth and reach of its offering.

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