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October 1, 2021

Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609
By Email: (rule-comments@sec.gov)

Re: File No. S7-10-21; *Request for Information and Comments on Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology to Develop and Provide Investment Advice*

Dear Ms. Countryman:

CFA Institute welcomes the opportunity to provide comments to the Securities and Exchange Commission (the "SEC" or the "Commission") regarding the above-mentioned request for information and content (the "RFI").[1] CFA Institute[2] speaks on behalf of its members and advocates for investor protection and market integrity before standard setters, regulatory authorities, and legislative bodies worldwide. We focus on issues affecting the profession of financial analysis and investment management, education and competencies for investment professionals, and on issues of fairness, transparency, and accountability of global financial markets.

As the Commission seeks to better understand market practices, investor behavior and the unique policy considerations raised by the accelerating adoption of financial technology ("fintech"),[3] our comment letter is intended to provide relevant data, research and analysis on key trends regarding U.S. retail investor characteristics and on investment advice. In particular, our letter

[1] SEC, Release No. 34–92766, *Request for Information and Comments on Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology to Develop and Provide Investment Advice,* 86 Fed. Reg. 49067 (Sep. 1, 2021), https://www.federalregister.gov/documents/2021/09/01/2021-18901/request-for-information-and-comments-on-broker-dealer-and-investment-adviser-digital-engagement.

[2] CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economics grow. There are more than 170,000 CFA charterholders worldwide in 164 markets. CFA Institute has nine offices worldwide and there are 161 local societies.

[3] Using the definition cited in the RFI and proposed by the International Organization of Securities Commissions ("IOSCO"), financial technologies or "Fintech" are "used to describe a variety of innovative business models and emerging technologies that have the potential to transform the financial services industry." *See* "IOSCO Research Report on Financial Technologies," (Feb. 2017), https://www.iosco.org/library/pubdocs/pdf/IOSCOPD554.pdf.

focuses on the importance of trust to the relationship between U.S. retail investors and their financial advisers. We rely on data drawn primarily from the CFA Institute investor trust study,[4] a biennial global survey of institutional and retail investors; findings from a report published jointly by the FINRA Investor Education Foundation and CFA Institute in 2018,[5] and other relevant research. Our latest reports are included in the appendix. Finally, we note that we expect to publish the fifth installment of the CFA Institute investor trust study in spring 2022, our first such survey after Regulation Best Interest ("Reg BI") took effect.

To be sure, the majority of the data cited herein predates the COVID-19 pandemic and the spike in retail investing activity. In our view, its value is in placing the recent market developments in context, helping to explain investor appetite for fintech and speaking to deeply entrenched investor practices and evolving preferences. We hope the enclosed information is helpful to the public and the Commission.

Our Views

The last two years have brought an influx of retail investors, and the latest data suggest the trend will persist.[6] While not monolithic, the new investor class is younger, more diverse, and has a greater appetite for new investment products.[7] Like most retail investors, younger investors are skeptical that financial advisers prioritize their best interests; unlike the older generation of investors, however, younger investors trust the tech industry more than the financial services industry.[8] It is not surprising that younger investors gravitate to self-described fintech firms that offer the least expensive and easiest access to app-based investing.

Moreover, new and existing investors alike are participating in an investment industry landscape that is increasingly prioritizing the use of technology for client engagement, the use of big data to better understand the client base, and the use of artificial intelligence (AI) and machine learning

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[4] *See* CFA Institute, Future of Finance: Investor Trust Study series ("CFA Institute Investor Trust Survey," 2013, 2016, 2018, 2020), https://trust.cfainstitute.org. Note: CFA Institute surveyed US retail investors with investable assets of at least US$100,000.

[5] *See* FINRA Investor Education Foundation and CFA Institute, "Uncertain Futures: 7 Myths About Millennials and Investing," (Oct. 4, 2018) ("FINRA Foundation, CFA Institute 2018 Study"), https://www.finra.org/media-center/news-releases/2018/cfa-institute-and-finra-foundation-study-debunks-common-myths-about

[6] See, e.g., *See* FINRA Investor Education Foundation and NORC at the University of Chicago, "Investing 2020: New Accounts and the People Who Opened Them," (Feb. 2, 2021) ("FINRA Foundation, NORC at UChicago 2021 Study"), https://www.finrafoundation.org/sites/finrafoundation/files/investing-2020-new-accounts-and-the-people-who-opened-them_1_0.pdf (discussing how 2020 "witnessed a surge in retail investors who entered the markets using taxable, non-retirement investment accounts via online brokers."); Maggie Fitzgerald, "A Large Chunk of the Retail Investing Crowd Started During the Pandemic, Schwab survey shows," CNBC (Apr. 8, 2021), https://www.cnbc.com/2021/04/08/a-large-chunk-of-the-retail-investing-crowd-got-their-start-during-the-pandemic-schwab-survey-shows.html; Caitlin McCabe, "Retail Investors Power the Trading Wave With Record Cash Inflows," WSJ (Jul. 5, 2021), https://www.wsj.com/articles/retail-investors-power-the-trading-wave-with-record-cash-inflows-11625477401; Bailey Lipschultz, "Retail Investors' Return Offers Hope for Broader Group of Stocks," Bloomberg (Sep. 2, 2021), https://www.bloomberg.com/news/articles/2021-09-01/return-of-the-retail-investor-may-boost-broader-group-of-stocks; Joshua Oliver, "US Retail Investors Drive Summer Surge in Stocks," FT (Sep. 6, 2021), https://www.ft.com/content/d87c6631-55f0-4897-9634-bf0ad969e27d (citing JPM analysts warning of "melt-up" in stocks resulting from "runaway" retail investor demand).

[7] *See* FINRA Foundation, NORC at UChicago 2021 Study; Michelle Fox, "New Investors are Breaking the Traditional Mold When It Comes to Investing, CNBC Survey Finds," CNBC (Aug. 23, 2021), https://www.cnbc.com/2021/08/23/-new-investors-break-traditional-mold-when-investing-says-cnbc-survey.html

[8] Based on data from CFA Institute Trust Survey, 2016-2020. Explained further in the letter.

(ML) for portfolio construction, investment advice and trade execution.[9] Equally, while reducing frictions and increasing access, fintech has the potential to incentivize investor education and good investment decisions just as it can "grease the wheels" for mindless trading or, worse, trading addiction. As the industry adapts to evolving investor preferences, we are likely to see differences in consumption and delivery of trading services and investment advice widen between generations.

The collision of these worlds is just beginning to test the effectiveness of Reg BI, Form CRS and the regulation of retail investment advice and recommendations. CFA Institute is encouraged by the work members of the SEC Investor and Asset Management Advisory Committees have done in furthering the public dialogue on the evolution of investment advice and investor protection. But more must be done to ensure that Reg BI meaningfully protects investors; that Form CRS provides full, accurate, timely, and understandable disclosure; and that current regulation keeps pace with market developments.

While it remains to be seen whether today's retail investing trends mark a permanent shift in investor risk appetite and investment product preferences, we are concerned that self-directed trading and digital engagement practices combined may be supporting, or even encouraging, a speculative day-trading culture at the expense of an investing culture. There are no fintech shortcuts to sustained wealth creation and retirement security, and that message should be clear alongside "democratization of investing." Further, if the "gamification" of investing signals the retailization of our capital markets, then what are the larger implications for our public markets (for price efficiency? trading volatility of select stocks? potential for market manipulation via social media?)?[10] Are digital engagement practices shaping a generational shift in risk appetite or will investor behavior revert to the mean? When the stock market comes off its highs, will more retail investors turn to robo or hybrid advice? These questions require thoughtful consideration and, in some cases, hard data.

To that end, CFA Institute would support a Commission decision to host a Roundtable on, for example, the "State of Investment Advice," or, more generally, on the impact of fintech on U.S. capital markets and individual investors.[11] We would also support a study by the Government Accountability Office (GAO) of the impact of digital engagement practices on retail investors, the relationship between "zero commissions" trading and digital engagement practices, and the

[9] *See* CFA Institute, "Future of Finance: Investment Firm of the Future," (Sep. 2018), https://www.cfainstitute.org/-/media/documents/survey/investment-firm-of-the-future.ashx (survey of CFA members concluding that "51% say their firm's top technology priority is use of technology for client engagement, followed by cybersecurity (24%) and use of machine learning technologies in portfolio construction (21%)."). *See also* OECD, "Artificial Intelligence, Machine Learning and Big Data in Finance: Opportunities, Challenges and Implications for Policy Makers," (2021), https://www.oecd.org/finance/financial-markets/Artificial-intelligence-machine-learning-big-data-in-finance.pdf; CFA Institute, "AI Pioneers in Investment Management: An examination of the trends and use cases of AI and big data technologies in investments," (2019), https://www.cfainstitute.org/-/media/documents/survey/AI-Pioneers-in-Investment-Management.ashx

[10] See, e.g., Sirio Aramonte and Fernando Avalos, "The Rising Influence of Retail Investors," BIS Quarterly Review (Mar. 1, 2021), https://www.bis.org/publ/qtrpdf/r_qt2103v.htm; Caitlin McCabe, "It Isn't Just AMC. Retail Traders Increase Pull on the Stock Market," (Jun. 18, 2021), https://www.wsj.com/articles/it-isnt-just-amc-retail-traders-increase-pull-on-the-stock-market-11624008602; Michels, Jeremy, "Retail Investor Trade and the Pricing of Earnings" (Aug, 13, 2021). Jacobs Levy Equity Management Center for Quantitative Financial Research Paper, https://ssrn.com/abstract=3833565; "How 'Trading Frenzies' Affect the Real Economy," Knowledge@Wharton business analysis journal (Feb. 9, 2021), https://knowledge.wharton.upenn.edu/article/how-trading-frenzies-affect-the-real-economy/

[11] We acknowledge the Commission relatively recently hosted a similar roundtable, the SEC Fintech Forum, in November 2016.

adequacy of Form CRS disclosure, as proposed in recent legislation advanced by the House Financial Services Committee.[12] Additionally, we would support a review by the Commission of whether some digital nudges constitute recommendations under Reg BI and a revisit by the SEC and FINRA of Form CRS.[13]

Our Findings

Relevant to the scope of the RFI, our findings reveal the following:

- *Technology enhances retail investor trust of the investment management industry, particularly among younger investors. Retail investors trust technology firms over financial services firms.*[14]

Since 2015, CFA Institute has incorporated into our Investor Trust Survey questions focusing on the impact of technology on retail investor trust in their adviser. Among US investors, younger investors are much more likely to respond that technology increases trust in their investment firm, by a ratio of three to one compared to the older generations.

In general, over the six-year period from 2013 to 2019 when we conducted the investor trust surveys, U.S. retail investors have responded that they have more trust in the technology industry than in the financial services industry, though trust in the latter has fluctuated over the years. Of note, millennials *with an adviser* have greater trust in the technology industry relative to older generations; millennials *without an adviser* rarely cite lack of trust as a reason for not engaging a financial adviser, pointing instead to a perceived expense of working with an adviser and of insufficient funds.

- *When it comes to investment advice, however, retail investors overwhelmingly trust human over "robo-advisers."*[15]

Technology seems to increase trust in the overall investment industry but when it comes to investment advice the human touch still matters. When asked to choose whether in three years access to the latest technology or access to a human adviser will be more important, investors in aggregate (globally) have an equal preference for technology and people. In the U.S, however, nearly 7 in 10 retail investors prefer having access to a person to help "navigate what is best for me and execute on my retail investment strategy" over access to the "latest technology platforms and tools to execute my retail investment strategy."

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[12] "Trading isn't a Game Act," H.R. 4685, 117th Cong. (2021). https://financialservices.house.gov/uploadedfiles/bills-117-___-c001117-amdt-7.pdf; "Order Flow Improvement Act," H.R. 4617, 117th Cong. (2021), https://financialservices.house.gov/uploadedfiles/ans_4617.pdf

[13] CFA Institute, Letter to the Commission and FINRA on Observations Related to and Recommendations to Strengthen Reg BI and Form CRS, (Apr. 14, 2021), https://www.cfainstitute.org/-/media/documents/comment-letter/2020-2024/RegBI2_CFA-Institute-Observations-and-Recommendations.ashx

[14] This section is based on 2018, 2020 U.S. retail investor data from the CFA Institute Investor Trust Survey.

[15] Based on 2018, 2020 U.S. retail investor data from the CFA Institute Investor Trust Survey and the FINRA Foundation, CFA Institute 2018 Study.

Further, when U.S. retail investors are asked whether they are more likely to trust a human adviser or a robo-adviser for investment recommendations, investors overwhelmingly – 81% to 6% – prefer a human adviser. At 11%, trust in robo-advisers significantly lags trust in investment management firms (38% in 2020), full-service brokers (34%), financial planners (41%), or advisers at a bank (34%). Conversely, at 62%, *distrust* of robo-advisers ranks highest among subsectors of the financial services industry, with the next highest distrust level trailing by more than half, at 28%, for insurance firms.

While the concept of robo advising is still relatively new to most retail investors, U.S. millennials' awareness of and interest in robo-advisers is growing, especially among millennials with taxable accounts. A 2021 Broadridge Financial Solutions investor survey shows that 76% of millennial investors familiar with robo-advisers (but not yet using one) are "likely (very or somewhat) to begin using a robo-advisor in the next 12 months."[16]

- *Human advisers enhance trust in the financial services industry, confidence in capital markets.*[17]

When the retail investor base is divided between investors with an adviser and those without, responses to the same survey questions reveal that human advisers heavily influence the investor view of the investment management industry and the perceived opportunity to succeed in the capital markets.

For those with an adviser, trust in the financial services industry increases significantly compared to those without an adviser, from 26% to 54% in our latest investor trust survey. Similarly, investors with an adviser have greater trust in financial planners (54% vs 20% without adviser) and in investment management firms (48% vs 22% without an adviser). For retail investors without an adviser, only 57% say they have a fair opportunity to profit by investing in capital markets, but this response increases substantially to 83% for those with an adviser.

Simply put, investors have greater confidence in the investment management industry and capital markets if they have a trusted adviser.

- *Still, investors are skeptical that advisers place investor interests first – the "trust gap."*[18]

Investors seek an adviser who acts in their best interest[19] and while 72% believe their financial adviser is "legally required to act in a client's interest above their own,"[20] only 44% believe their

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[16] Broadridge Financial Solutions, "Broadridge Study: 2 in 3 Millennials Likely to Begin Working with FAs." (Aug. 25, 2021) [Press Release], https://www.prnewswire.com/news-releases/broadridge-study-2-in-3-millennials-likely-to-begin-working-with-fas-301362280.html ; *See also* Kate Rooney, "Betterment sees record growth, as GameStop frenzy 'shines a light' on investing," (Apr. 16, 2021), https://www.cnbc.com/2021/04/16/betterment-sees-record-q1-as-gamestop-shines-a-light-on-investing.html (explaining that "Betterment says it added $10 billion in new customer assets, and doubled the number of new clients and net deposits year over year….Some of Betterment's robo-advisor competitors have seen similar growth this year.")

[17] Based on 2013-2020 U.S. retail investor data from the CFA Institute Investor Trust Survey.

[18] Based on 2013-2020 U.S. retail investor data from the CFA Institute Investor Trust Survey.

[19] At 44%, "trusted to act in my best interest" ranks #1 among the "most important attributes" to investors looking for a financial adviser; followed by "recommended by someone I trust," which ranks a distant second at 18%.

[20] Of note, 21% are "not sure" if the financial adviser is "legally required to act in a client's interest above their own" and 44% believe their adviser "usually" puts a client's interest above their own.

adviser "always" puts their interests first. The latter investor perception has remained largely unchanged over the years, and we look forward to the results of our next survey, our first investor trust survey to run after Reg BI took effect.

Similarly, there is a significant gap between investors' expectations and satisfaction of adviser disclosure and explanation of fees and conflicts of interest. Though investors believe *their* financial advisers are transparent about fees and conflicts (60-70% believe their advisers are "very transparent"), only 40% of investors believe advisers *in general* are forthright on both counts.

What's more, the trust gap is more of a trust chasm from the perspective of investors *without an adviser*, who have a substantially lower opinion – roughly, half the satisfaction level of investors *with advisers* – of advisers' quality and completeness of fee and conflicts disclosure.

- *Investor demographics and the rural-urban divide shape investors' goals and impact likelihood of investing, outlook for capital markets.*[21]

While the majority of recent new investors are younger and white, more African American and Hispanic/Latino investors, also younger than 45 years old, are opening non-retirement investment accounts. The investment account balances vary significantly based on race and ethnicity; they vary less between women and male investors, though the same FINRA data shows that women investors more frequently report balances under $500 while male investors more frequently report balances of $25,000 and more.

Also according to the FINRA Foundation, NORC at UChicago 2021 Study examining investors who opened new accounts in 2020, investors of different races and ethnicities opened new accounts for very different reasons, with just one denominator common to all: "the ability to invest with a small amount of money."[22] The same study found that while saving for retirement prompted more white, Hispanic/Latino and Asian investors to open a new account, African American investors were more likely to be motivated by suggestions from family or friends. In general, younger investors were more likely to be motivated by a friend to open an investment account and more likely to take advice from friends and family over that of a financial professional (if they didn't already have an adviser).

The FINRA Foundation, CFA Institute 2018 Study found that in stark contrast to younger investors in urban areas, younger investors from rural areas are less likely to invest, have less confidence in achieving their financial goals and are less optimistic about financial markets.

- *All US retail investors prioritize advisers' disclosure of conflicts and fees and, increasingly, data security alongside investment performance – the "trust factors."*[23]

Performance remains essential to investors, but trust requires full disclosure of adviser fees and conflicts of interest and alignment with investor transparency and ethics expectations. Over the

[21] Based on demographic data from the FINRA Foundation, NORC at UChicago 2021 Study; urban, rural data from the FINRA Foundation, CFA Institute 2018 Study.
[22] *See* FINRA Foundation, NORC at UChicago 2021 Study at 6-8.
[23] Based on 2013-2020 U.S. retail investor data from the CFA Institute Investor Trust Survey.

years, our investor trust surveys have consistently shown that, alongside investment performance, the top investor "trust factors," factors that create a trusted relationship with an investment adviser, are disclosure and a clear explanation of fees and costs, as well as disclosure and mitigation of conflicts of interest.

More recent investor trust surveys have signaled that investors are also prioritizing their data security, with up to 40% willing to leave a financial adviser because of a data security breach. For context, the top four cited reasons to leave a financial adviser - all within a competitive range of each other - are a lack of an adviser's communication/responsiveness, investment underperformance, high fees, or a data security breach.

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On behalf of CFA Institute, we thank you for your consideration and welcome the opportunity to discuss our letter with you. Please do not hesitate to contact us.

Sincerely,

/s/ Kurt Schacht

Kurt Schacht, CFA, JD
Managing Director
CFA Institute Advocacy

/s/ Karina Karakulova

Karina Karakulova
Sr. Manager
Capital Markets Policy – Americas

APPENDIX

2020 CFA Institute Investor Trust Survey, “Earning Investors’ Trust: How the Desire for Information, Innovation, and Influence Is Shaping Client Relationships.”

2020 CFA Institute Investor Trust Survey, Market Snapshot: United States.

2018 FINRA Investor Education Foundation and CFA Institute Study, “Uncertain Futures: 7 Myths About Millennials and Investing.”

CFA Institute®
Future of Finance

Earning Investors' Trust

How the Desire for Information, Innovation, and Influence Is Shaping Client Relationships

Contents

SURVEY RESPONDENTS

3,525 retail investors from 15 geographic markets, with investable assets of at least US$100,000[1]

921 institutional investors with assets under management of at least US$50 million

See back cover for full methodology

Executive Summary

What does it take for someone to put their capital at risk and entrust their funds to someone else to manage? The concept of trust lies at the heart of this question.

