Risk tolerance & savings behaviour among UK retail investors

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KEY FINDINGS

1

Retail investors who have a relationship with a financial adviser tend to save more. Almost half of advised investors (46%) put money aside each month. This compares to 38% of the non-advised individuals. However, this is one of the only areas of impact this study finds advisers to have, when it comes to retail savings and investment behaviour.

2

In terms of investment knowledge, confidence in managing money as well as risk tolerance and expected investment action, the advised investors show little differentiation from those who do not have such relationships in place. For example, four in 10 of both groups say they have strong investment knowledge and six in 10 are confident in their ability to manage money.

3

This could indicate there is scope for financial advisers to turn the volume up on the value-add they provide their clients. They can arm them with more practical tools and tutelage to help boost their financial knowledge and their confidence in managing their finances.

4

Overall, investors have a keen understanding that risk is an inherent part of investing and are in turn considerably risk averse, on average. The findings support the commonly held belief that individuals fear loss and uncertainty. In the given scenarios, individuals choose a guaranteed win over the potential to win a larger amount but with a dimension of risk.

5

The data collected in this study reinforces gender stereotypes as women are found to have lower investment acumen, a higher propensity for risk aversion and a dampened ability to save overall. Just 18% of women classify their investment knowledge as strong. This compares to 53% of men who think the same. Further, almost two thirds of women (64%) would choose safety over performance, as opposed to 45% of men.

BACKGROUND AND METHODOLOGY

Saving does not come naturally to a large swathe of society and psychologists have given various reasons for this. From our tribal roots to the 'Peter Pan' syndrome of never wanting to grow up – there are several rationalisations to be made for why people don't save.

In an interview, Oxford-based psychologist, Dr Peter Collett, says: "The real reasons why people don't save are seldom economic – they're much more likely to be psychological. One of the reasons why people don't save is that they cling to the illusory idea that things will somehow improve – that, regardless of their efforts, things will get better, they'll get lucky, their talents will suddenly be recognised, and all their financial worries will disappear."

The motivations to save on the other hand are mainly cultural, according to Collett, while others indicate more practical reasons linked to a tangible goal like home ownership, travel, retirement and children's education.

A study by the Institute of Fiscal Studies has shown that in the UK, saving outside of pension arrangements has become more common since 2012. This was likely driven by changes in economic conditions such as increases in household income and general levels of confidence.

"Individuals' 'preferences for saving' – as measured by various indicators of willingness to give up income today in order to enjoy a better standard of living in the future – have been relatively stable over the past decade. This further supports the suggestion that changes in saving rates are driven by changes in economic circumstances rather than by changes in how people trade-off current and future spending," the IFS says.

The data in this report was collected as the COVID-19 crisis was still in the early stages of unfolding. The full impact of the global pandemic on retail investors' behaviour and attitudes will only be revealed in time. However, certain universal truths remain and the philosophy behind individuals' relationship with money and investments could continue to hold true.

Over the years, the media has built certain stereotypes around people's financial acumen. Although they are a vast generalisation, typecasts are often based on some semblance of reality and this report reflects this as we see the data reinforcing a few of these widely held beliefs.

For example, a study by the WealthiHer Network found women to be far more risk averse then men. The findings in this report support this view. According to some industry commentators this view of women as risk averse can affect their success in financial and labour markets. However, given it is based on evidence, the industry would be better placed to account for these gender differences to put all individuals in good stead to make sound decisions.

On the topic of risk; commenting on the results of its Financial Lives survey, the Financial Conduct Authority notes : "There is a strong desire among adults in all areas of the UK to be safe rather than sorry, when it comes to taking chances."

A key element of this report is the use of financial advisers. In the US, a report by the Department for Labor in California notes: "There is considerable evidence that individuals who receive professional financial advice are more financially healthy than those who do not." However, this report also adds that, "there is limited evidence that suggests that advisers have a direct impact on their clients' savings behaviors."

Our study supports this final statement in that the data provided by the advised and non-advised investors shows little differentiation.

