Hearts & Wallets

Wake-Up Call for Investment Product Managers

Consumer Awareness Decline Continues; Similar Trend in Defined Contribution Space

(Rye, NY) – New research reveals financial services product manufacturers continue to suffer declines in brand awareness among consumers and decreased power compared to distributors in retail and the defined contribution space. Even so, new value-added products structured to meet consumer goals offer the potential to reclaim some balance as identified by **Hearts & Wallets**, the preeminent financial research platform for consumer savings and investing insights.

Hearts & Wallets latest study shows continuing low product awareness across all lifestages as awareness of distributor-provided asset allocation increases. This trend is yet another sign of how product manager attentiveness to distributor needs, while ignoring consumers, has allowed retail financial distributors to gain the upper hand in satisfying the needs of the ultimate decision-makers – consumers.

The latest Hearts & Wallets study, *Product Trends: Ownership, Allocations & Competitive Metrics***,** details product ownership trends and opportunities within all lifestage, wealth and age segments for financial services firms and advisors and provides a blueprint for product managers to discover the consumers who love their products and get to know these "heavy-users" better. A few key takeaways of the study –

Declining product awareness:

- Last year, only two-thirds of Americans knew the mutual funds, bonds, exchange traded funds (ETFs) or other financial products they owned. In contrast, five years ago, three out of four consumers (76%) could identify their investment products. In the 1990s, high product awareness prompted consumers to seek out products like the Magellan Fund of **Fidelity Investments**, which was once the world's best-known mutual fund.
- One in five Americans with $100,000 to $500,000 in investable assets is unable to identify what investment products owned.
- Three times as many people think they may be shareholders of third-party distributed fund companies than are certain that they are.

Rising asset allocation and retail distributor awareness:

- 75% of all consumers can identify their asset allocation in 2014 (up from 68% in 2013).
- 90% can identify and answer questions about at least one of their "stores," as Hearts & Wallets refers to retail and defined contribution providers that work directly with investors.

"In a grave strategic error, investment product managers have allowed their offerings to become commoditized," Laura Varas, Hearts & Wallets partner and co-founder, said. "Industries often have a collaborative power struggle between manufacturers and distributors rather than 'going direct.' Consider a toothbrush manufacturer that depends on distributors to sell toothbrushes in attractive stores. The manufacturer makes significant investments to understand brushing trends and develop new products and pricing. The toothbrush manufacturer would never let the store gain the upper hand by becoming more knowledgeable than it is about how consumers wants to brush their teeth. Yet, that is precisely what has happened in retail investing the past 10 years. Investment product managers have effectively punted, saying to their distribution partners, 'sure, I'll build the bristles, and let you design the toothbrush.'"

The Hearts & Wallets study raises concerns about consumers who invest in products they don't understand even if they delegate the choice to a trusted retail firm. For the industry, current low awareness is a major drawback for product managers, who continue to lose influence and ability to interact with consumers. The trend also negatively impacts financial advisors and "stores," as they must potentially expend additional time to construct and explain solutions for disengaged consumers. "This is why stores are demanding, and getting, larger shares of the ultimate price paid by consumers," adds Varas.

Shareholder Awareness Score

The decline can be seen in low overall results for reach and "Shareholder Awareness Score" in the comparison of 20 branded national investment managers. Fidelity investment products have the largest "reach," an advertising term for the number of households engaged to at least some degree, followed by Vanguard in the No. 2 spot, and American Funds in No. 3.

Overall reach quality is also important and can be measured by "Shareholder Awareness Score," which calculates the percentage of people who think they might be shareholders of a firm's investment products who are sure they actually are. **Fidelity** and **Vanguard** achieve the best practice with two-thirds of all possible shareholders confident they are shareholders. Among purely third-party distributed funds, the best practice is 50% awareness, achieved by **American Funds**. **BlackRock** is on the rise, with a Shareholder Awareness Score up from 41% in 2011 to 47% in 2013. Most other firms stayed constant, except for **Putnam,** which declined. The Hearts & Wallets Investor Quant (IQ) database contains large sample sizes of households to ensure the ability to profile distinctive consumers of each firm's products.

"With the exception of Fidelity, which is definitely owned by 11% of U.S. households, the household percentage conclusively reached is down for most managers," said Brown. "Loss of power among manufacturers is exacerbated by the white labeling trend in the defined contribution space. Investment menus are shifting from manager-branded portfolios to generically named options in which money management firms are virtually hidden from participants."