Trust is a multi-layered concept, and it is essential to the proper functioning of capital markets. Without it, financial interactions would become more inefficient and costly or cease altogether. In this fourth edition of the CFA Institute investor trust study, we examine how trust in the industry has evolved, while the essential characteristics of trust endure.

The essential enduring feature that is often missed is that trust is made up of qualities from the two sides of the relationship—the client's willingness to trust and the institutional investor's worthiness of trust.

We explore two specific types of trust relationships in the investment industry—institutional investors engaged as clients of asset managers and retail investors engaged as clients of investment firms.

Several layers of investor trust—in the financial system, in the financial services industry, and in investment firms—affect how investors view their investments. Investment professionals must understand these influences and their interactions in order to build effective client relationships.

Three themes are contributors to investor trust today:

Information is essential for trust, and the less investors feel informed, the less they trust the financial system. Investors become better informed through information and knowledge derived from financial education.

Innovation and the proactive use of technology can enhance trust, and those who trust the financial system more are also more likely to be early adopters of innovative products and technologies.

Investors' desire for **influence** and control is growing and provides opportunities for the investment industry to strengthen trust. This desire is evident in expectations for greater customization—in communications, investment design, and products such as those that incorporate environmental, social, and governance (ESG) factors. Investors are also seeking more control over net-of-fee performance results by negotiating fees.

The two major components of trust are credibility and professionalism. Credibility factors can be thought of as observable signals of trust. They are relatively straightforward to identify and provide mental shortcuts to indicate a trustworthy person or organization. Credibility can be demonstrated and earned, but it can also be assigned by a trustworthy source. This "outsourcing of trust" is particularly evident among millennial investors. In contrast, professionalism is more subjective and less easily observed and assessed because it is about mindsets. Notably, the outcomes are both trust and value since these are inextricably linked. Trust cannot exist without value, and value creation without trust is unsustainable.

Trust in the System: **Information** Is Essential

Most trusted industries: The financial services industry ranks in the middle tier of trust. Technology is the most trusted industry among institutional investors, but all investors trust technology less than in 2018. Retail investors trust medicine more than any other industry.

Trust level differences: There is a significant trust gap between investor segments: 65% of institutional investors trust the financial services industry, versus 57% of retail investors with an adviser and just 33% of retail investors without an adviser.

Trust direction: The direction of trust also differs by segment. Overall, retail investor trust in financial services was slightly higher than in 2018 (from 44% to 46%), but institutional investor trust fell from 72% to 65%.

A fair system: For retail investors without an adviser, only 57% say they have a fair opportunity to profit by investing in capital markets, but this increases to 81% for those with an adviser.

Pension promises: Among the 400+ defined benefit pension plans surveyed, 48% said it is likely or very likely (greater than a 60% chance) that their fund will not be able to pay 100% of benefits in the next 10 years.

Trust in the Industry: **Innovation** and Technology as Trust Enhancers

Trust and technology: Approximately two-thirds of institutional investors and nearly half of retail investors with an adviser trust their investment firm more because of the increased use of technology.

Technology versus humans: When forced to choose between access to technology or a human, the trend has been for more technology, and for the first time, retail investors globally have an equal preference for technology and people.

Trusted advice: When retail investors are asked about whether they are more likely to trust a human adviser or a robo-adviser for investment recommendations, 73% still prefer human advice, which is relatively unchanged from 2018.

Artificial Intelligence: A strong majority of institutional investors (71%) are eager to invest in funds that employ artificial intelligence (AI) in the investment process.

Trust in the Investment Firm: The Desire for **Influence** and Control

Fees: 65% of institutional investors have renegotiated some manager fees within the last year.

The customization opportunity: 48% of retail investors would be willing to pay more for personalized products and services.

ESG motivations: 76% of institutional investors and 69% of retail investors have interest in ESG, though their motivations differ. Among those with a values objective, 73% of institutional investors and 67% of retail investors would be willing to give up some return in exchange for meeting their values objective.

Alignment of interests: Only 35% of retail investors and 25% of institutional investors say their investment firm always puts their interests first, unchanged from 2018.

Trusted source of advice: Only 59% of retail investors with an adviser say that their adviser is their most trusted source of advice, somewhat lower than in 2018, when it was 65%. This trust gap can be viewed over time in relation to the effectiveness of the investment advisory industry.

Key Takeaways

The role of information in trust:

- More informed segments of investors are much more trusting of financial services. To be more informed, information and knowledge are needed. Transparency is a factor in information. Education is a factor in knowledge.
- Despite more tools that support better communications and should increase transparency, investor perceptions of transparency have decreased over the last two years.

The role of innovation and technology in fostering trust:

- Using technology well makes investment firms more trusted, but investment advice is still primarily the domain of humans. Economic intuition and experience are still valued in a financial adviser.
- Having an adviser significantly increases the likelihood that an investor will consider new investment ideas and products as an early adopter. Financial advisers and consultants can differentiate themselves by offering new ideas and products to investors early. They also can provide an edge by offering more customized products and services.

The exercise of influence and control to create trust:

- Although the majority of investors believe the fees they pay are fair, high fees are one of the top reasons investors give for leaving an investment firm.
- There is significant interest in more customized products, and many retail investors—especially younger investors—would pay more for them.
- Similarly, the ability to invest in line with one's values is of interest, positioning ESG investing as a promising growth area.

Toward greater trust:

- The following have positive impacts on investor trust: strong performance track record, professional credentials, adoption of industry codes, demonstration of ongoing professional learning, and a strong brand.
- As pension challenges grow, the investment industry is accruing a deferred trust deficit on its collective balance sheet. In time, the industry will have to either participate in designing solutions with policymakers or be prepared to deal with the consequences of an eventual markdown in goodwill.
- The proportion of retail investors that say that their adviser is their most trusted source of advice needs to be higher to diminish the trust gap in the investment advisory industry. The trust gap between asset managers and asset owners is narrower but also needs to be addressed.

Introduction

The concept of trust is complex and multi-layered, and it is essential to the proper functioning of markets. Transactions cannot occur effectively without trust, whether it is the purchase of a small security or the controlling interest in a multi-billion-dollar firm. Research has shown that people who are generally less trusting are less likely to participate in the stock market.[2] For the investment industry, the question is, What does it take for someone to put their capital at risk and entrust their funds to someone else to manage?

CFA Institute began studying investor trust in 2013. The purpose of this study, the fourth in the series on trust, is to gauge the perceptions of investors (as principals) toward the behavior of investment firms and professionals who are entrusted with their money (as agents). The findings should provide a guide for the industry to better serve its clients. We have seen how trust in the industry has evolved over time but also how the essential characteristics of trust endure. Trust must be built over time, yet it can be easily broken.

Time should be an ally of the investment professional, to the extent that clients have long time horizons and can benefit from steadfastness to an investment strategy. For individual investors, however, who typically have decreasing time horizons as they age, their sensitivity to risk increases over time and they are more likely to say that trust must be constantly earned and maintained, as seen in **Exhibit 1.**

In addition, as firms look to expand globally, it is important to understand the different attitudes toward trust by market. A plurality of investors in India, the United Arab Emirates, and mainland China are willing to assume trust worthiness. In Germany, France, Australia, and Hong Kong, a special administrative region (SAR) of China, a plurality of investors will give people the benefit of the doubt once they demonstrate trust, and in all other markets, trust must be constantly earned and maintained.

In the investment industry, trust is more nuanced than in other industries because of the uncertainty of markets and the increasingly intangible concept of money; we must trust a screen or a report to know the worth of our investments. We cannot see or touch the financial products we own. We cannot easily envisage the future state of our investments.

In this report, we look at the different layers of investor trust and how they impact investors' decision making. We picture these in terms of concentric spheres with the retail and institutional investor in the center, as in **Exhibit 2.** As the spheres increase in size, there is a decreasing sense of control, which makes trust more difficult to manage and sustain. All the layers impact how investors view their investments, and investment professionals must understand these influences to build effective client relationships.

We focus on three themes that affect trust: **information**, **innovation**, and investors' desire for greater **influence**. While all these factors have connections to the different layers of trust, we focus on the importance of information at

EXHIBIT 1

HOW DO YOU DETERMINE WHEN A PERSON OR BUSINESS IS TRUSTWORTHY? (RETAIL INVESTORS, BY AGE)

- I assume they are trustworthy unless they prove otherwise
- Once they demonstrate they can be trusted, I will give them the benefit of the doubt going forward
- My trust must be constantly earned and maintained over time

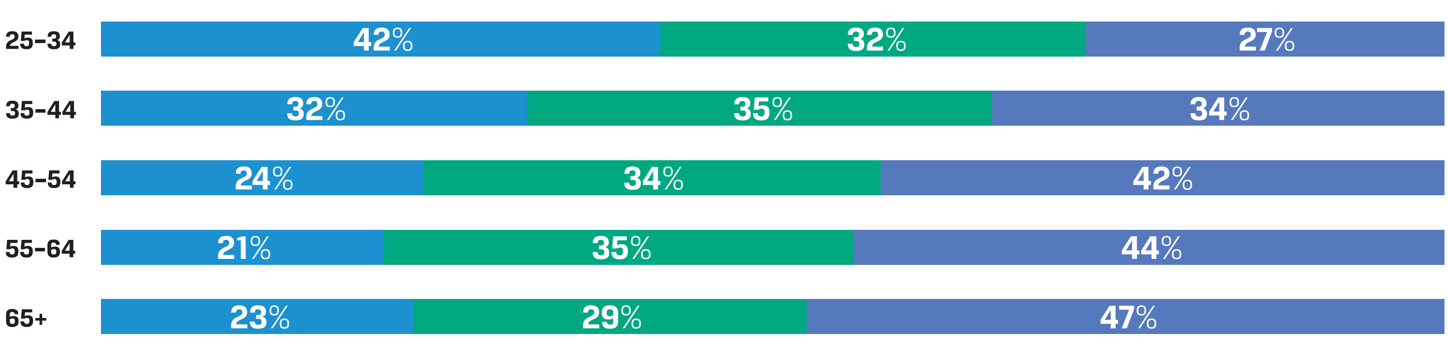
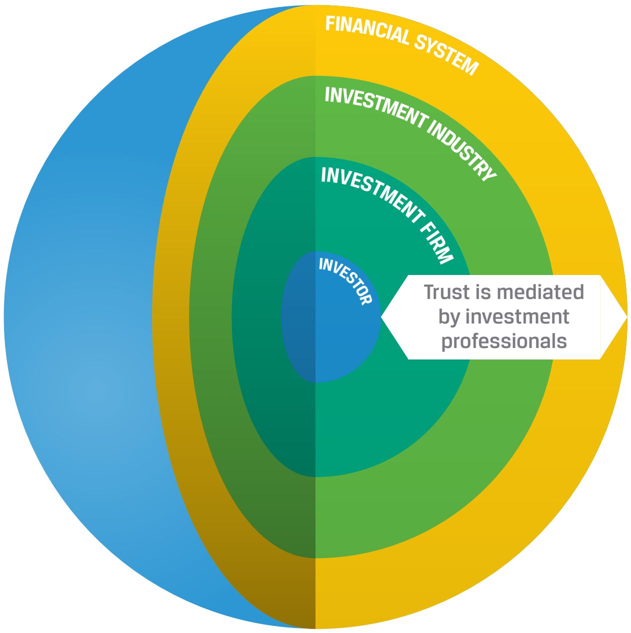


EXHIBIT 2

LAYERS OF INVESTOR TRUST



Defining the Ecosystem Actors

In this paper, we refer to the following groups:

Institutional investors: These are asset owner organizations such as pension funds, sovereign wealth funds, foundations and endowments, or family offices. They act as agents for their underlying beneficiaries. While many manage funds internally as well, here we focus on their role as a client to asset management firms. We analyze institutional investors in aggregate.

Retail investors: These include individuals across a spectrum of wealth levels, from mass affluent to high net worth. We focus on their role as clients of financial firms. All market-level or age-based findings are of retail investors only.

Investment firms: These are asset management firms and financial advice providers.

Investors: These are the clients of the investment industry.

the system level as foundational for trust. We see innovation as particularly pertinent for trust at the industry level (with relevance for all firms) and influence having the most significance in reference to the investor's relationship with the investment firm (or an adviser as a representative of the firm).

We begin at the system level and find that **information** is essential for trust. More specifically, data can be transformed into useful information, and understanding draws inferences to make information relevant. We see parallel worlds of investor trust (see inset) in the large gap between institutional investor and retail investor trust in the financial industry and between retail investors with and without an adviser. In general, we find that investor trust is dependent on access to data and information, financial education which supports understanding, and advice or expertise to make the information and knowledge more useful. These combine to make the investor more informed and more trusting of the system and its components.

Next, we consider how **innovation** and the proactive use of technology can enhance trust. For most investors today, a primary role of technology is to provide access to information and access to markets and products, though institutional investors are also beginning to look to technology as an enabler of superior investment outcomes through the investment process. The investment industry is at a critical juncture in terms of adopting new technology, and investors who trust the system more are also more likely to be early adopters of innovation and stand to benefit from its best features (though not all innovation is beneficial overall).

As we move toward the center, we examine investors' desire for greater **influence**. Increasingly, investors are looking for ways to take greater control of their investments, whether through fee negotiation, customization, or investing based on their values. These are trust and value development opportunities to align interests and should inform the business models and product offerings of investment firms.

We conclude with updates to the **CFA Institute Trust Equation**, outlining actions that investment professionals and firms can take to build credibility and professionalism, to create trust and value. It is important to note that trust can be granted to those who should not be trusted, so we focus on how the investment professional and investment firm can become more *trustworthy*. In a competitive landscape, trust can provide a significant edge, but it cannot be manufactured or feigned. Over time, it proves its durability and its worth.

In *Future State of the Investment Profession*, the Parallel Worlds scenario describes how different segments of the population—by geography, generation, and social group—engage in society differently. While there is a higher baseline for financial services participation, quality varies, with varying product preferences and a desire for personalization.

Trust in the System: Information Is Essential for Trust

By surveying both institutional and retail investors, we can see how perceptions of the financial industry differ by segment. Institutional investors, who act as both clients and participants in the industry, will have more access to information because of their networks and their larger asset base, and given their training they have more knowledge than retail investors. Among retail investors, we look at those with and without financial advisers. We find that information asymmetry is a challenge for the industry and that investors who are likely to be more informed because they have an adviser have more trust in the system.

Trust Levels

First, we look at absolute trust levels, and as shown in **Exhibit 3**, institutional investors are significantly more trusting of all industries than retail investors are. For institutional investors, levels are on average 15 percentage points higher for all industries and 19 percentage points higher for financial services.

The one notable difference is that retail investors trust medicine more than any other industry, and their trust level is even higher than that of institutional investors. This example demonstrates the difference in the institutional and retail perspective. Among retail investors, "medicine" may be associated with doctors, who, as shown in **Exhibit 4**, are the most trusted type of individual by role. More than three times as many people highly trust doctors relative to financial advisers, who rate on a par with mechanics. Distrust of politicians was also evident, with 93% of those in the Americas ranking politicians low on trust, compared with 82% in Europe, Middle East, and Africa (EMEA) and 72% in Asia Pacific.

Institutional investors are most trusting of the technology industry, and it ranks second among retail investors. Government and media are ranked lowest by both institutional and retail investors, and financial services ranks in the middle tier for both types of investors.[3]

EXHIBIT 3

INSTITUTIONAL VS. RETAIL INVESTOR TRUST OF INDUSTRIES (RATING OF 4 OR 5 ON 5-POINT SCALE)

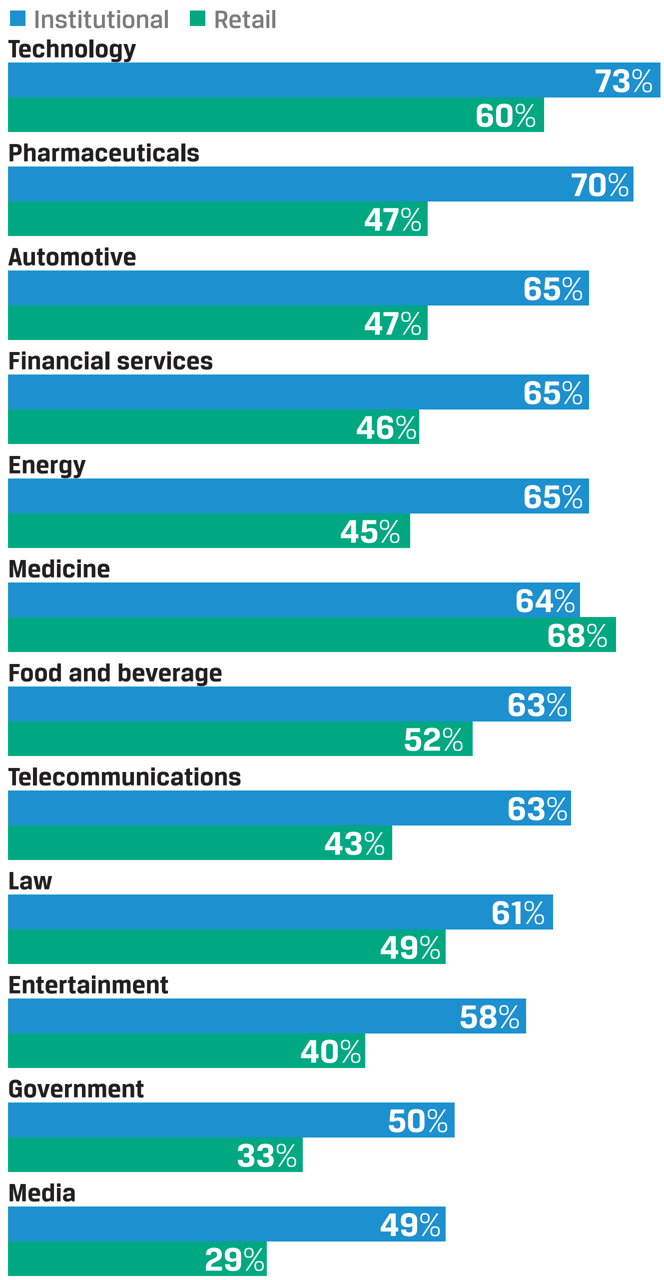
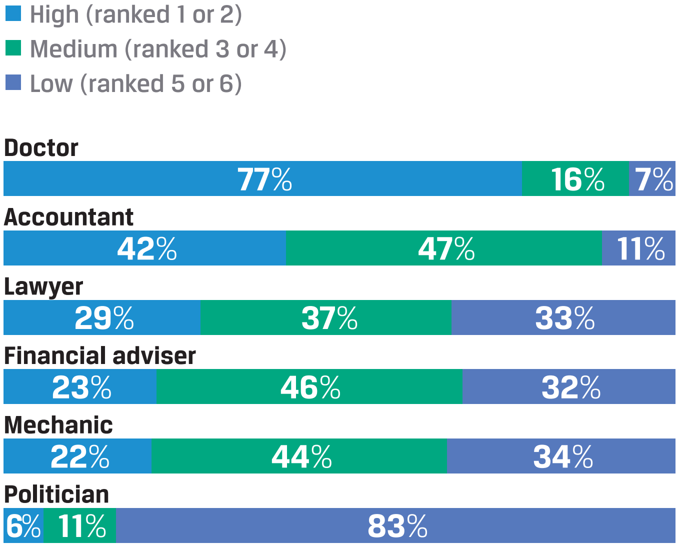


EXHIBIT 4

WHICH OF THE FOLLOWING TYPES OF PEOPLE DO YOU CONSIDER TO BE MORE TRUSTWORTHY? (RETAIL INVESTORS)



Among retail investors, those with a financial adviser and those without an adviser have significantly different viewpoints. This is true across industries but especially in relation to the financial services industry, as seen in **Exhibit 5.** Within the financial industry, those with a financial adviser are more than twice as likely to trust investment professionals and investment firms than those without an adviser.

