

Wealth Management



Investor Outlook

For the journey to financial freedom

Introduction

The **Investor Outlook** report from Lloyds TSB Wealth Management gives a unique insight into the way that we feel about investing in the stock market following a summer of financial turbulence. Comparing and contrasting the attitudes of a wide range of people when it comes to investing in the stock market or in alternative investments, the report provides a snapshot of how the recent crisis in the financial markets has affected investor confidence in stock market investments and whether this has prompted a change in the way that people invest their money.

Research was conducted in October 2007¹ amongst UK adults who currently own stock market investments, or have owned them in the past six months. Individuals were asked to consider the range of their investments, whether they complemented a long-term financial plan, to whom they look for financial advice and their confidence in the stock market as an investment option, now and in the future.

¹ Canvase Opinion research interviewed 1133 UK adults aged 18+ online, of which 820 currently hold or have held in the past six months, stock market investments. Interviews were conducted online between October 30 – November 7 2007.

Executive Summary

- When asked about their portfolio of investments over the past six months, 60 per cent of respondents said that they currently own, or have owned, stocks and shares. This compares with 67 per cent who have, or had, a Cash ISA and 55 per cent who have, or had, Premium Bonds.
- The average amount that respondents have invested is £51,380.
- When asked how confident or apprehensive they felt about their stock market investments in the past three months, one in five (22 per cent) said that they felt confident. However, more than a third (37 per cent) said that they felt apprehensive.
- One in five (21 per cent) of stock market investors, who reviewed or considered reviewing their investments in the last 3 months have moved some of their money into more cautious investments, such as cash or bonds, over the past three months.
- Looking at the coming twelve months, just a quarter (26 per cent) of investors feel confident about stock market investments, while more than a third (36 per cent) feel apprehensive.
- Seeking the advice of a professional or having a financial plan in place helps investors feel confident in their choices and in the stock market itself:
 - three quarters (75 per cent) of investors who made changes to their investments based on the advice of a financial adviser feel optimistic about their future financial prospects, compared with 65 per cent of those who did not.
 - 31 per cent of investors who have a financial plan feel confident about the future of stock market investments over the coming 12 months, compared with just 22 per cent who don't have a plan in place.
- When asked to consider their financial prospects for the future, 56 per cent of respondents felt optimistic. Just twelve per cent felt pessimistic.

Types and scale of investment

In general, Cash ISAs are the most popular form of investment, coming out top across most age groups – excluding those aged 55-64, for whom stocks and shares won out by a slim margin – and in the majority of the regions, although London and Scotland favoured stocks and shares by a narrow margin.

When it comes to the amount of money that people have invested, men tend to invest more, with the average man investing £56,351 and the average woman investing £42,475 – a difference of almost £14,000.

The amount invested also increases with age, with a slight drop for those aged 65+, perhaps as a result of that group dipping in to retirement funds. Investment also tends to be higher in the South of the country.

Investor reaction over the past three months

How has the credit crunch affected investor behaviour?

Following the US sub-prime crisis and resulting credit crunch, there are signs of a lack of investor confidence in stock market investments.

More than a third (37 per cent) of investors of both sexes felt apprehensive as the crisis played out. Men were more likely to feel confident (26 per cent), compared with just 15 per cent of women.

Unsurprisingly, 25-44 year olds were the least likely to feel apprehensive about activity in the markets over the past three months, as they have invested far less on average than older investors.

Apprehension was notably high across all the UK regions. However, confidence was highest amongst investors in the South West (27 per cent).

Those investors who had a financial plan in place were more likely to feel confident in the strength of the market with 27 per cent saying that they were confident, compared with just 17 per cent of those who did not.

Of those investors who considered moving their investments in the past three months², one in five (21 per cent) moved some of their funds into more cautious investments (such as cash or bonds), while 17 per cent kept their stock market investments the same, but invested more money elsewhere.

Nearly one in ten (nine per cent) took a more opportunist approach, investing more money in equities in the hope of taking advantage of any subsequent rises in the market.

² A total of 397 people

When investors were asked to give their reasons for moving their money around, one in three (31 per cent) cited the newspapers and television coverage as a key motivator. A quarter (24 per cent) acted on guidance from their financial adviser – a considerably more popular option for women and for those in the 55-64 years age group.

Prospects for the stock market over the coming year

As investors size up the stock market and their investment options for the coming twelve months, 36 per cent of investors feel apprehensive, while just one quarter (26 per cent) feel confident. Confidence is significantly higher amongst men – of whom 30 per cent feel confident compared with just 21 per cent of women – while just one in five (22 per cent) of those aged 65+ feel optimistic.

Confidence in the regions is patchy, with a high of 32 per cent in the West Midlands slashed to just 16 per cent in the North East.

Of those who do feel positive about the performance of the stock market still to come, 64 per cent see the stock market as a long-term investment, where short term fluctuations are par for the course. This view is more common amongst men (68 per cent) than women (55 per cent) and is strongest amongst those aged 65+ when it comes to the age groups.

Amongst the apprehensive, half of women (49 per cent) believe that the stock market hasn't been strong in recent years and that the trend is likely to continue. Just 26 per cent of men feel the same way.

Other reasons for opting out of the markets include believing that the stock market will not outperform cash or bonds and thinking that the risk associated with the stock market means it isn't worth investing in.

Informed?

Despite cautious feeling and pessimism amongst investors, more than half (54 per cent) feel informed about the state of the market today. Men (62 per cent) are more likely than women (41 per cent) to feel informed about the state of the market in light of the past three months, with those aged 55-64 leading the charge when it comes to age groups – six in ten (61 per cent) feel that they are up-to-date with developments.

Again, newspaper and television reporting (71 per cent and 48 per cent respectively), take the lead when it comes to the reasons why people feel informed, but one quarter (24 per cent) had also sought the advice of their financial adviser.

Reasons for lack of confidence and understanding were varied, with investors citing too much jargon (37 per cent) and nearly one in five (18 per cent) saying that they avoid financial stories altogether.

Looking to the future

We asked investors to think about their long-term financial prospects and the majority (56 per cent) felt optimistic about the future, with just one in ten (12 per cent) feeling pessimistic. Optimism was lowest amongst those aged 65+, of whom just 48 per cent felt that the future looked good.

In the regions, nearly two thirds (64 per cent) of those living in the East Midlands and the North West feel optimistic about their future, compared with just 49 per cent of those in London.

Again, those with a financial plan in place or those who had consulted a financial adviser are more likely to feel optimistic about the future:

- 66 per cent of those with a financial plan in place feel optimistic about their long term financial prospects, compared with 45 per cent of those who do not.
- Three quarters of those who have consulted a financial adviser and have since made changes to their investments feel optimistic, compared with 65 per cent of people who have not.

Conclusion

Investors have undoubtedly kept a close eye on developments in the financial markets over the summer and want to do everything in their power to protect their investment portfolio.

However, it may seem surprising that, despite other periods of volatility in recent years and the ready availability of expert advice, more than a third of stock market investors (36 per cent) still don't have any kind of comprehensive, structured financial plan in place. The [Investor Outlook](#) report has shown that those who do take the time to plan their finances or consult their bank or financial adviser about their investments actually feel more confident and optimistic about their financial futures. By speaking to an expert and building a balanced portfolio, investors can ensure that their finances remain in good shape despite changing stock market conditions. And provided that their plan is regularly reviewed and updated, they can have confidence that their needs will be met over the long term – regardless of disturbances in the market along the way.