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Insights for Product Managers

The study's extensive product ownership and consumer attitudes database offers insight into innovative product solutions to help product manufacturers regain some balance with distributors. One promising area is packaging advice into products. Almost half of Americans (48%) prefer a goal-based product rather than a portfolio created of many component investments. Beyond retirement and college savings options, the goal could address the No. 1 savings goal for younger consumers: to build up an emergency fund, as identified in Hearts & Wallets research. Another value-added product solution might include multi-asset class products. Only 14% of households own these products, but who do allocate an average of almost half their portfolios (42%).

"The opportunity for value-added products like goal-oriented and multi-asset class products is compelling," said Varas. "For example, fewer people own multi-asset class products. Those who do, embrace the concept. The pattern holds for other holistic products. Product manufacturers should take a page from advice productizing by robo-advisors to deliver value-added products to help rebuild brand awareness. Products are a highly scalable way to deliver advice."

Who Owns What

All wealth segments and lifestages except Mid-Careers (ages 40 to 52) increased stock holdings, as might be expected with a long bull market. High-net-worth (HNW) households with $2 million or more of investable assets increased stock allocation to 48% in 2014 from 39% in 2013. High cash allocations (average 58%) remain a problem for the Mass Market (households with less than $100,000 in investable assets). The Investor Quant (IQ) database can be further refined to profile investment owners beyond the following table:

U.S. Ownership of Investment Products	% Owing Product[1]
NET Mutual funds/ETFs, which includes:	**48%**
U.S. stock mutual funds	**28%**
U.S. bond mutual funds	**17%**
Global or international stock mutual funds	**16%**
SUB-NET Target/Balanced, which includes -	**16%**
Target date retirement mutual funds	**8%**
Balanced, target-risk or asset allocation mutual funds	**10%**
ETFs (exchange traded funds)	**14%**
Individual stocks	**8%**
Individual bonds	**29%**
Separately managed account	**11%**
CDs, FDIC savings or checking account	**6%**
Money market funds, cash in brokerage account	**34%**
Annuities	**21%**
Other	**14%**
Don't know/none of the above	**22%**

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[1] National ownership for households with some level of investable assets, > $0 assets.

Big Jump in Online Brokerage Accounts

Newer products such as exchange-traded funds, which are traded in online brokerage accounts, are rapidly displacing relatively old-fashioned investment products, such as long-only U.S. equity funds. Online brokerage now reaches 40 percent of U.S. households, making a big jump in one year across all wealth segments, up from 26 percent in 2013. Three out of four online brokerage account owners trade six or less times a year, indicating accounts are used to hold investments.

The biggest growth in online brokerage was among the Emerging (ages 21 to 27), Early Career (ages 28 to 39) and Mid-Career lifestages. Many of these investors use online brokerage to hold investments and consequently trade sporadically. The highest trading level activity is among households with $2 million-plus, 26% of whom trade 12 or more times every year. More detail on level of trading activity is available in the Hearts & Wallets IQ database.

About the Hearts & Wallets Study

Methodology

Product Trends: Ownership, Allocations & Competitive Metrics details product ownership and opportunities by segment and is drawn from the **Hearts & Wallets Investor Quant (IQ) Database.** The IQ database platform serves as the engine for Hearts & Wallets annual reports as well as emerging trend analysis and consists annually of more than 2 million data points from 85 families of savings and investment questions asked during 40-minute interviews of 5,500 U.S. households. The integrated database engine now consists of more than 30,000 U.S. households over five years.

About the Hearts & Wallets®

Hearts & Wallets LLC is the preeminent financial research platform for consumer savings and investing insights that inspire innovation, inform choice and modify behavior. Most of the top 10 retail financial services firms, in terms of assets under management and investors served, subscribe to the Hearts & Wallets Investor Quant (IQ) database engine platform with data on 30,000 U.S. households over five years. The firm's integrated research platform combines consumer marketing and strategy frameworks with a deep, practical understanding of how the investment, retirement and banking industries function. Hearts & Wallets grows financial services client businesses by illuminating new, smart ways to truly help American savers and investors. Clients better understand the unmeet needs of distinct population segments, improve their products and services, gain a powerful competitive edge, and ultimately, enhance consumer lives. The company is headed by two of the leading research experts in retirement market trends for the financial services industry, **Chris J. Brown** and **Laura Varas**. Their studies and conferences are must-have resources for retirement industry strategists, product managers and marketing and sales executives. For more information, visit **www.heartsandwallets.com**.

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