EXHIBIT 5

	Institutional investors	Retail investors with adviser	Retail investors without adviser
TRUST IN FINANCIAL SERVICES INDUSTRY (RATING OF 4 OR 5 ON 5-POINT SCALE)	65%	57%	33%
	8 PT DIFFERENCE		**24 PT DIFFERENCE**

TRUST IN FINANCIAL SUBINDUSTRIES	Retail investors with adviser	Retail investors without adviser	Percentage point difference
Financial planners	58%	23%	35
Investment management firms	55%	24%	31
Private wealth managers	53%	23%	31

The use of an adviser provides an understanding of and familiarity with the industry that meaningfully narrow the trust gap between institutional and retail investors in terms of the system overall. For those without an adviser, only 57%

Bridging the Trust Gap

Trust from an end investor is the dependency on a service provider in a situation of risk over a prolonged period. The importance of trust grows with risk and term of engagement. Trust in its natural state is the end investor's trust "bid" to a provider before any information, engagement, advice, or experience is factored in.

Information contributes to improving how informed the end investor is, which supports greater trust; information includes data and brand.

Engagement also contributes to how informed the end investor is; engagement includes education and encompasses innovative forms of communicating and influencing, as well as customizing.

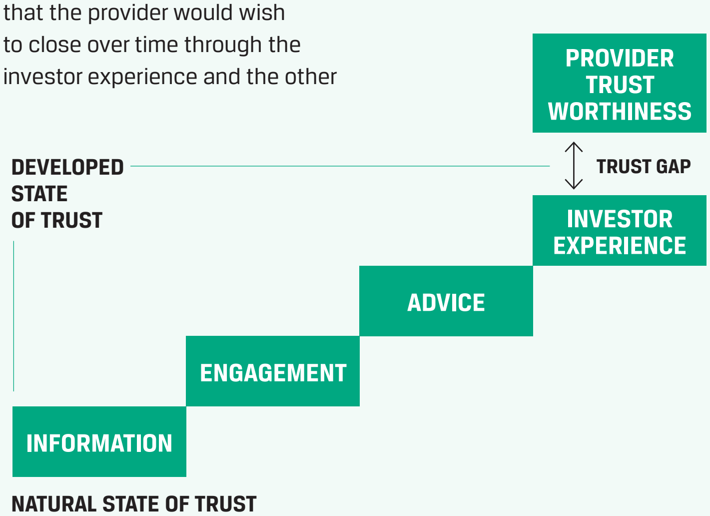
Advice also contributes to how informed investors are; financial adviser trust is a contributory factor.

Investor experience adds to how informed the end investor is.

Trust in its developed state is the natural trust state enhanced by information, engagement, advice, and experience.

Trust worthiness is the investment provider's trust "offer."

The trust gap lies between the trust in its developed state and the (investment provider's) trust worthiness; this is something that the provider would wish to close over time through the investor experience and the other levers—information, engagement, and advice—that together can create stable and sustainable working relationships.



say they have a fair opportunity to profit by investing in capital markets, but this number increases to 81% for those with an adviser. Similarly, those without an adviser are skeptical of news about the markets, with just 39% saying that news about financial markets is trustworthy, versus 61% agreement among those with an adviser.

The Direction of Trust

In this year's results, we also find a divergence in the direction of trust, with trust increasing among retail investors and decreasing among institutional investors. As shown in **Exhibit 6**, retail investors were slightly more trusting of all industries in 2020 compared with 2018, with the exception of technology. Privacy concerns and negative headlines have evidently eroded trust in the technology sector, in what has been called "techlash,"[5] although technology is still the second most trusted industry overall. Medicine was a new addition to the industry list in 2020.

EXHIBIT 6

RETAIL INVESTOR TRUST IN INDUSTRIES (RATING OF 4 OR 5 ON 5-POINT SCALE)

Industry	Trust	Percentage point difference from 2018
Medicine	68%	NEW
Technology	60%	–4
Food and beverage	52%	+2
Law	49%	+2
Pharmaceuticals	47%	+3
Automotive	47%	+3
Financial services	46%	+2
Energy	45%	+4
Telecommunications	43%	+3
Entertainment	40%	+5
Government	33%	+3
Media	29%	+3

Millennial investors had the highest trust levels of any generation, with a 62% trust level in financial services. This pattern was also evident in the 2018 study. Overall, the slight increase in retail investor trust in financial services masks the fact that trust levels have changed in many markets since 2018. **Exhibit 7** shows the percentage of retail investors in each market that say they trust financial services (a 4 or 5 on a 5-point scale), and the change (in percentage points), if any, from two years ago.

The United States had a decrease in trust, but the biggest drop in trust was in Singapore, and Australia's trust level fell to the lowest of any market following the Hayne Royal Commission, which focused on misconduct in the banking, superannuation, and financial services industries. Furthermore, among Australian retail investors, only 40% expect that the Hayne Royal Commission will lead to improved professional standards going forward.

Meanwhile, trust increased significantly (by 10 percentage points or more) in Brazil, the United Arab Emirates, India, and Hong Kong SAR, which narrowed its gap with mainland China. Trust remained stable in Canada, France, and the United Kingdom. Mexico, South Africa, and Japan were added to the study this year but did not have a net effect on the overall trust level compared with the 2018 study group.

The level of trust in the United Kingdom was largely unchanged despite the highly publicized failure in 2019 of the Woodford Equity Income Fund. This was the case of a fund that had been very well rated by advisers and had grown to problematically large sums. It subsequently significantly underperformed investors' reasonable expectations and was subject to sustained and negative press coverage, which led it to stop redemptions. Following that, there was a decision to terminate the fund and return cash to investors. As this decision was made in October 2019, the trust data collected may not have fully reflected this unsatisfactory outcome. This particular fund failure has been damaging to industry reputation. The central trust issue introduced is that asset managers can be highly compensated when their customers have been extremely poorly treated. The additional factor is a continuing systemic issue of retail investors expecting certain levels of fund liquidity in vehicles that carry illiquid holdings, and we expect trust to be affected by this in the future when particular failures of this mismatch occur.

Despite the stable to increasing retail investor trust level overall, **Exhibit 8** shows that retail investors are increasingly concerned about the possibility of a financial crisis within

Royal Commission in Australia and Impacts on Trust

During 2018 there was a Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in Australia. The Commission's final report was released in February 2019. Significant and egregious breaches of acceptable behavior were found. While investment managers and asset owners were largely not targeted, the financial services industry as a whole and particularly the big banks, insurance sales, and financial advice providers did not fare well.

The damage to reputation and to trust that was incurred from the publicity generated by the Commission has continued to play out. Consistent with this is evidence in this study of a weakening position of trust being present in the Australian financial services industry.

A few highlights from the Royal Commission findings:

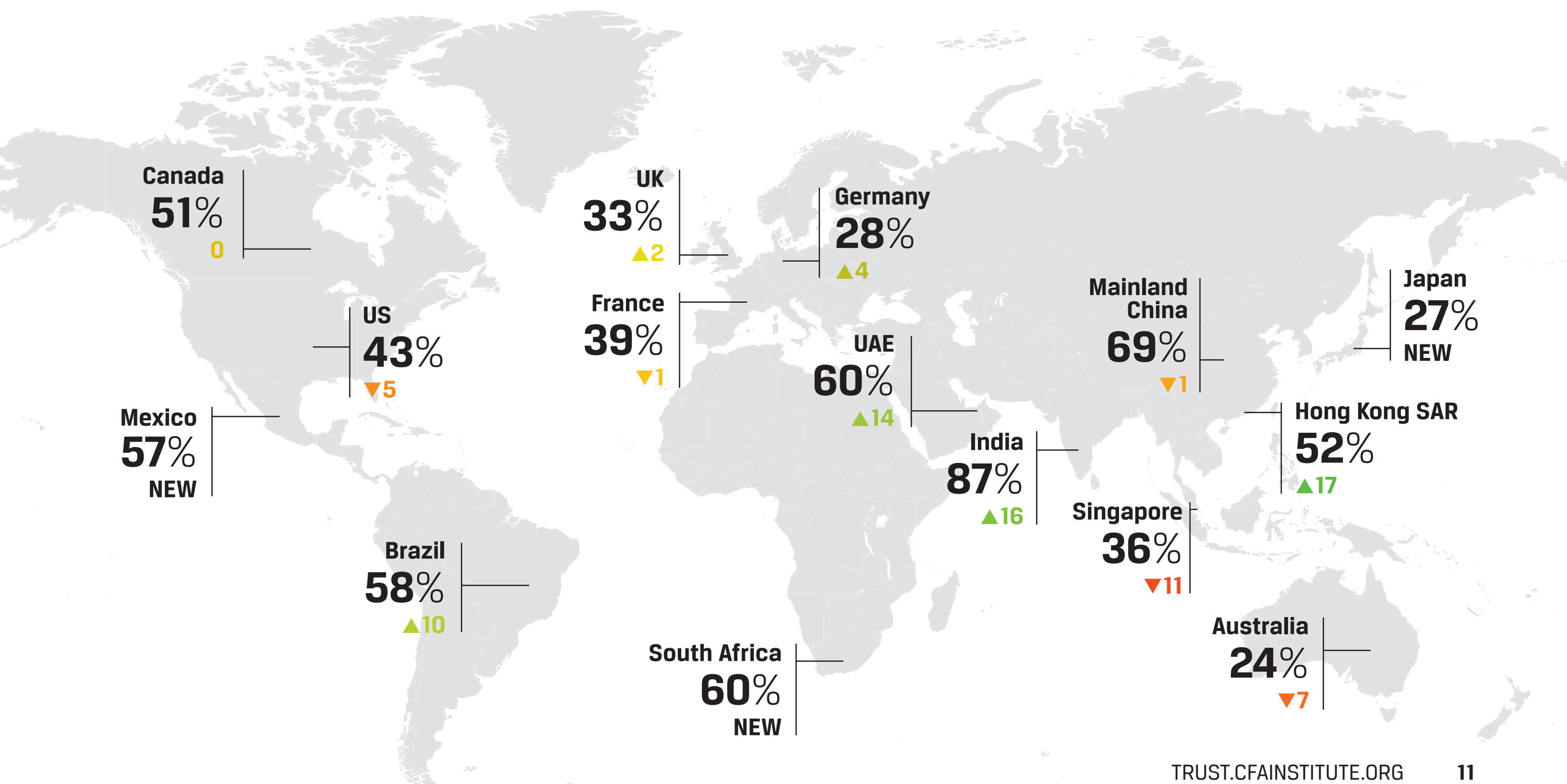
The Commission described substantial issues pertaining to conduct and conflict of interest. Example: "The conduct in issue was driven not only by the relevant entity's pursuit of profit but also by individuals' pursuit of gain." The issues described were exacerbated in retail/profit-for-owner situations, although they certainly can be present in industry funds/profit-for-member situations. There is a need for elimination or at least mitigation of conflicts of interest inherent in some business models and compensation models. The response to the criticisms should incorporate a much stronger ethical value system, indeed one that CFA Institute is prominent in promoting.

The Commission also described substantial issues pertaining to alignment and accountability. Example: "Too often, financial services entities that broke the law were not properly held to account." Though progress has been slow, the biggest response in Australia to this has involved strengthening of the regulatory infrastructure, with additional focus being given to culture and ethical tone at the top of organizations.

The Commission closed with a rallying cry to effect a high level of change in conduct, conflict management, alignment, and accountability. "The time has come to decide what is to be done in response to what has happened. The financial services industry is too important to the economy of the nation to allow what has happened in the past to continue or to happen again." This suggests that the transparency that develops in a root and branch review of this type can be negative to an industry in the short term but provide better long-term outcomes if the industry responds constructively.

EXHIBIT 7

RETAIL INVESTOR TRUST IN FINANCIAL SERVICES (BY MARKET)



the next three years. This is true for all markets except Brazil and the United States. More than half of institutional investors expect a crisis, which is unchanged from 2018 but up significantly from 2016.

EXHIBIT 8

THOSE WHO SAY A FINANCIAL CRISIS IS VERY OR EXTREMELY LIKELY IN THE NEXT THREE YEARS (BY MARKET)

Market	%	PERCENTAGE POINT DIFFERENCE FROM 2018
Institutional	54%	0
Total Retail	49%	+11
India	78%	+22
UAE	76%	+26
South Africa	67%	NEW
Hong Kong SAR	58%	+11
Mexico	54%	NEW
UK	52%	+19
France	47%	+4
Mainland China	47%	+9
Singapore	47%	+5
Canada	46%	+20
Australia	45%	+18
Brazil	44%	-10
US	39%	0
Germany	38%	+3
Japan	34%	NEW

Exhibit 9 shows the change in institutional trust levels by industry, and trust has not increased for any industry. Many industries experienced a reduction in trust of 10 or more percentage points, including technology, which is still the most trusted but only by a small margin.

EXHIBIT 9

INSTITUTIONAL INVESTOR TRUST IN INDUSTRIES DECLINING

Industry	%	PERCENTAGE POINT DIFFERENCE FROM 2018
Technology	73%	-12
Pharmaceuticals	70%	0
Financial services	65%	-7
Energy	65%	-6
Automotive	65%	-6
Medicine	64%	NEW
Telecommunications	63%	-8
Food and beverage	63%	-11
Law	61%	-10
Entertainment	58%	-8
Government	50%	-10
Media	49%	-4

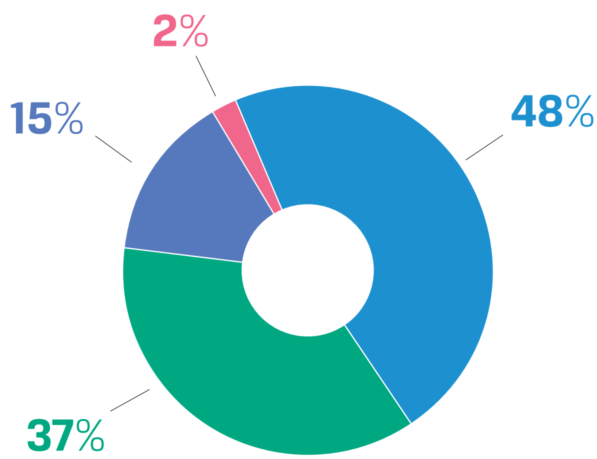
The Potential for Broken Pension Promises

Institutional investors' lower trust may be related to the additional information they have about the system and the underlying assumptions of individual participants. Defined benefit pension plans—corporate and government funded—represented 45% of the institutional investors surveyed. Among these, 56% had lowered their target rate of return within the last three years. In addition, 48% said it is likely or very likely (greater than a 60% chance) that their fund will not be able to pay 100% of benefits in the next 10 years, and another 37% said it is possible (40%–59% chance) they will not be able to pay 100% benefits, as shown in **Exhibit 10**. Currently, target rates of return are centered around 5%–7% nominal annual return, despite widespread low interest rates, including negative rates in some markets.

EXHIBIT 10

PENSION FUNDS' EXPECTATIONS FOR A REDUCTION IN BENEFITS IN THE NEXT 10 YEARS

- Likely or very likely (60% or greater probability)
- Possible (40–59% probability)
- Unlikely or very unlikely (less than 39% probability)
- Don't know/not applicable



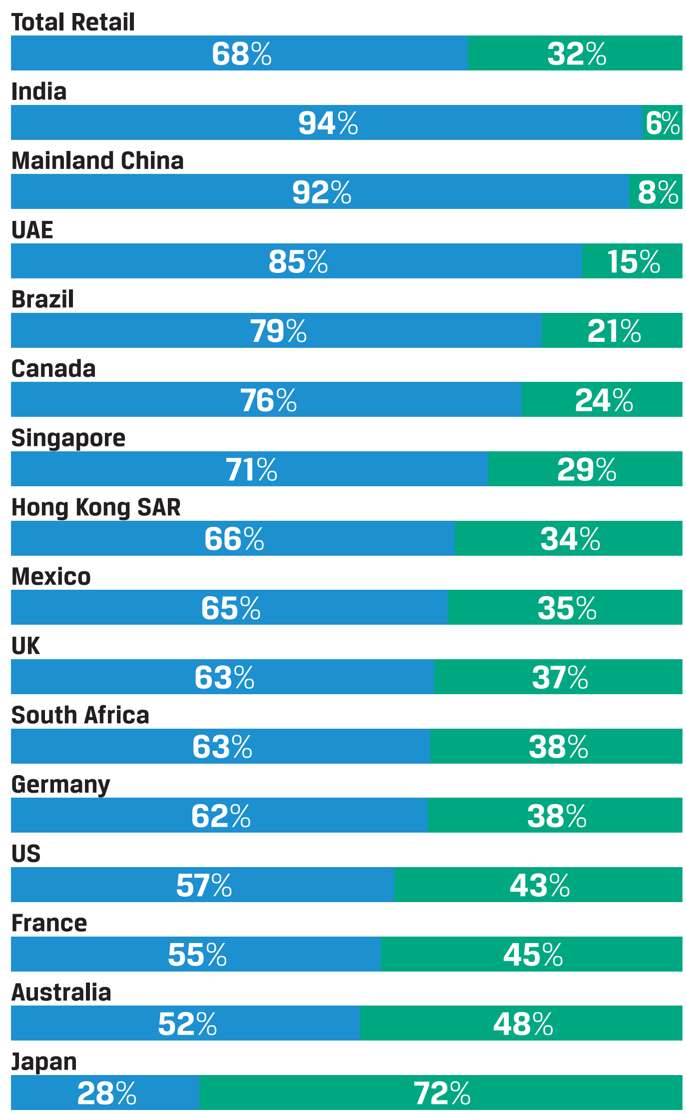
Retail investors eligible for a state-sponsored financial benefit in old age are more optimistic, however, with 68% trusting benefits will be paid out as promised, as shown in **Exhibit 11**. Ironically, younger investors (ages 25–34), who have the greatest risk, are the most likely to trust these benefits will be paid out (78% versus 68% overall).

The reality of a combination of continuing fiscal deficits and demographic stresses (both increased longevity and smaller workforces supporting retired populations) is increasing the challenges of meeting future state benefits, however, and investor confidence in state-sponsored benefits does not necessarily correlate with the ability of these funds to meet their obligations.

EXHIBIT 11

IF YOU ARE ELIGIBLE FOR A STATE-SPONSORED FINANCIAL BENEFIT IN OLD AGE, DO YOU TRUST IT WILL PAY OUT BENEFITS AS PROMISED? (RETAIL INVESTORS, BY MARKET)

Yes No



While the investment industry may wish to avoid this subject as one it cannot control and did not create, in reality the industry is accruing a **deferred trust deficit** on its collective balance sheet. In time, the industry will have to either work with policymakers to address the problem or be prepared to deal with the consequences of an eventual markdown in trust.