Methodology: CoreData Research surveyed 370 retail investors in the UK in March 2020. The investors comprised a wide mix of those working, either full-time or part-time, and fully or semi-retired investors from all age groups in the adult population. They invest in pensions, investment and savings products and use various methods of taking pension benefits for those aged 55 and above. The average pension fund for the retail investors was worth £189,565, while the average stocks and shares ISA was worth £151,475.

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- Deep understanding of industry issues and business trends
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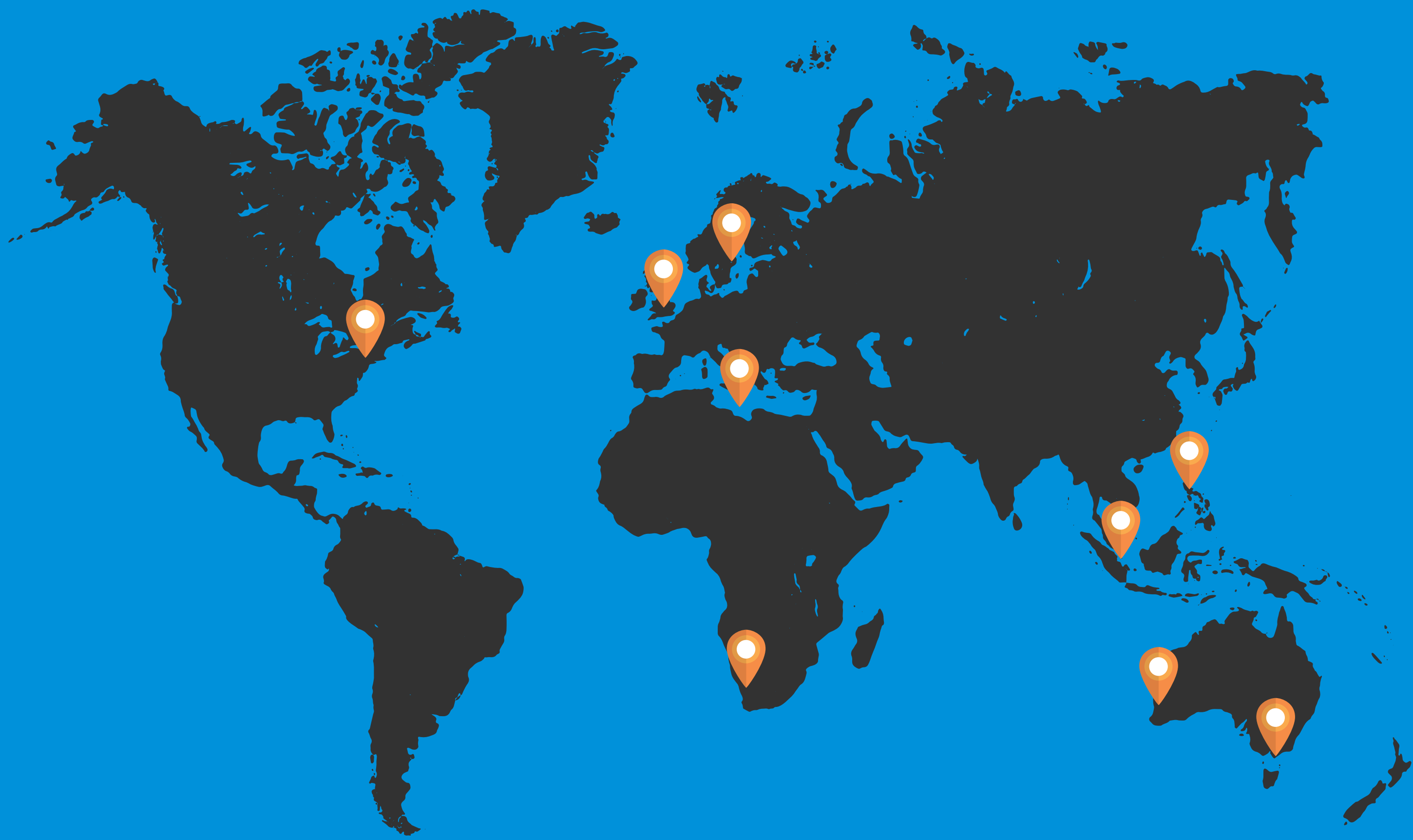

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