Across regions, the top investment goal for retail investors is retirement, as shown in **Exhibit 12**.[6] By market, this is the case everywhere except mainland China, where providing for beneficiaries is prioritized, and India, where top goals also include emergency funds and saving to start a business. Again, we see that investors are not concerned by the system's ability to deliver sufficient returns, with just over half saying it is very likely (greater than 80% probability) that they will attain their most important goal. The most skeptical investors are in Singapore, Japan, and Hong Kong SAR, but even in those markets, a majority think their goals will be attained. These are also the markets where investors are least likely to trust that their investments will provide enough wealth to avoid working past their desired retirement age, but overall, 77% of retail investors believe they will be able to retire as scheduled.

Finally, we look at the differences in satisfaction with asset management firms and financial advisers in **Exhibit 13**, which examines how well institutional and retail investors perceive asset management firms and advisers are performing the activities listed. As before, we find that institutional investors are most satisfied (68% average saying "well" or "very well" across the various activities), retail investors with financial advisers are somewhat less satisfied (58% average), and retail investors without a financial adviser have a very low opinion of financial advisers, with only a 30% average across the activities. The colors indicate the change since 2018 (beyond the margin of error); changes were generally negative among institutional investors and retail investors without an adviser, while views among those with an adviser were largely unchanged.

EXHIBIT 12

#1 RANKED INVESTMENT GOAL	TOTAL	AMERICAS	EMEA	APAC
Retirement plans	50%	60%	48%	38%
Saving for large purchase (i.e., house, car)	11%	8%	12%	13%
Emergency funds	11%	9%	11%	14%
Beneficiaries/ estate planning	9%	9%	9%	10%
Short-term spending needs	7%	5%	7%	7%
Education savings	7%	5%	6%	10%
Saving to start a business	6%	4%	6%	7%

LIKELIHOOD OF ATTAINING MOST IMPORTANT GOAL	TOTAL	AMERICAS	EMEA	APAC
Very likely (greater than 80%)	52%	61%	51%	38%
Likely (60–80%)	31%	27%	32%	37%
Possible (40–59%)	14%	10%	13%	20%
Unlikely (20–39%)	2%	1%	2%	4%
Very unlikely (less than 20%)	1%	0	1%	1%

EXHIBIT 13

HOW WELL DO YOU THINK INVESTMENT ADVISERS/ASSET MANAGEMENT FIRMS, IN GENERAL, ARE DELIVERING ON EACH OF THE STATEMENTS TODAY?

■ Increase since 2018 ■ Decrease since 2018 ■ Unchanged

ACTIVITY	INSTITUTIONAL (REGARDING ASSET MANAGEMENT FIRMS)	RETAIL WITH ADVISER (REGARDING ADVISERS)	RETAIL WITHOUT ADVISER (REGARDING ADVISERS)
Fully discloses fees and other costs	67%	58%	34%
Has reliable security measures to protect my data	70%	64%	36%
Generates returns similar to or better than a target benchmark	66%	55%	25%
Employs investment professionals with credentials from respected industry organizations	70%	60%	32%
Charges fees that reflect the value I get from the relationship	N/A	53%	25%
Sets fee arrangements so our financial interests are aligned	66%	N/A	N/A
Is forthright about disclosing and managing conflicts of interest	N/A	56%	29%
Acts in an ethical manner in all our interactions	68%	N/A	N/A
Provides investment reports that are easy for me to understand	N/A	60%	32%
Takes time to understand my organization's priorities, liability structure, and political dynamics with different stakeholders	68%	N/A	N/A
Average	68%	58%	30%

Trust in the Industry: How **Innovation** and Technology Can Enhance Trust

In *Investment Firm of the Future*, 72% of surveyed CFA Institute members/charterholders said they expected the influence of technology and data on decision making at investment firms to grow significantly over the next 5–10 years.[7] In 2018, we first looked at the potential of technology to enhance trust in the investment industry particularly in the investor–asset manager relationship,[8] and now we broaden our scope to consider the role of tech-enabled innovation, particularly in the enhancement of the investment process, in investor trust in the future. Change is coming to the industry from innovation, and it will offer opportunities to build trust.

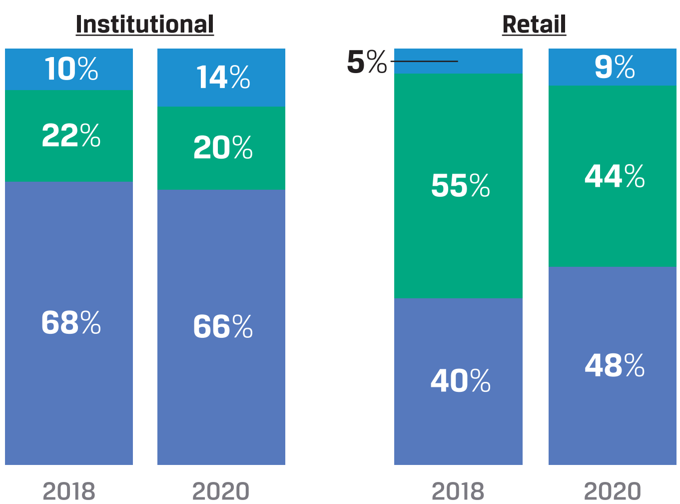
Approximately two-thirds of institutional investors trust their investment firms more because of the increased use of technology, little changed from 2018, as shown in **Exhibit 14**. While the level of trust is lower for retail investors with advisers, it has been growing, and now nearly 50% trust their adviser more because of the increased use of technology. The number of respondents who are indifferent has decreased, and very few investors say that technology has reduced their trust in their investment firm. Younger investors are much more likely to say that technology has increased their trust in their investment firm; it is an expectation.

How Much Technology Is Enough?

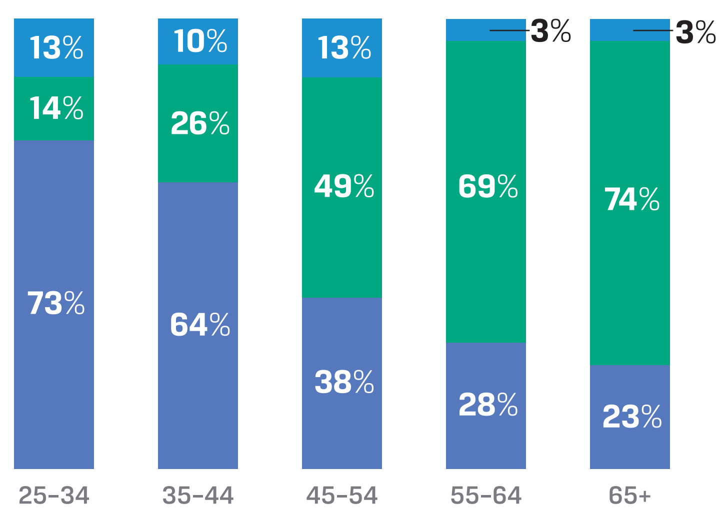
While only a small number of investors (13% of retail investors and 16% of institutional investors) would consider leaving their investment firm because of a lack of sufficient technology, when forced to choose between access to technology tools and access to a human, the trend has been to favor technology tools, as shown in **Exhibit 15**. For the first time, retail investors in aggregate have an equal preference for technology and people, and in 10 of 15 markets the majority of retail investors prefer technology.

EXHIBIT 14

IMPACT OF INCREASED TECHNOLOGY ON TRUST OF ADVISER OR ASSET MANAGER



IMPACT OF INCREASED TECHNOLOGY ON TRUST OF ADVISER, RETAIL INVESTORS BY AGE

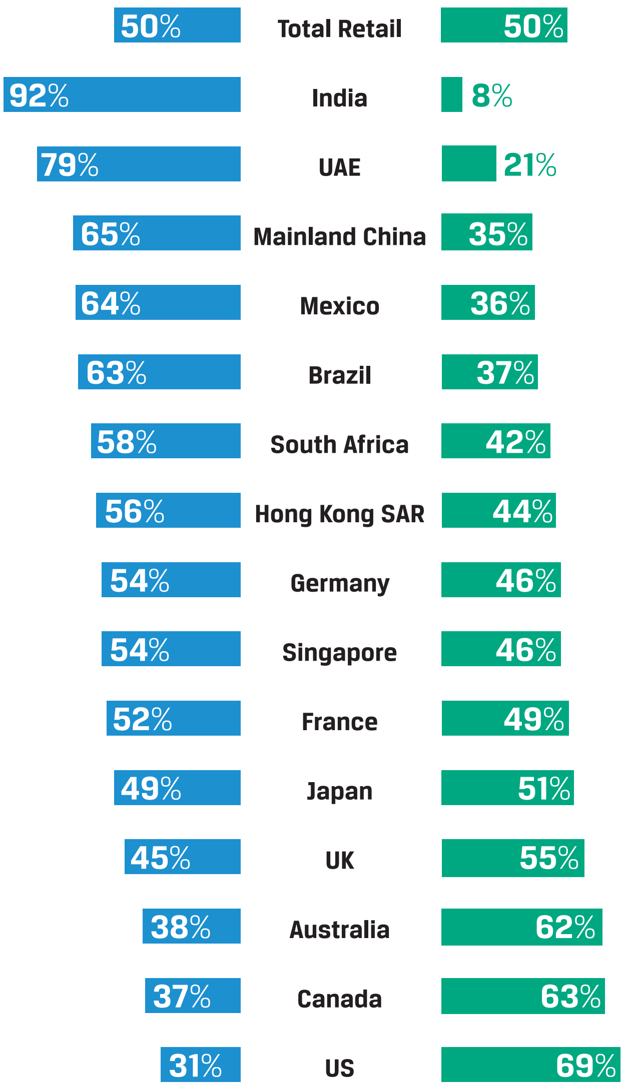


I trust my adviser/asset managers less | No change | I trust my adviser/asset managers more

EXHIBIT 15

IN THREE YEARS, WHICH OF THE FOLLOWING DO YOU THINK WILL BE MORE IMPORTANT TO YOU?

- Having access to the latest technology platforms and tools to execute my retail investment strategy
- Having a person to help navigate what is best for me and execute on my retail investment strategy



There are two factors, however, that might indicate a slowing in the relative preference for technology. First, the increase in preference in the last two years has come entirely from the youngest group (ages 25–34), while other generations have been stable or decreasing. Second, in six markets the preference for technology has decreased since 2018, including the United States, Brazil, France, Singapore, mainland China, and Hong Kong SAR. To the extent that current levels of technology provide better transparency and market access than before, retail investors may be waiting to see what value additional technology will bring.

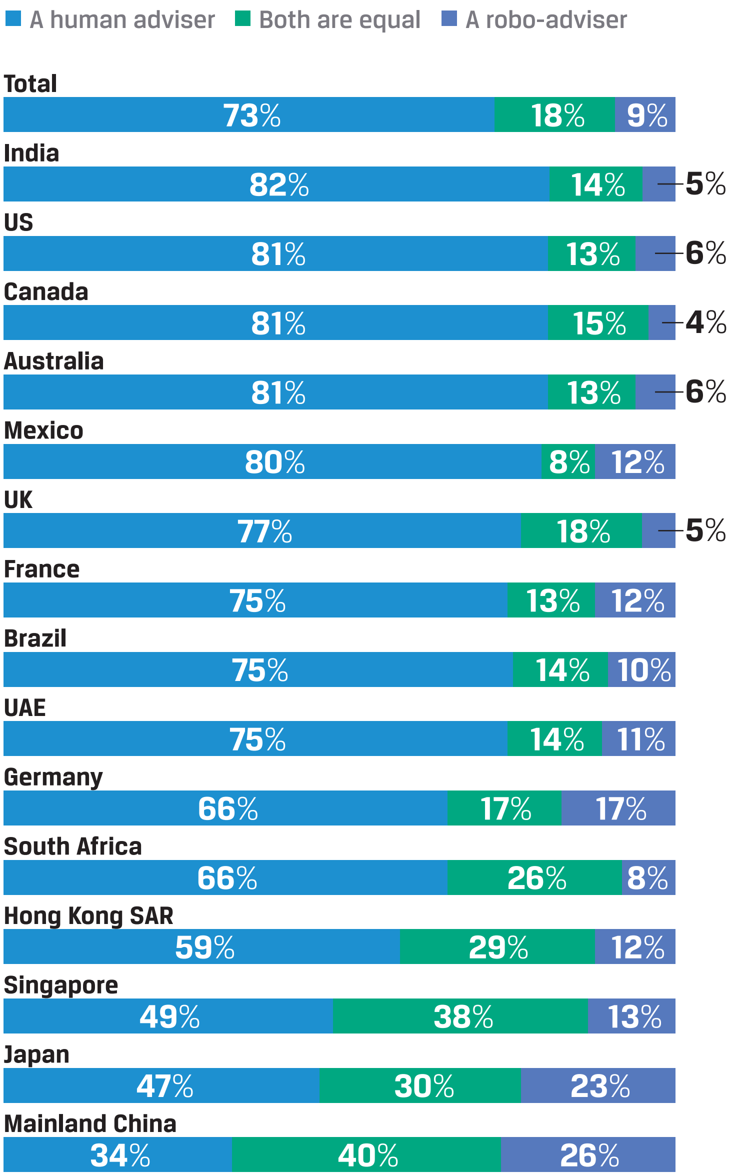
The question in **Exhibit 15** was originally intended to assess demand for the nascent robo-adviser segment, which was viewed as an existential threat to the wealth management business. With the passage of time, the threat has been downplayed because the investment industry has adapted to investors' desire for both the efficiency of tech and the judgment of humans. When we first surveyed investors about robo-advisers in 2018, only 22% of retail investors trusted them. Today, trust in robo-advisers has increased to 27% among retail investors overall, but it still lags trust in financial services (46%) and trust in private wealth managers (53% among those with an adviser) by a significant margin. Generational differences became more pronounced in the 2020 study, as millennial trust in robo-advisers exceeded 50% and older investors became more distrustful of robo-advisers.

Technology and Advice

Despite retail investors indicating technology tools generally will be more important than having access to a human, when retail investors are asked about whether they are more likely to trust a human adviser or a robo-adviser for recommendations specifically, 73% still prefer human advice, which is relatively unchanged from 2018. Investors in Asia are more likely than investors in other regions to trust a robo-adviser for advice, as shown in **Exhibit 16**.

EXHIBIT 16

RETAIL INVESTORS' PREFERRED SOURCE OF TRUSTED ADVICE (BY MARKET)



As traditional firms have incorporated more technology into their operations, robo-advisers have attracted clients with lower asset levels and less complex needs for advice. Robo-advisers have also added options for human interaction, recognizing the need investors have for accountability in advisory relationships. Simply put, in challenging times there is a visceral need for *some<u>one</u>* to blame rather than *some<u>thing</u>* to blame, especially when systems include the possibility of user error. It is still worth noting that although only a minority, 27%, of retail investors say advice from a robo-adviser is better than or equal to human advice, this is a relatively consistent view across wealth levels. This is an indication that robo-advisers will continue to challenge the industry to keep innovating.

Technology as a Source of Innovation

Thus far, technology in the investment industry has mostly had the effect of making processes more efficient and giving clients greater access to information. The coming shift will be from doing things *faster* with technology to doing things *better* with technology, and it will be a more difficult transition for investment firms to make.

Overall, institutional investors place greater value on technology and innovation than retail investors do. Among institutional investors, 75% say they are likely to be early adopters of new investment products. Consistent with this, we asked institutional investors to choose between two funds to invest in, and 71% chose "an algorithmic fund that employs data scientists to use alternative data sources," while just 29% chose "a fundamental, bottom-up concentrated stock portfolio."

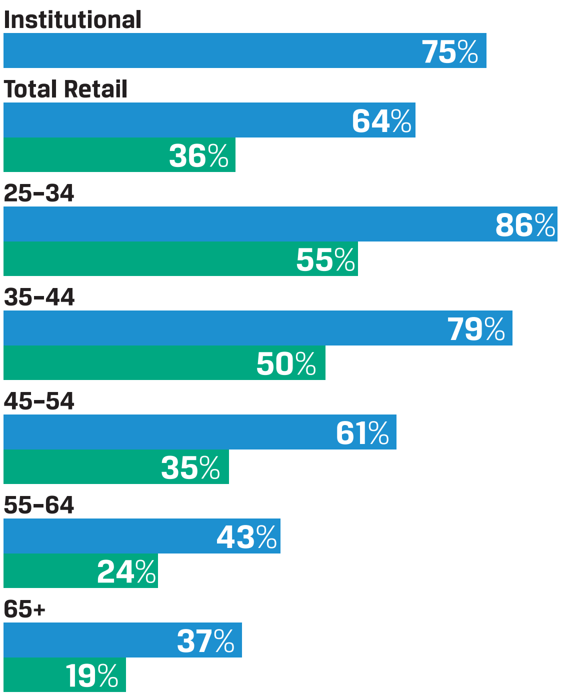
Among retail investors, the appetite for new products is very different based on whether one has an adviser or not. Nearly two-thirds of retail investors with an adviser say it is important for their adviser to provide access to new investment products before they become widely available. In contrast, only about one-third of retail investors without an adviser are interested in investing in new investment products before they become widely available. In an era of low interest rates, those who want to outperform will need to consider innovative products, and it is much more palatable to take on risk with a trusted adviser by your side.

As shown in **Exhibit 17**, younger investors are more than twice as likely as older investors to have interest in new products.

EXHIBIT 17

INVESTOR INTEREST IN INVESTING IN NEW PRODUCTS (EARLY ADOPTERS), BY AGE

■ With adviser ■ No adviser



Early adopter institutional investors were asked whether they would prefer to get a new product created by a financial institution or a large technology firm. In **Exhibit 18**, we see how fintech innovation is becoming a shared domain of financial and technology firms, with institutional investors just slightly inclined to favor financial institutions.

EXHIBIT 18

WOULD YOU BE MORE INTERESTED IN INVESTING IN A NEW PRODUCT THAT WAS CREATED BY . . . ? (ASKED OF EARLY ADOPTER INSTITUTIONAL INVESTORS)

52%
A financial institution

48%
A large technology firm (e.g., Amazon, Google, Alibaba)

It is not surprising that as participants in the investment industry themselves, institutional investors are more interested in products created by a financial institution given that familiarity can breed trust. The relatively high proportion of respondents that are more interested in a product from a large technology firm is significant, however, and suggests a recognition of the potential for superior distribution models with some ambivalence about how performance outcomes are achieved. It is also consistent with the relatively high level of trust institutional investors have in the technology industry (see **Exhibit 9**) and indicates there is a significant opportunity for large technology firms—that are willing to navigate regulatory requirements—to enter the investment industry product or distribution space.

Valued innovation in the financial services industry will likely lead to an increase in trust in the industry overall. Regardless of who creates the products, however, advisers will need to provide access to new products and curate technology to meet client expectations going forward.

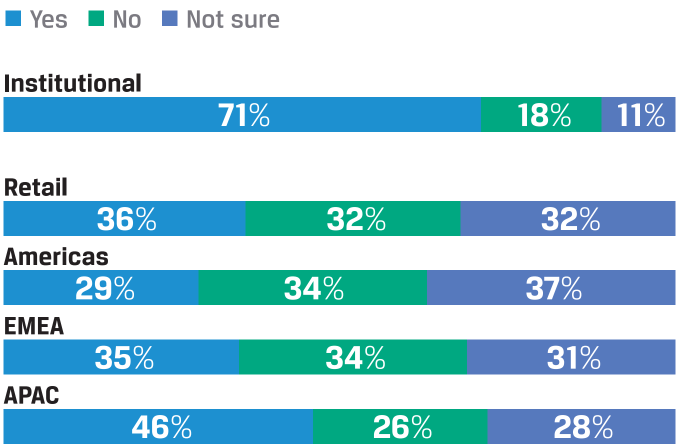
Artificial Intelligence in Investing

One source of innovation going forward is artificial intelligence (AI), and though its uses in the industry are still in the early stages, recent CFA Institute research provides examples of how pioneering firms are using AI to improve investment decision making.[9] Given the qualifications above regarding technology and advice, we see the benefits of an "AI + HI" model,[10] which combines technology's data processing capabilities with human intelligence (HI), including judgment and economic intuition. The desire for a blend is also evident in retail investors' response to a question about whether they would prefer a financial adviser that is data-driven and very quantitative (39% selected this) or has economic intuition and extensive market experience (61% selected this).

A strong majority of institutional investors (71%) are eager to invest in funds that employ AI, while retail investors are about evenly divided between those that are positive, those that are negative, and those that are unsure. This is consistent with the fact that AI is in early stages of development. Retail investors in Asia Pacific are the most likely to have interest in AI products, as shown in **Exhibit 19**.

EXHIBIT 19

WOULD YOU INVEST IN A FUND THAT PRIMARILY USES ARTIFICIAL INTELLIGENCE TO SELECT INVESTMENT HOLDINGS?



One potential challenge to the growth of AI in the investment industry is availability of high-quality, relevant data for analysis. Although the creation of data is accelerating quickly, the signs of weaker trust in the technology industry—among all investors—could have negative implications. One-third of retail investors said they are less willing to use online platforms that require inputting personal data than they were three years ago.

As **Exhibit 20** shows, AI has the potential to change many areas of asset management, and in turn these will have an impact on investor trust. Overall, 68% of institutional investors expect the use of artificial intelligence in investment decision making to have a mostly positive impact on investor outcomes. Cybersecurity is a top risk that impacts investor trust, and a security breach is one of the primary reasons investors will switch firms. The way firms implement AI in client service will also be important and must be done in a manner such that trust is enhanced, not the reverse.

EXHIBIT 20

Areas of investment management	% of institutional investors that expect AI to have a high impact in each area
Cybersecurity	**73**%
Portfolio management	**71**%
Research	**70**%
Risk management	**70**%
Trading	**67**%
Client service	**67**%

Trust in the Investment Firm: The Desire for **Influence** and Greater Control

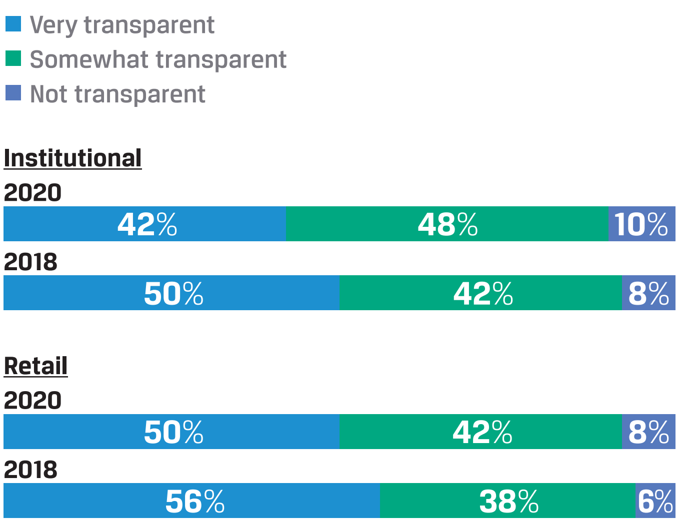
As we move to the inner layer of trust, investors may have a greater sense of control because trust is based on their relationship with the investment firm or investment adviser and they have more information to judge trust worthiness. At this level, retail and institutional investors can have more influence and exercise more control over their investments, whether through customization or engagement and on such matters as fees, product design, or investing based on their values.

The Fee Conversation

A significant majority of retail investors (83%) and institutional investors (75%) surveyed agree that one of the most important items in creating a trusted relationship is fully disclosing fees and other costs, and levels were similar in 2018. While returns may be uncertain, investors—and institutional investors in particular—can influence net returns at the margin since fees are a factor that can be known *ex ante* and managed. Since 2018, perceptions of fee transparency have decreased, as shown in **Exhibit 21**.

EXHIBIT 21

PERCEPTIONS OF FEE TRANSPARENCY HAVE DECREASED

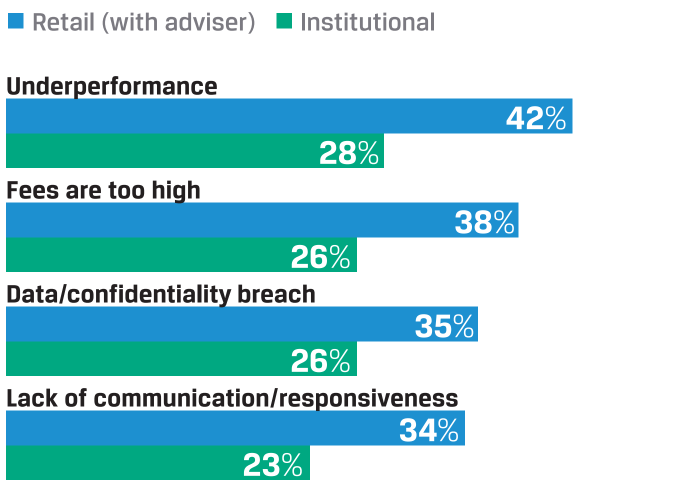


This has prompted investors to discuss fees, and 65% of institutional investors have renegotiated some manager fees within the last year. While retail investors do not necessarily have the same level of negotiating power, a similar number said they had discussed fees with their adviser within the last year, so it is a factor they are monitoring.

Although the majority of investors (73% of institutional investors and retail investors with an adviser) believe the fees they pay are fair, high fees are one of the top reasons retail and institutional investors give for considering leaving an investment firm or adviser, as shown in **Exhibit 22.**

EXHIBIT 22

TOP REASONS INVESTORS WOULD CONSIDER LEAVING THEIR CURRENT ADVISER/ASSET MANAGER (TOP ANSWERS, RESPONDENTS COULD SELECT UP TO THREE ITEMS)



The Customization Opportunity

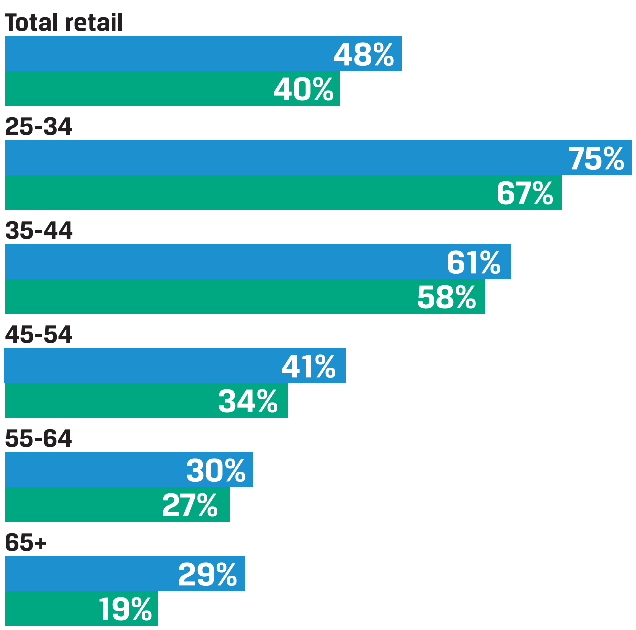
Another way that firms can offer clients more influence and control is through customized products, which big data and powerful technology make possible. Overall, 77% of retail investors have interest in more personalized products and services, and interest was strong among retail investors both with and without advisers. Younger investors are still most enthusiastic about personalization, but since 2018 older investors have shown much more interest as well.

The overall proportion of these investors who would be willing to pay more in fees for personalized products was 62%, as shown in **Exhibit 23**. This is an opportunity for the investment industry, even amidst the industry fee pressures noted earlier.

EXHIBIT 23

RETAIL INVESTORS WILLING TO PAY MORE FOR PERSONALIZED PRODUCTS OR SERVICES (BY AGE)

- 2020
- 2018



Percentage of investors interested in more personalized products (77% in 2020) multiplied by percentage of those investors willing to pay more for personalization (62% in 2020).

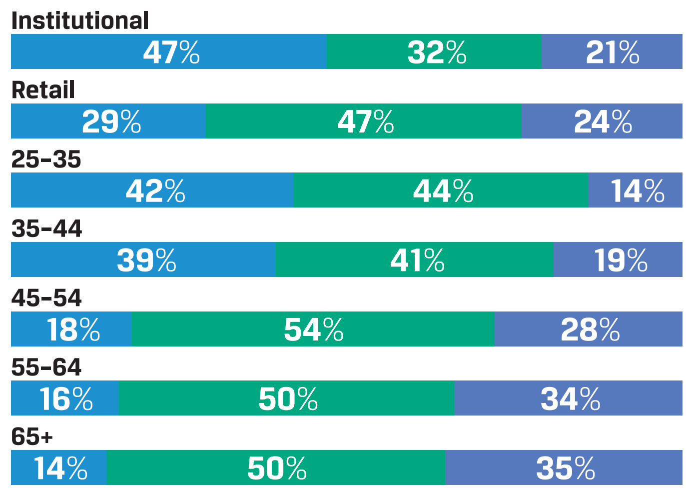
Values-Inclusive Investing

One specific way to create customized products is to integrate investor values. In *Investment Firm of the Future*, 80% of CFA Institute member/charterholder respondents expected increased demand for products that incorporate personal values.[11] Though we find that only 19% of institutional investors and 10% of retail investors currently invest in products that incorporate environmental, social, and governance (ESG) factors, 76% of institutional investors and 69% of retail investors have interest in ESG. As shown in **Exhibit 24**, institutional investors are more likely to consider ESG investing as a way to generate higher risk-adjusted returns, while retail investors mostly look to ESG characteristics to express their personal values. Younger retail investors are less likely to prioritize their values versus older investors.

EXHIBIT 24

"WHICH BEST DESCRIBES YOUR INTEREST IN ESG INVESTING?" ASKED OF THOSE WITH AN INTEREST IN ESG INVESTING

- I expect ESG investing to result in higher risk-adjusted returns
- I want to express personal values or invest in companies that have a positive impact on society or the environment
- Both



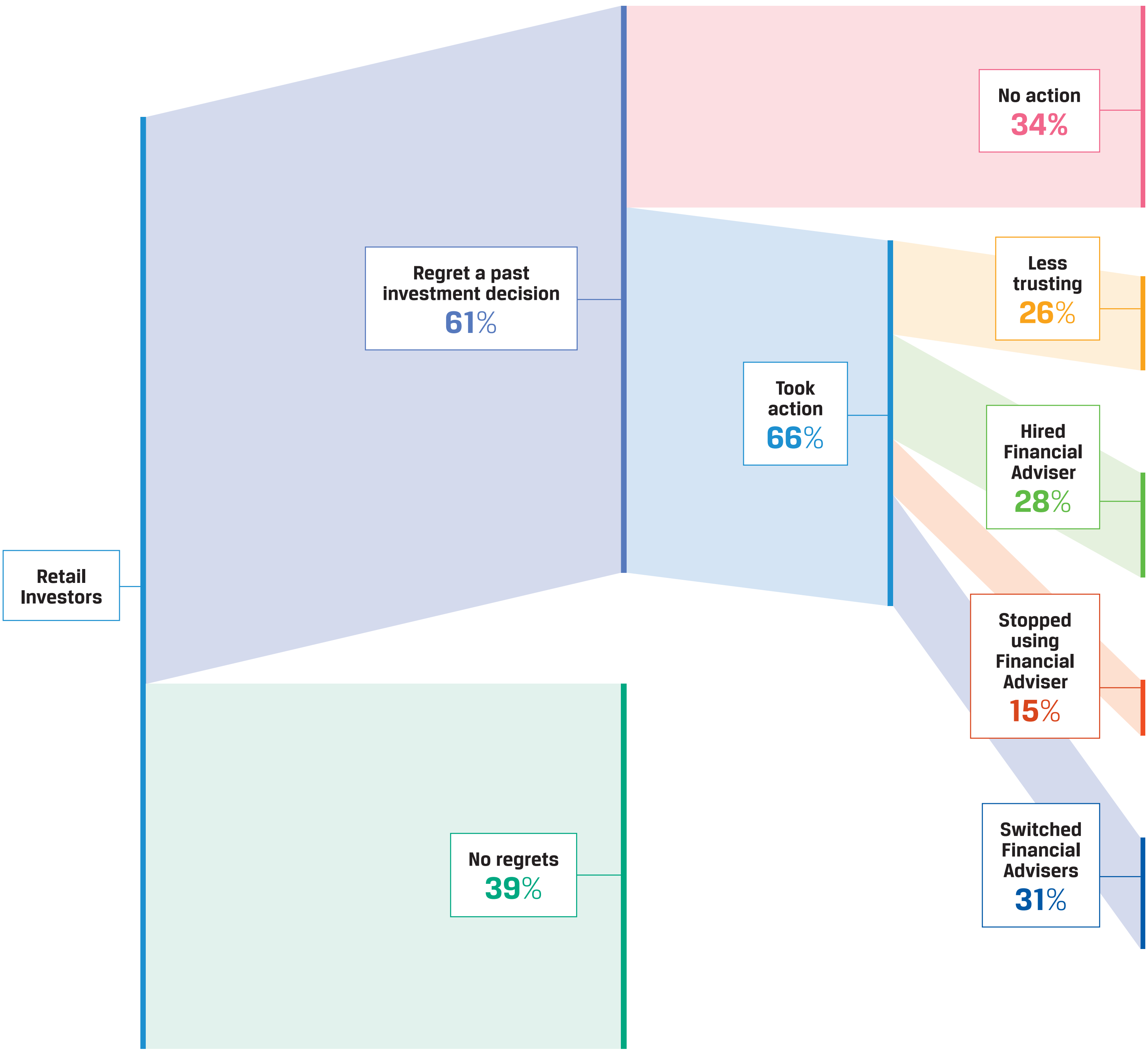
Among those with a values objective (or dual objective), 73% of institutional investors and 67% of retail investors would be willing to give up some return in exchange for meeting the values objective. This is an indication that a significant shift is underway in assessing investor outcomes, to include risk, return, and impact. This shift is an important boost to the future trajectory of ESG-motivated investing.

Two-thirds of institutional investors think that the growth of ESG investing has increased trust in the financial services industry, and about 15% of retail and institutional investors would consider leaving an investment firm that has "publicly stated corporate views on social or political issues that I or my organization disagrees with." These results also carry great significance for the investment industry in making the areas of responsibility and sustainability mainstream to the industry's future and carrying the potential for an expansion of the role that the industry assumes.

It should be noted that control over investment outcomes will remain elusive given market dynamics. Nevertheless, 87% of retail investors say they are confident about their ability to make good investment decisions; this number rises to 92% for those with a financial adviser. This self-confidence illusion is exposed when investors make a bad decision and then seek accountability from others, as shown in **Exhibit 25.** Among retail investors, 61% said they have regretted an investment decision, and two-thirds of those took action accordingly. In 28% of these cases, the investor hired an adviser for the first time. In 31% of these cases, the investor switched investment advisers, and in 15% of the cases, they stopped using an adviser. Another 26% became less trusting of advisers.

EXHIBIT 25

THE ROLE OF REGRET IN INVESTMENT DECISIONS



The Trust Equation: How Investment Professionals and Firms Can Take Action

Investment professionals and firms that seek to build trust and value can make use of the CFA Institute Trust Equation, first introduced in *Future State of the Investment Profession*.[12]

The two major components of trust are credibility and professionalism. As seen in **Exhibit 26**, credibility factors can be thought of as observable signals of trust. They are relatively straightforward to identify (such as track record and credentials) and provide mental shortcuts to indicate a trustworthy person or organization. Credibility can be demonstrated and earned, but it can also be assigned by a trustworthy source. In contrast, professionalism is more subjective, and because it is about such tacit factors as culture and mindsets (such as ethical orientation and commitment to putting client interests first), it is much harder to assess. Notably, the outcomes are trust and value, since these are inextricably linked. Trust cannot exist without value, and value creation without trust is unsustainable.

In the following sections, we describe the current state of the trust components and actions that investment professionals and firms can take to build trust. It is important to recognize that for each client there may be different areas of the equation to emphasize.

EXHIBIT 26

Signals that include:	**Mindset** that includes:	**Outcomes** that include:
Track record	Client-first values	Stronger client relationships
Credentials	Commitment to competency	Social license to operate
Industry codes		
Brand		

Credibility

Track record

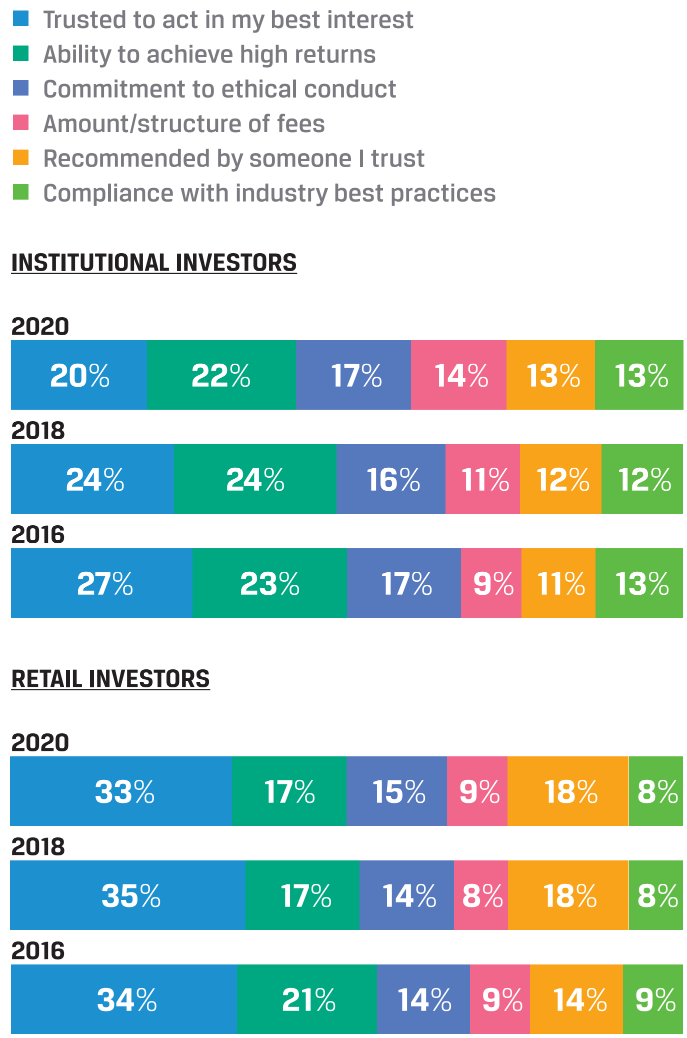
A firm's performance track record is essential to its success, and investors must have an underlying trust in the organization's ability to generate returns. Whether this is assumed because of the firm's ongoing operations or must be proven differs by client and over time. A strong majority of institutional investors (74%) and retail investors (77%) say generating returns similar to or better than a target benchmark is important in creating a trusted relationship. Only 66% of institutional investors and 44% of retail investors think investment firms and advisers are delivering well on this.

Exhibit 27 shows that among institutional investors, returns have become relatively more important in the hiring process for an investment firm than having someone trusted to act in their best interest. A greater focus on fees has accompanied this change. A low interest rate environment has put pressure on firms to meet return expectations, particularly for pension funds and other institutional investors with future liabilities that are discounted at such historically low rates. It is therefore not surprising that institutional investors prioritize the ability to achieve high returns when hiring a manager given the "lower for longer" interest rate environment.

Retail investors, however, still prioritize having someone trusted to act in their best interest and a recommendation from someone they trust when looking to hire an adviser, with an assumption that returns will follow. The fact that retail investors do not prioritize returns in their hiring decisions may also reflect the bull market in equities that persisted during the survey period (i.e. reflecting potential complacency about performance).

EXHIBIT 27

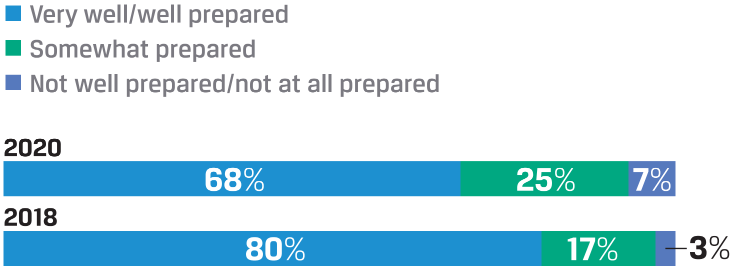
MOST IMPORTANT ATTRIBUTE WHEN HIRING AN ASSET MANAGER



A performance track record at the start of a relationship differs from how it is viewed during a relationship, and both retail and institutional investors cite performance as the primary reason to discontinue a relationship (see **Exhibit 22**). Retail investors with advisers are less clear about the relationship between performance and trust: 40% indicated that a year of poor investment performance would negatively impact their trust in their adviser, 44% were unsure, and 16% said it would not have an impact. When asked more specifically about their existing firm or adviser's ability to manage through a financial crisis, half of retail investors and a majority (68%) of institutional investors feel they are well prepared, as shown in **Exhibit 28**. However, in both cases, the proportion of respondents saying their firm or adviser is well or very well prepared is down compared to 2018, and the proportion responding that their firm or adviser is not well prepared or not at all prepared is up. These are the times when trust is truly tested.

EXHIBIT 28

INSTITUTIONAL INVESTORS' VIEWS ON INVESTMENT FIRMS' ABILITY TO MANAGE THROUGH A FINANCIAL CRISIS



RETAIL INVESTORS' VIEWS ON FINANCIAL ADVISERS' ABILITY TO MANAGE THROUGH A FINANCIAL CRISIS

Credentials

Credentials are another signal of trust, and 73% of both retail and institutional investors say that credentials are important for creating a trusted relationship. A majority of institutional investors (70%) and retail investors (60%) think the industry is delivering well on employing investment professionals with credentials from respected industry organizations (see **Exhibit 13**). Overall, growth in financial credentials has been strong[13] as professionals seek ways to differentiate themselves to clients and employers. In a recent survey, 83% of CFA charterholders said the CFA charter had helped their career by providing increased credibility.[14]

Industry codes

The credibility that individuals get from credentials is analogous to the credibility firms get from adopting industry codes. When investors were asked how they would react if their investment firm told them they now comply with a voluntary code of conduct for the industry, 93% of institutional investors and 84% of retail investors said they would trust the firm or adviser more. This was more important to the youngest retail investors (96%) versus the oldest retail investors (76%). Furthermore, 16% of retail investors and 14% of institutional investors said they would consider leaving their financial adviser if they failed to adopt a voluntary code of conduct for the industry.

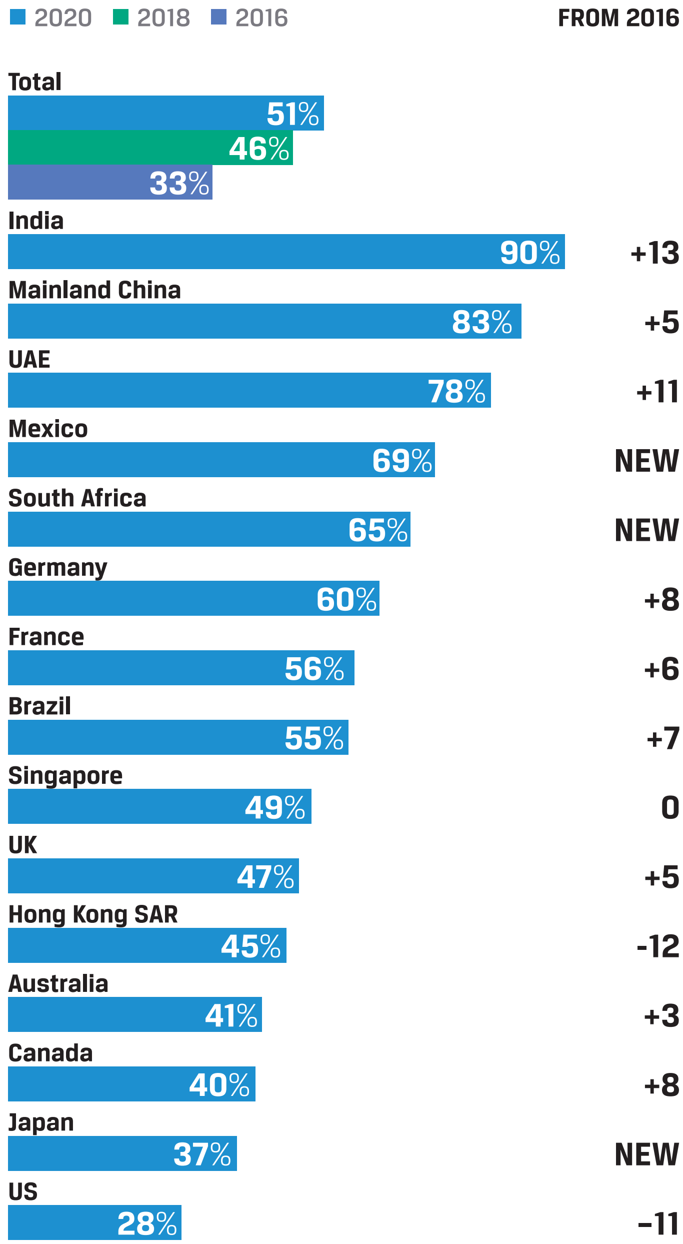
Brand

Brand can be used as a proxy for trust, though firms cannot simply hire a marketing team to develop a brand; they must also follow through on their brand promises. Investment firms eager to appeal to investors interested in ESG, for example, have been accused of "greenwashing," where marketing claims of sustainable practices overstate reality, and similar issues arise when firms claim that their long-standing standard quant methods use AI. Still, brand is a powerful signal of trust to retail investors and appears to be getting stronger, as shown in **Exhibit 29**. This is especially true among younger investors: 75% said they would rather work with a firm with "a brand I can trust" than one with "people I can count on." This is consistent with the institutional investor preference for a team approach versus a star portfolio manager, with two-thirds preferring teams.

EXHIBIT 29

IMPORTANCE OF BRAND (BY MARKET)

PERCENTAGE POINT DIFFERENCE FROM 2016



Professionalism

Exhibit 4 showed the relative trust in various professionals, and financial advisers did not fare as well as doctors, accountants, or lawyers. A profession is generally defined as having five common factors:

1. A common body of knowledge that is widely accepted
2. Certification that individuals possess before practicing
3. A code of ethics with compliance monitoring and enforcement
4. Seal of approval and authority by society at large
5. Commitment to professionalism and continuing professional development

A profession benefits clients, employers, and society. In proposing a professional qualification for investment professionals—which would later become the CFA designation—Benjamin Graham wrote in 1945 that "the crux of the question is whether security analysis as a calling has enough of the professional attribute to justify the requirement that its practitioners present to the public evidence of fitness for their work. . . . It would seem to follow, almost as an axiom, that security analysts . . . will work hard to develop this rating into a universally accepted warranty of good character and sound competence."[15]

Values (or "good character") and competency are the next components of the trust equation.

Client-first values

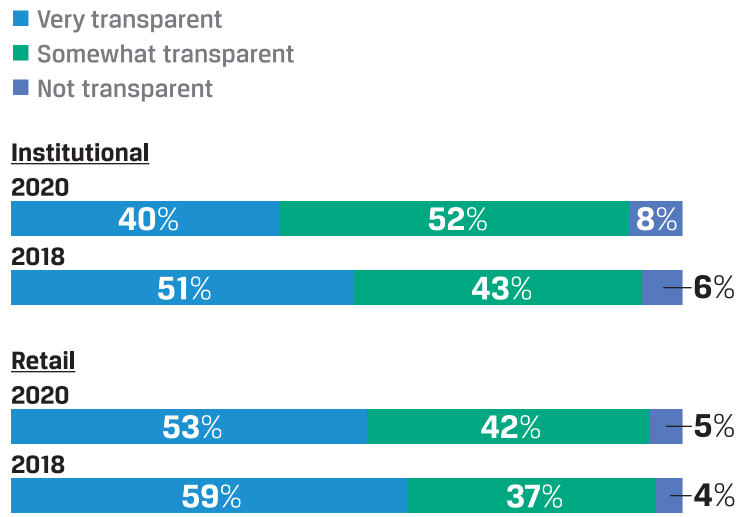
Although the majority of institutional investors (62%) believe the industry is appropriately regulated, 76% agree that "regulations alone are not sufficient to have an effective financial system: personal and firm-level integrity are also required."

Exhibit 27 shows that when hiring an investment firm, having someone trusted to act in their best interest is most important for retail investors, and it is the second most important criterion for institutional investors, after performance. An alignment of interests is necessary for any relationship to work. When retail investors were asked more specifically about this, 75% said their financial adviser is legally required to act in the client's interest above their own. This can be more complex than it first appears given different laws and regulations surrounding fiduciary duty and client best interest standards in different jurisdictions. However, only 35% of retail investors said their adviser always puts their interests first, and among institutional investors, only 25% think their investment firms put client interests first. These numbers are unchanged from two years ago.

Meanwhile, despite the increased use of technology that should enable transparency, perceptions of transparency have decreased over the last two years, as shown in **Exhibit 30**.

EXHIBIT 30

PERCEIVED TRANSPARENCY OF ASSET MANAGERS AND FINANCIAL ADVISERS HAS DECREASED SINCE 2018



There are some ways to demonstrate alignment of interests. First, most retail investors are looking for an adviser that acts as a teacher/coach to help them make better decisions (65%) versus an expert that makes decisions on their behalf (35%). Second, investment professionals should provide transparency around products and fees; 83% of retail investors with an adviser want their financial adviser to offer products from different firms, not just those that he or she gets a commission on, while only 17% prefer to minimize the out-of-pocket cost of financial advice by using products from their adviser's firm.

Commitment to competency

Although competency is difficult to assess on an ongoing basis, a commitment to professional learning is a useful indicator. When investors were asked how they would view the staff working on their portfolio if they showed that they undertake relevant continuous professional development each year, 63% of institutional investors and 66% of retail investors said they would expect them to be able to manage their portfolio better. Education is expected to provide practical benefits for clients. Furthermore, if their investment firm started requiring their staff to do continuing education each year, 95% of institutional investors and 82% of retail investors would trust the firm more, and this is especially true among younger investors.

Understanding the right skills to build is also important and will change over time. Currently, 61% of retail investors would rather have a financial adviser with economic intuition and extensive market experience than one who is data-driven and very quantitative, but the reverse is true among millennial investors. While professional learning in the investment industry is increasingly covering new quantitative methods, it is also important to have soft skills to build client relationships.

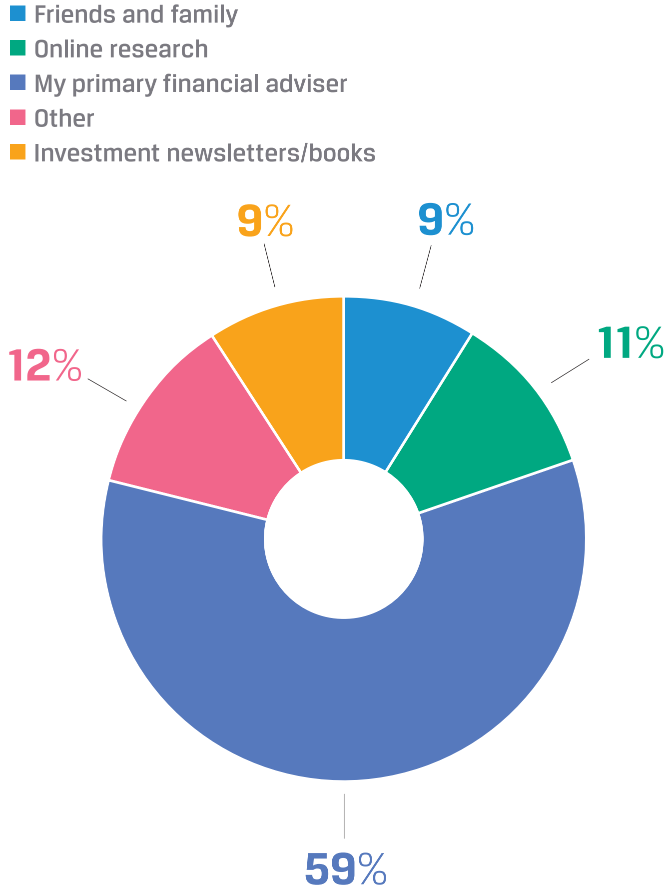
Trust and Value

The outcomes from higher levels of trust and value delivered can be measured at the firm or adviser level by retention of clients and metrics such as the Net Promoter Score, which uses an assessment of the degree to which the client would recommend their financial adviser or asset manager to others. Understanding client satisfaction through such measures, while not overly precise, can give leaders a helpful understanding of the value provided.

At a macro level, the outcome of this assessment relates to the "social license to operate" concept and can identify the value that participants and society overall put on the industry. While this may seem theoretical, we can approximate this by asking those with a financial adviser about their most trusted source of advice. An ideal trust level would result in 100% saying their adviser is their most trusted source, but only 59% say this today, as seen in **Exhibit 31**, which is lower than in 2018, when it was 65%. This trust gap can be viewed over time in relation to the effectiveness of the investment industry.

EXHIBIT 31

MOST TRUSTED SOURCE OF INVESTMENT ADVICE (RETAIL INVESTORS WITH ADVISER)



Actions Investment Organizations and Professionals Can Take to Build Trust

8 Steps to Increasing Credibility and Professionalism

Credibility

1 Maintain strong brand identity and follow through on brand promises.

- At the organization level, view brand as an opportunity to identify and differentiate your competencies and as something that helps to build trust, provided the brand promises are met.
- Brand can help facilitate trust in individual investment professionals, so recognize the value of your personal brand and how it relates to that of your organization.

2 Employ professionals with credentials from respected industry organizations.

- Investment professionals have more reasons than ever to acquire and maintain relevant professional credentials and, once earned, include them on their business card and online profile.
- Investment firms can employ credentialed professionals as a differentiator.

3 Stay focused on building a long-term track record to demonstrate competence.

- Make track record information easily accessible, and encourage investors to look at longer time horizons to avoid unnecessary switching costs.
- Communicate your plans for ensuring stability and consistency through periods of market turbulence and staff turnover.

4 Adopt relevant industry codes to reinforce your firm's commitment to ethics.

- Use the Global Investment Performance Standards® to make your performance results comparable across securities, asset classes, and clients.
- Communicate your commitment to ethics and professional codes of conduct to your clients.

Professionalism

5 Improve transparency and clarity regarding fees, security, and conflicts of interest.

- Have proactive client conversations about fees to discuss alignment of interests.
- Take the opportunity to better understand client goals and their values.

6 Use clear language to demonstrate that client interests come first.

- Disclose potential conflicts of interest and demonstrate your plans for mitigating them.
- Avoid the use of industry jargon and simplify reports when possible, while providing the essential details.

7 Showcase your ongoing professional development to improve investment knowledge.

- Investment organizations and professionals need to commit to ongoing professional learning to broaden knowledge and skills.
- Share highlights with clients from educational events attended.

8 Demonstrate your dedication to the values that clients hold dear.

- Take the time to help your investors understand their portfolios and how these connect to their priorities and goals.
- Be a teacher/coach who educates and empowers clients to become better investors.[16]

Conclusion

Trust is a valuable asset for all investment organizations and professionals, but because of the difficulty of defining and measuring trust, we are prone to underestimate the impact it can have. This arises from the two-sided nature of trust—it has elements related to the client and the asset manager/organization—making it complex to analyze.

The **information** available to investors has a strong impact on how they view the industry overall. Interactions with investment professionals generally improve perceptions and serve to increase how informed clients feel, which is a pre-condition for trust.

Institutional investors, however, are wary of the future and increasingly expect more from the industry and investment firms. Through the strategic use of technology and other **innovation**, investment organizations have considerable opportunities to build trust and effectiveness with both retail and institutional investors.

Adapting to investors' desires for more **influence** in how their funds are invested will differentiate leading firms. This includes better engagement through providing transparency about alignment of interests and fees and offering customized solutions. In particular, the increasing client appetite for ESG and values-based investing requires major work by investment organizations.

The study illustrates the mismatch between end investor wishes and expectations for outcomes and institutional investors' ability to control the outcomes. This is particularly apparent in the area of pension outcomes. Investment industry participants should work to improve the realism in end investor perceptions to avoid a markdown in industry reputation.

Investment professionals who understand and navigate these layers of investor trust will better serve their clients and demonstrate how the investment industry can better serve society. They will also produce better outcomes for their own organization in the bargain.

Endnotes

1 In India, the minimum asset level was reduced to 500,000 rupees.

2 Luigi Guiso, Paola Sapienza, and Luigi Zingales, "Trusting the Stock Market" (January 17, 2007). Available online: https://onlinelibrary.wiley.com/doi/10.1111/j.1540-6261.2008.01408.x

3 The Edelman Trust Barometer ranks eight industries on trust, using survey data from the general population across 20+ markets, and they continue to find that financial services ranks as least trusted, further showing that investors have a more favorable view of the industry given their participation in it.

4 The 2020 data presented in this study refer to survey data collected in October and November 2019. The 2018 data refer to survey data collected in November and December 2017.

5 https://www.wsj.com/articles/sonos-tunes-in-to-techlash-11578483000?mod=djemheard_t

6 Retail totals are a weighted average, and additional information about the survey sample distribution is available at trust.cfainstitute.org.

7 *Investment Firm of the Future*, CFA Institute, 2018

8 *Next Generation of Investor Trust*, CFA Institute, 2018

9 *AI Pioneers in Investment Management*, CFA Institute, 2019

10 *Investment Professional of the Future*, CFA Institute, 2019

11 *Investment Firm of the Future*, CFA Institute, 2018

12 *Future State of the Investment Profession*, CFA Institute, 2017

13 As one example, the CFA Program had a compounded annual growth rate of 11% over the last five years.

14 *Investment Professional of the Future*, CFA Institute, 2019

15 Benjamin Graham (1945) "Should Security Analysts Have a Professional Rating? The Affirmative Case," *Financial Analysts Journal*, 1:1, 37-41, DOI: 10.2469/faj.v1.n1.3939

16 This is particularly important to millennials; see *Uncertain Futures: 7 Myths about Millennials and Investing*, CFA Institute and FINRA Foundation, 2018

Note: Exhibit data may not sum to 100% due to rounding.

About the Survey

Greenwich Associates conducted an online survey of 3,525 retail investors and 921 institutional investors in October and November 2019. Markets included were Australia, Brazil, Canada, Mainland China, France, Germany, Hong Kong SAR, India, Japan, Mexico, Singapore, South Africa, United Arab Emirates, United Kingdom, and United States. Retail investors were 25 years or older with investible assets of at least US$100,000, except in India where the minimum was adjusted to 500,000 rupees. Institutional investors included individuals responsible for investment decisions with at least US$50 million assets under management, from public and private pension funds, endowments and foundations, insurance companies, and sovereign wealth funds. The margin of error for total retail investors is +/–1.8% and for total institutional investors is +/–2.0% at a 95% confidence level. CFA Institute encourages you to share the survey and related data available at trust.cfainstitute.org.

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About CFA Institute

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 170,000 CFA® charterholders worldwide in 162 markets. CFA Institute has nine offices worldwide and there are 158 local societies.

CFA Institute®
Future of Finance

CFA Institute®
Future of Finance

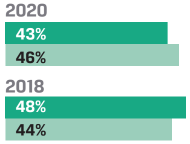
Earning Investors' Trust: Focus on United States

Information Is Essential

Although trust and confidence in the financial system is lower than average, many feel that advisers are prepared for a crisis.

TRUST IN THE FINANCIAL SERVICES INDUSTRY

US / Global



CONFIDENCE IN RECEIVING STATE-SPONSORED PENSION BENEFITS

US **57%** Global **68%**

BELIEVE THEIR INVESTMENT FIRMS ARE WELL PREPARED TO MANAGE THEIR PORTFOLIO THROUGH A CRISIS

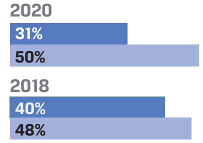
US (2020) **55%** US (2018) **63%** Global (2020) **49%**

Innovation and Tech Enhance Trust

Trust in the industry is driven by technological innovation, as well as the human touch that advisers provide.

IMPORTANCE OF ACCESS TO TECH VS ADVISER

US / Global



INVESTORS WOULD CONSIDER THE USE OF AI TO SELECT INVESTMENTS

US **20%** Global **36%**

TRUST INVESTMENT ADVICE FROM HUMANS OVER ROBO-ADVISERS

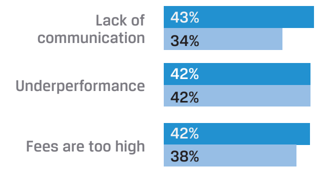
US **81%** Global **73%**

Investors Want Greater Influence and Control

Performance, personalization, and social impact are high priorities for investors.

CONSIDERATIONS TO LEAVE AN ADVISER

US / Global



HAVE INTEREST IN PERSONALIZED INVESTMENT PRODUCTS

US (2020) **53%** US (2018) **51%** Global (2020) **77%**

REASON TO INVEST IN ESG

- Express personal values/invest in making a positive impact
- Expect ESG investing to result in higher risk-adjusted returns
- Both

Credibility and Professionalism

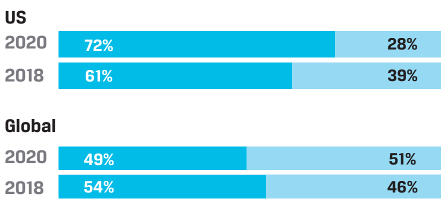
How Investment Professionals and Firms Can Take Action

CREDIBILITY

1 MAINTAIN STRONG BRAND IDENTITY AND FOLLOW THROUGH ON BRAND PROMISES

PREFERENCES WHEN HIRING AN INVESTMENT FIRM

People that can be counted on | A trusted brand



2 EMPLOY PROFESSIONALS WITH CREDENTIALS FROM RESPECTED INDUSTRY ORGANIZATIONS

SATISFIED WITH THE LEVEL OF CREDENTIALING IN THE INDUSTRY

US 47% | Global 50%

3 STAY FOCUSED ON BUILDING A LONG-TERM TRACK RECORD TO DEMONSTRATE COMPETENCE AND DELIVER VALUE

IMPORTANT THAT ADVISER GENERATES RETURNS SIMILAR TO OR BETTER THAN A TARGET BENCHMARK

US 76% | Global 77%

4 ADOPT A CODE OF CONDUCT TO REINFORCE YOUR FIRM'S COMMITMENT TO ETHICS

TRUST ADVISER MORE IF THEY COMPLY WITH A VOLUNTARY CODE OF CONDUCT

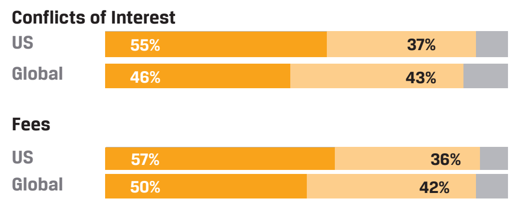
US 74% | Global 84%

PROFESSIONALISM

5 IMPROVE TRANSPARENCY AND CLARITY REGARDING FEES AND CONFLICTS OF INTEREST

LEVEL OF ADVISER TRANSPARENCY

Very transparent | Transparent | Not transparent



6 USE CLEAR LANGUAGE TO DEMONSTRATE THAT CLIENT INTERESTS COME FIRST

INVESTORS IN THE US WANT INVESTMENT REPORTS

Without changes 41% | With less jargon 23%

7 SHOWCASE YOUR ONGOING PROFESSIONAL DEVELOPMENT TO IMPROVE INVESTMENT KNOWLEDGE

BELIEVE CONTINUING EDUCATION LEADS TO BETTER PORTFOLIO MANAGEMENT

US 74% | Global 66%

8 DEMONSTRATE YOUR DEDICATION TO THE VALUES THAT CLIENTS HOLD DEAR

ADVISER ALWAYS PUTS CLIENTS' INTERESTS FIRST

US 44% | Global 35%

In the next five years, 64% of investors plan to hold actively managed products, 63% passively managed products.

ABOUT THE SURVEY

In 2019, CFA Institute and Greenwich Associates conducted a global survey of 3,525 retail investors and 921 institutional investors, including 500 retail investors and 150 institutional investors from the United States. Retail investors were 25 years or older with investible assets of at least US$100,000. Institutional investors included individuals responsible for investment decisions with at least US$50 million assets under management, from public and private pension funds, endowments and foundations, insurance companies, and sovereign wealth funds. **For more information, visit trust.cfainstitute.org**

CFA Institute®
Future of Finance

Uncertain Futures: 7 Myths about Millennials and Investing

October 2018

What's Inside:

Prepared for the FINRA Investor Education Foundation and CFA Institute by Zeldis Research Associates.

Conventional wisdom paints a vivid picture of millennials and their attitudes on investing. Some of the common assumptions about millennials include:

1. Millennials have lofty goals (for example, start a business, retire at 40, etc.), which carry over to their financial goals and aspirations.
2. Income challenges and debt are key barriers to investing.
3. Millennials, being overconfident in general, are also overconfident in their financial lives.
4. Millennials are wary of the financial services industry and by extension skeptical of financial professionals.
5. Millennials likely overestimate the investable assets needed to work with a financial professional.
6. Being digital natives, millennials naturally gravitate toward robo-advisors.
7. Millennials as a group are homogenous and so likely have similar investing attitudes and behaviors across demographic subgroups.

To explore these assumptions, this issue brief examines attitudes on investing among three millennial segments — those with no investment accounts of any kind, those with retirement accounts only and those with taxable investment accounts (most also owned retirement accounts) — and compares them with their Gen X and baby boomer counterparts. Data from a 2018 online survey of 2,828 millennials, Gen Xers and baby boomers and a series of eight consumer focus groups are used for this analysis. This issue brief is based on *Uncertain Futures: 7 Myths about Millennials and Investing, Full Report*. The report can be found at www.finrafoundation.org or www.cfainstitute.org.

Millennial financial goals: Many are not on the "FIRE" track

Conventional wisdom often portrays millennial financial goals in terms of the "FIRE" type (Financial Independence, Retire Early). Contrary to this generalization, we find that among those who expect to retire at all, millennial investors and non-investors expect to retire at age 65. Just 3% of millennials with taxable accounts plan to retire before age 50. Notably, millennial non-investors are more likely than investors to say they will never retire because they cannot afford to (17% non-investing millennials, 10% millennials with retirement accounts only, 8% millennials with taxable accounts).

As Figure 1 shows, non-investing millennials have very modest financial goals and are focused on surviving month-to-month (for example, 40% cite “not living paycheck to paycheck” as a top goal). In contrast, the top financial goals of millennials with taxable accounts largely mirror the current goals of Gen Xers and baby boomers who have taxable accounts, for example, “saving enough to retire when I want and live comfortably” (46%).

Figure 1. Top Financial Goals

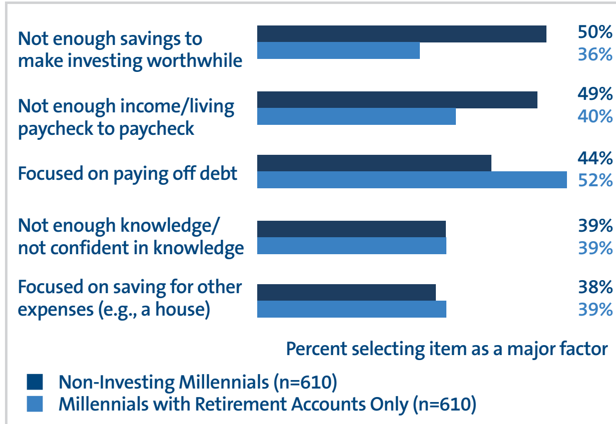
	Millennials			Gen Xers with Taxable Accounts (n=505)	Boomers with Taxable Accounts (n=509)
	Non-Investing (n=610)	Retirement Accounts Only (n=603)	Taxable Accounts (n=601)		
Not living paycheck to paycheck	40%	34%	21%	15%	17%
Having savings for unexpected expenses	33%	39%	37%	39%	57%
Saving enough to retire when I want & live comfortably	21%	39%	46%	63%	56%
Having enough to travel	31%	35%	39%	44%	59%

Q1. When thinking about your overall financial goals, please pick your top three financial goals.

Barriers to millennial investing: The role of knowledge and an employer-sponsored retirement account

Not surprisingly, debt and income are major barriers to investing. As Figure 2 shows, 50% of non-investing millennials cite insufficient savings as a major barrier, and 52% of millennials with only retirement accounts cite debt as a major barrier. However, a lack of knowledge is also a major hurdle. As Figure 2 shows, nearly four in 10 millennials (39%) cite lack of knowledge as a major barrier to investing.

Figure 2. Barriers to Millennial Investing in Taxable Accounts



Q24. How much of a factor is each of the following in why you do not currently invest? (Those with retirement accounts only: “outside of your retirement account”)?

In addition, access to an employer-sponsored retirement plan is a key stepping stone to investing. As Figure 3 illustrates, an employer is among the top influences on the decision to start investing among millennials who do invest, particularly for those with retirement accounts only. An intrinsic driver like individual curiosity is also a major influence, as are external sources like parents or family members, particularly for millennials with taxable accounts.

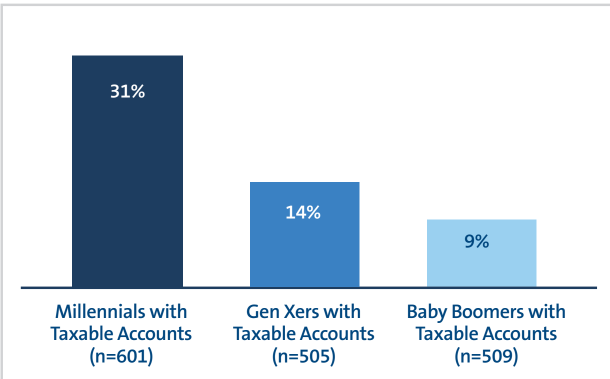
Figure 3. Key Factors Influencing Millennial Investors’ Decision to Start Investing

Percent selecting item as a major factor	Millennials with Retirement Accounts Only (n=603)	Millennials with Taxable Accounts (n=601)
Individual curiosity/interest	41%	58%
Parent/family members	39%	54%
Employer	37%	29%
Friends/colleagues	26%	36%
Part of my college education	20%	29%
Media	17%	27%
Investment games	16%	26%
Advertising	14%	25%
Financial TV show	13%	24%

Q9. How much of a factor was each of the following in your decision to start investing?

Interestingly, almost a third of millennials with taxable accounts (31%) were under 21 years old when they started investing, a significantly higher percentage than their Gen X and baby boomer counterparts (*see Figure 4*).

Figure 4. Percentage Under 21 When Starting to Invest (among Those with Taxable Accounts)

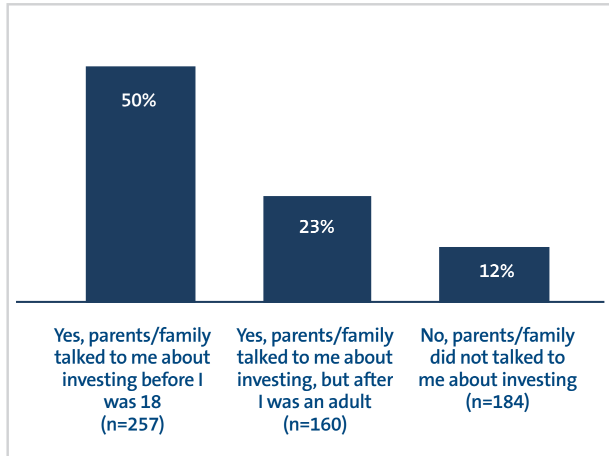


Q7. At about what age did you start investing (outside of a basic retirement account)? (BASE: millennials, Gen Xers and baby boomers with taxable accounts.)

While not necessarily causal, it is notable that millennials with taxable accounts are also more likely than Gen Xers or baby boomers with taxable accounts to report their parents talking to them about investing before 18 years old (42% versus 29% and 21%, respectively). This could be a recall difference, but it may also reflect the democratization of investing and parents' role in mediating it.

Indeed, the age at which parents talk with millennials about investing may play an important role in their decision to start investing. Again, while it may not be causal, millennials with taxable accounts whose parents or family members talked to them about investing before age 18 are even more likely to have invested at a young age (*see Figure 5*).

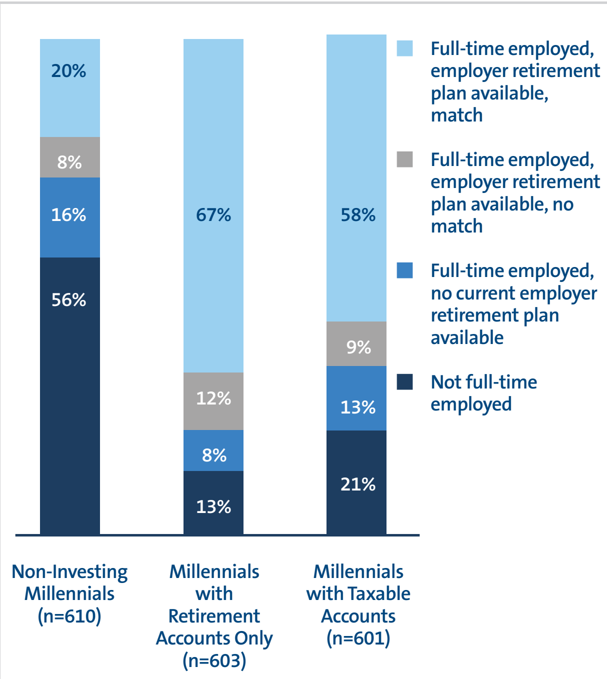
Figure 5. Percentage of Millennials with Taxable Accounts Who Started Investing Before Age 21 by Age When Parents/Family Discussed Investing



Q7. At about what age did you start investing (outside of a basic retirement account)? (BASE: millennials with taxable accounts.) Q5. Did your parents or other family members ever talk to you about investing?

Another barrier to investing is lack of access to an employer-sponsored retirement plan. Non-investing millennials have limited access to an employer-sponsored retirement plan, which diminishes their exposure to investing. As Figure 6 shows, 56% of non-investing millennials are not employed full-time, reducing access to a retirement plan. Another 16% are employed but their employer does not sponsor a retirement plan. Only 20% are employed and have access to an employer-sponsored plan with a contribution match. This is a much lower rate than among millennials with retirement accounts only (67% with match) or those with taxable investment accounts (58% with match), and it represents a reduced incentive to participate.

Figure 6. Millennial Access to an Employer-Sponsored Retirement Account



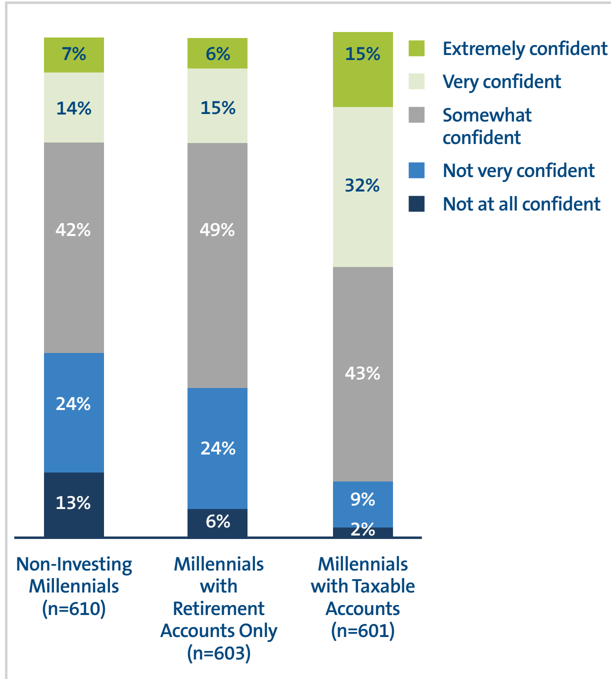
D6. Which of the following best describes your current employment situation? Q16. Whether or not you participate, does your current employer offer a retirement plan? Q18a. Does your employer provide a contribution into your retirement plan?

Few millennials are confident in their ability to make investing decisions

The millennial stereotype suggests they are generally overconfident, and according to prevailing wisdom, this spills over into their view of their own investment decision-making ability.

Contrary to this view, we find that millennials, regardless of segment, feel there is still a lot to learn when it comes to investing (*see Figure 7*). Interestingly, confidence levels in investment decision-making are roughly the same among millennial non-investors and millennial retirement-only investors.

Figure 7. Millennial Confidence in Investment Decision-Making

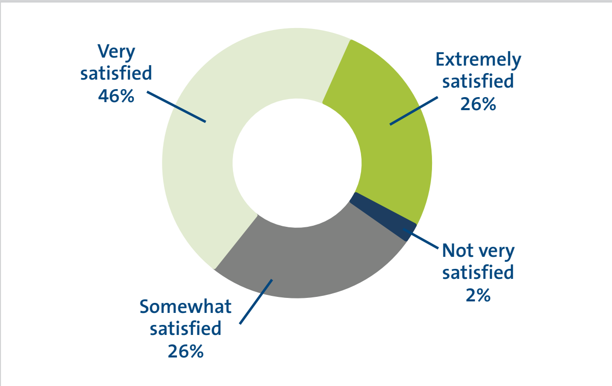


Q30. How confident are you in your ability to make decisions about investing?

Millennials across segments have largely positive views of financial professionals

In our sample, 41% of millennials with taxable and/or retirement accounts work with a financial professional. Millennials are often described as wary of the financial services industry and by extension skeptical of financial professionals. In contrast, as Figure 8 illustrates, we find that most millennial investors are satisfied with their current financial professionals.

Figure 8. Millennial Satisfaction with Their Current Financial Professionals



Q15. How satisfied are you with your current financial professional? (BASE: millennials who work with a financial professional; n=494.)

In addition, millennials who are not currently using, or not likely to use, a financial professional rarely cite lack of trust as a reason for not using one (just 15% cite this reason). Instead, they mainly point to the perceived expense of working with a financial professional and their insufficient funds (*see Figure 9*).

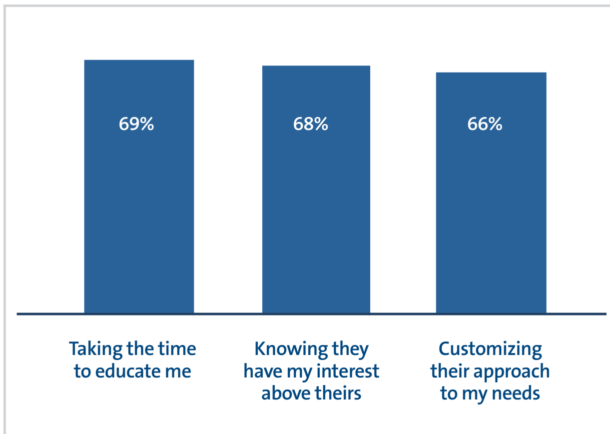
Figure 9. Reasons Millennials Give for Not Using a Financial Professional

Q28. Why are you NOT likely to use a financial professional? Please select all that apply. (BASE: millennials not likely to work with a financial professional or not currently using one; n=937.)

Indeed, in our qualitative focus groups with millennial consumers, the most common words millennials associated with financial advisers were positive, for example, “knowledgeable,” “savvy,” “experienced,” “expert,” and “available.” Views about financial advisers were more positive than those about Wall Street, perhaps suggesting more positive feelings for individuals than institutions.

Millennials want a financial professional who is more of a teacher than a friend. To build trust, millennials say they want a financial professional who will educate them, who will customize their approach to the client’s needs and who can demonstrate that they place the client’s interest above their own (*see Figure 10*).

Figure 10. Top Ways a Financial Professional Can Build Trust with Millennials



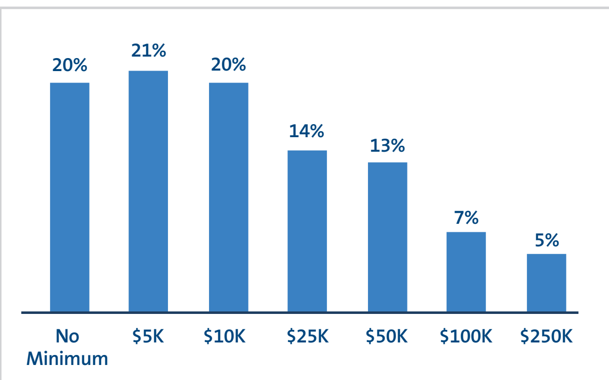
Q35. How much of a factor is each of the following in how a financial professional can build trust with you? Results shown for highest rated factors. (BASE: millennials; n=1,814.)

Contrary to their image as DIY-ers, millennial investors tend to look for collaboration with their financial professional. They are not looking for a friend per se. Indeed, “getting to know me as a person” was the lowest endorsed factor to build trust (54%).

Millennials underestimate the investable assets needed to work with a typical financial professional

A common assumption is that millennials overestimate the investable assets needed to work with a financial professional, which becomes a barrier to seeking out one. In contrast, we see that millennials underestimate the investable assets needed to work with a typical financial professional. As Figure 11 illustrates, approximately 6 in 10 believe a financial professional would work with them if they had $10K or less. Fully 20% believe that there is no minimum amount necessary to work with one.

Figure 11. Minimum Amount Needed to Make Working with a Financial Professional Worthwhile



Q33. What do you feel is the minimum amount of money available for investing that someone would need to have in order to make working with a financial professional worthwhile? (BASE: millennials; n=1,814.)

Investors with lower asset levels might benefit from learning about options potentially aligned with their resources, for example, robo-advisors or ways to find financial professionals who work with lower asset investors.

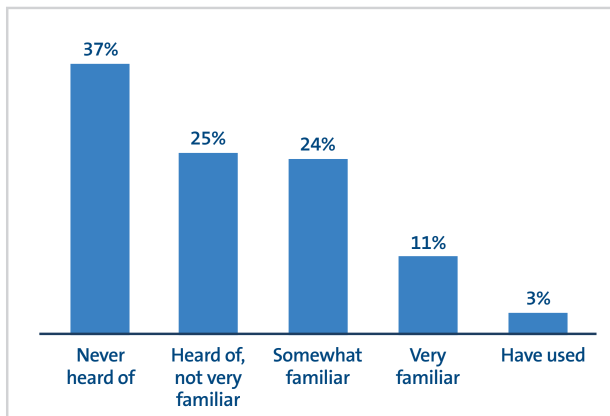
Likewise, millennials have little knowledge of the cost of using a financial professional. Forty-two percent of millennials say they do not know what type of fee they charge for their services. Of those who do estimate a fee, 77% believe it is 5% or more of invested assets (46% of Gen Xers and 31% of boomers believe this). Fee confusion is slightly lower among millennials with taxable investment accounts and those who work with a financial professional, but is still substantial.

Millennials have limited awareness of and interest in robo-advisors and certain other investing innovations

Because they have grown up in the digital age, we often assume that millennials would find the concept of robo-advisors appealing. In contrast, we see that millennials currently have limited awareness (and use) of robo-advisors. In addition, interest in robo-advisors is limited among millennials.

More than one-third of millennials say they have never heard of robo-advisors, even when a definition is provided along with examples of robo-advisor firms (*see Figure 12 and question wording below*). Another one-quarter say they have heard of robo-advising, but are not very familiar with it. Just 3% say they have used a robo-advisor.

Figure 12. Millennial Familiarity with Robo-Advisors

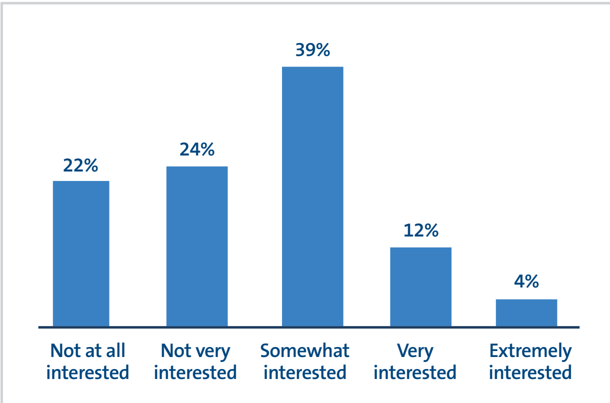


Q36a. How familiar are you with Digital Investment Advice Providers (aka Robo-advisors): automated financial planning services with little to no human supervision and lower fees (for example, Betterment, Wealthfront, Bloom)? (BASE: all millennials n=1,814.)

Millennials with taxable accounts have relatively greater familiarity with robo-advisors (22% say they are very familiar, versus 7% among both millennial non-investors and those with retirement accounts only).

As Figure 13 illustrates, among millennials who have not used a robo-advisor, interest is low, with just 16% very or extremely interested.

Figure 13. Millennial Interest in Robo-Advisors

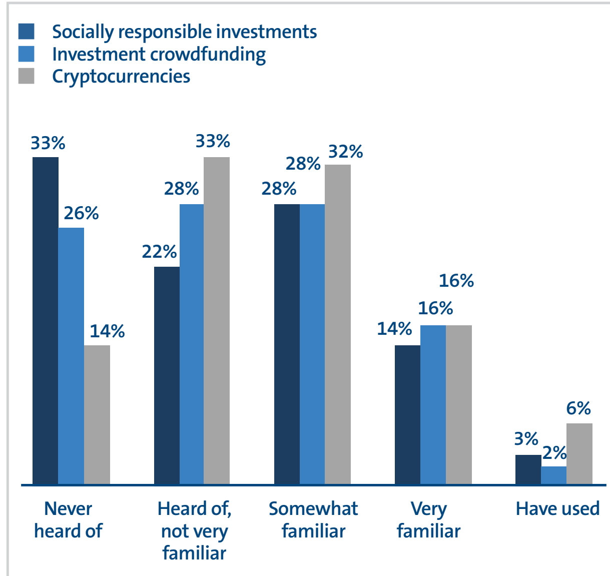


Q37a. How interested would you be in using Digital Investment Advice Providers (aka Robo-advisors): automated financial planning services with little to no human supervision and lower fees (for example, Betterment, Wealthfront, Bloom)? (BASE: millennials who have not used a robo-advisor; n=1,756.)

Again, interest is higher among millennials who have taxable accounts (23% very/extremely interested) than those with retirement accounts only (15%) or non-investors (11%).

Millennials also have relatively low familiarity with socially responsible investments and investment crowdfunding (again, the survey provided brief definitions of these concepts). As Figure 14 shows, 14% to 16% of millennials are very familiar with them and 2% to 3% have used/invested in them. Familiarity with cryptocurrencies is somewhat higher.

Figure 14. Millennial Familiarity with Investment Innovations

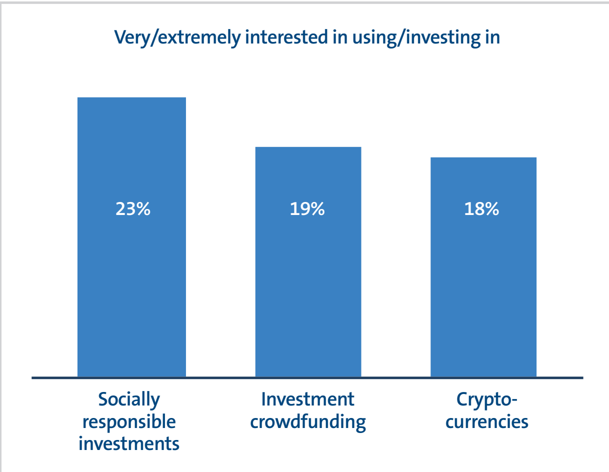


Q36b/c/d. How familiar are you with each of the following investment products and services? Socially Responsible Investing: an investment strategy that seeks to combine financial return and social/ environmental good. Sometimes called values-based investing or ethical investing. Investment Crowdfunding: a way for a company to ask a large number of backers to each invest a relatively small amount. In return, backers receive equity shares of the company. Cryptocurrency: a digital or virtual currency that uses cryptography for security (for example, Bitcoin). (BASE: all millennials n=1,814.)

Millennial interest in cryptocurrencies is currently low, similar to low levels of interest in robo-advisors, socially responsible investments, or investment crowdfunding (*see Figure 15*).

The financial services industry has an opportunity to educate many millennials about emerging financial products and services, including robo-advisors.

Figure 15. Millennial Interest in Investment Innovations



Q37a. How interested would you be in using/investing in each of the following investment products and services? Socially Responsible Investing: an investment strategy that seeks to combine financial return and social/environmental good. Sometimes called values-based investing or ethical investing. Investment Crowdfunding: a way for a company to ask a large number of backers to each invest a relatively small amount. In return, backers receive equity shares of the company. Cryptocurrency: a digital or virtual currency that uses cryptography for security (for example, Bitcoin). (BASE: millennials who have not invested in specific product or service; n=1,716-1,773.)

Some millennial sub-segments have relatively greater interest in investment innovations (*see Figure 16*). But even among these sub-segments, interest is limited (not surpassing 30% very/extremely interested among millennials with taxable accounts or 40% among those confident in investment decisions).

Figure 16. Millennial Sub-Segments Significantly More Interested in Investment Innovations

	Robo-advisors	Socially responsible investments	Crypto-currencies	Investment crowd-funding
Taxable investors	✔	✔	✔	✔
Confident in investment decisions	✔	✔	✔	✔
Parents discussed investing	✔	✔		✔
Use a financial professional		✔	✔	✔
Have children	✔		✔	
Urban		✔		
Self-employed				✔
Risk tolerant			✔	

Certain millennial subgroups are being left behind when it comes to investing and are less optimistic than their counterparts

Millennials are generally thought of as a homogenous group, with similar attitudes and behaviors across demographic subgroups. We have addressed differences among selected millennial investment segments: those with no investments; with retirement accounts only; and with taxable accounts. We also see notable differences in three other millennial subgroups: rural/urban; male/female; and trailing (ages 22-29)/leading (ages 30-37).

Rural and Urban Millennials

Compared to their urban counterparts, millennials from rural areas are less likely to invest in the next five years, less confident in decision making about investing and less likely to be full-time employed (*see Figure 17*). They are also less optimistic about their financial future. Rural millennials differ most clearly from urban, with suburban closer to urban.

Figure 17. Rural versus Urban Millennials

	Rural	Urban
Taxable investor	18%	27%
Plan to invest in the next five years	24%	34%
Employed full-time	50%	70%
Extremely/very confident in decision making about investing	22%	32%
Extremely/very confident in reaching key financial goals...		
Be able to pay monthly bills	54%	64%
Pay off/reduce mortgage debt	45%	59%
Not live paycheck to paycheck	39%	49%
Strongly agree...		
I will be better off financially than my parents	21%	33%
My children will be better off than I am financially	25%	51%
I am optimistic about financial markets	13%	21%

D12. Which of the following best describes the location where you live? Urban, Suburban, Rural. (Base: varies depending on the question, from 457 to 687 urban millennials; 181 to 242 rural millennials.)

Differences between urban and rural millennials remain consistent even when controlling for education. In particular, urban millennials are more likely than rural millennials to hold a bachelor's or advanced degree (68% versus 51%). However, controlling for education does not eliminate the difference in investment planning or confidence. For example, among those holding a bachelor's or advanced degree, only 21% of rural millennials plan to invest in the next five years versus 38% of urban millennials. Likewise, only 26% have high confidence in their decision making about investing versus 35% among urban millennials.

Male and Female Millennials

Female millennials are less confident in their decision making about investing, more likely to say that having greater knowledge would prompt them to invest and less likely to be full-time employed (*see Figure 18*).

Figure 18. Male versus Female Millennials

	Male	Female
Taxable investor	34%	20%
Employed full-time	70%	63%
Extremely/very confident in decision making about investing	33%	23%
Extremely/very confident in reaching key financial goals...		
Have savings for unexpected expenses	48%	34%
Pay off/reduce mortgage debt	56%	48%
Not live paycheck to paycheck	50%	43%
Strongly agree...		
I am optimistic about the economy	22%	15%
I am optimistic about the financial markets	21%	14%
Cite lack of knowledge as a barrier to investing	35%	41%
Say more knowledge would make them more likely to invest	7%	14%

S1. Are you male or female? (Base: varies depending on the question, from 422 to 742 male millennials; 791 to 1,072 female millennials.)

Trailing and Leading Millennials

As Figure 19 shows, compared to leading millennials (ages 30-37), trailing millennials (ages 22-29) are less confident in their decision making about investing, less likely to be full-time employed, struggle with lower income and savings and are less optimistic about their financial situation.

Figure 19. Trailing versus Leading Millennials

	Trailing (22-29)	Leading (30-37)
Taxable investor	21%	32%
Employed full-time	62%	71%
Extremely/very confident in decision making about investing	24%	31%
Cite as a major barrier to investing...		
Not enough income	49%	41%
Not enough savings	47%	40%
Strongly agree...		
I am optimistic about the economy	15%	22%
I am optimistic about financial markets	15%	21%
I will be better off financially than my parents	26%	31%

S2. What is your current age? (Base: 755 trailing millennials; 1,059 leading millennials.)

Race/Ethnicity and Millennials

While there are some differences by race and ethnicity, they are inconsistent and relatively infrequent in this study. One clear difference is in the racial and ethnic makeup of the millennial investment segments. As Figure 20 illustrates, African-American millennials are more likely to be non-investors than Caucasian or Asian-American millennials are. Also, Hispanic millennials are more likely to be non-investors than non-Hispanic millennials are.

Figure 20. Race/Ethnicity and the Millennial Investing Segments

	Millennials				
	Caucasian/White* (n=1,395)	African-American/Black* (n=223)	Asian/Asian-American* (n=169)	Hispanic**	
				Yes (n=293)	No (n=1,521)
Non-Investing	42%	52%	38%	51%	41%
Retirement Accounts Only	30%	28%	33%	29%	31%
Taxable Accounts	28%	20%	29%	20%	28%

*S6. Which of the following best describes your race? Select all that apply. (Results not shown for American Indian and Alaska Native/Native Hawaiian and Other Pacific Islander, other, or multiple responses.) **S7. Are you Hispanic or Latino?

In addition, while participation in employer sponsored retirement plans is high across millennials whose employers offer retirement plans (93% overall), some gaps exist: Asian-Americans are most likely to participate, with a 99% participation rate; African-Americans are least likely to participate, with an 89% participation rate.

Hispanic millennials also have higher interest than non-Hispanic millennials in socially responsible investing (32% versus 21% extremely/very interested).

Conclusions

Debunking these myths has implications for millennials and investing:

Historically, retiring at 65 has not been seen as a lofty goal. However, for millennials, retiring at 65 may not be realistic in 2046 (when the oldest millennials turn 65) given trends in Social Security and life expectancy. Millennials' participation in the markets and investing behavior may be critical to reaching this goal.

Financial education should acknowledge income and debt as challenges, helping millennials recognize there are many people in the same boat and identifying a path to investing. Also, more opportunities for employer-based retirement plan education, even in part-time work, could help non-investing millennials begin to invest.

Millennial financial education may benefit by being tailored to the different mindsets of non-investors, retirement-only investors and taxable account investors. Each segment has an appetite to learn more but is at a different place in their education, resources and experience.

Financial professionals can expect to be an important resource for many millennials. Those opportunities and relationships can be strengthened by a collaborative approach that is customized to client needs and gives priority to client education.

Financial advisory outreach to millennial non-investors should address perceived expenses and resource needs. Millennials would benefit from education on industry averages for typical fees charged by financial professionals and investable assets needed to work with one. Likewise, investors with lower-asset levels would benefit from learning about options potentially aligned with their resources, for example, robo-advisors or ways to find financial professionals who work with lower-asset investors.

The financial services industry has an opportunity to educate many millennials about innovative financial products and services, including robo-advisors.

Education efforts should be targeted to specific sub-segments within the millennial population who may need more support in finding a path to investing, for example, rural millennials, women, trailing millennials, and African-American and Hispanic millennials. Additional research may be beneficial in understanding how best to support these subgroups.

About the Data

The sample size for this study is 2,828. Respondents were obtained from Research Now, a proprietary online panel of individuals who have agreed to participate in the panel and who are compensated for completing surveys. As in all survey research, there are possible sources of error, such as sampling, coverage, nonresponse and measurement error that could affect the results.

Millennials are defined as those born between 1981 and 1996 (ages 22 to 37 at the time of the survey). Gen X are those born between 1965 and 1980 (ages 38 to 53 at the time of the survey). Baby boomers are those born between 1946 and 1964 (ages 54 to 72 at the time of the survey).

Within generation, results are weighted on age, region, race/ethnicity and gender (based on the American Community Survey's 5-year rolling average). In addition, results among millennials are weighted on income.

The relative size of the millennial investment segments was estimated by permitting the first 1,000 millennial surveys to fall out naturally (balanced on age, region, race/ethnicity, gender and income). This estimate was used in weighting total millennial results (43% with no investment accounts, 30% with retirement accounts only and 26% with taxable investment accounts).

All statistics in this report are weighted, but the sample sizes are unweighted. Figures may not always sum to 100% due to rounding.

More information about the study, including the questionnaire, can be obtained by contacting the FINRA Investor Education Foundation (*Gary.Mottola@finra.org*) and CFA Institute (*Rebecca.Fender@cfainstitute.org*, *Robert.Stammers@cfainstitute.org*).

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About the FINRA Investor Education Foundation

Established in 2003 by the Financial Industry Regulatory Authority, the FINRA Investor Education Foundation empowers underserved Americans with the knowledge, skills and tools to make sound financial decisions throughout life.

About CFA Institute

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 150,000 CFA® charterholders worldwide in 165+ countries and territories. CFA Institute has eight offices worldwide and there are 151 local member societies.