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Top 10 findings



60%
Australian adults or **11.2 million** people hold investments outside of their institutional superannuation fund



More and more young people are investing outside their institutional superannuation funds

Over the last **5 years** the proportion of **18-24** year olds investing has doubled from **10% to 20%**

The proportion of **25-34** year olds has increased from **24% to 39%** over the same period



37%
of Australian adults or **6.9 million** people hold investments that are available through a financial exchange

31%
of Australian adults hold shares

7%
of Australian adults hold derivatives

11%
hold other on-exchange investments



On-exchange investments are a more common investment choice than cash or property

62%
of investors hold on-exchange investments

56%
of investors hold cash

37%
of investors hold investment property



Self-managed superannuation funds (SMSF) use will continue to grow, with **30%** of Australian adults that do not currently use an SMSF planning to set one up in the future

15%
of adults claim to have an SMSF

13%
of adults without an SMSF are planning to establish one within the next year

8%
are further planning to establish one in the next **13-24** months



84%
of lapsed investors
intend to return to investing

41%
intend to return in next **2 years**



60%
of all investors use some form
of professional advice (financial
planner, full-service stockbroker,
accountant, and/or lawyer) to help
them make investment decisions



Disconnect between investor risk profiles and their return expectations

Young investors are more risk averse than older investors

81%
of investors under
35 are seeking
guaranteed or
stable investment
returns

41%
of investors over
55 are comfortable
with some variability
in their returns

21%
of the most risk
averse investors
expect returns
over 10%



Diversification is still not well understood

46%
of investors claim
to be diversified and
hold **2.7** investment
products

40%
of investors
say they do not
have diversified
portfolios.
They hold **1.6**
investment
products

15%
of investors don't know
if they're diversified

75%
of share
owners hold only
Australian shares



40%
of investors holding on-exchange investments
transacted in the last 12 months

65%
traded using non-
advice brokers
and online trading
platforms

42%
of share owners
have traded in the
last 12 months

71%
of investors that
traded in the last 12
months made fewer
than 10 trades

Executive summary

Investing is a critical activity in any modern economy. It's how businesses prepare for serving customers in the future, how a nation grows over time, and how individuals and families can participate in financial successes of businesses and earn an income.

Investing is as old as economies themselves. And yet, the early Twenty-First Century is also a time of considerable change in the investment landscape. The changing structure of our population is reshaping who is investing and why. New digital technologies have brought new ways for people to invest, altered what they invest in, and how they receive advice.

In the aftermath of the global financial crisis and the European sovereign debt crisis, there has been a slowing of global growth and low nominal interest rates, which have contributed to lower yields and led to investors reconsidering their risk appetite. Over the past decade the Australian financial sector has been subject to significant policy change which has seen a tightening of regulation. This change continues to unfold and will impact the behaviours of financial intermediaries and investors.

In 2016, the Australian equity market generally outperformed other developed equity markets globally (RBA, 2017). At the time of writing, the S&P/ASX 200 was at its highest level since prior to the global financial crisis. Trading volumes have increased 23% over the 12 months to March, and continue to grow (ASX, 2017a). The domestic equity market capitalisation is at a historic high, reaching \$1.8 trillion in March this year (ASX, 2017b).

At the same time, significant global events have influenced domestic markets over the last year. The announcements of decisions by British voters to leave the European Union and by US voters to elect President Trump coincided with increased trading volumes on ASX. These two largely unexpected developments are key examples of a global environment characterised by significant uncertainty. Geopolitical developments are likely to continue to be a focus for investors in the near future (Investment Magazine, 2017). Against this background, risk management will be an important consideration for all investors, increasing the importance of having an appropriately diversified portfolio.

This study does not provide an assessment about whether retail investors (hereafter referred to as 'investors') are doing the right thing, nor does it offer advice for these investors to follow. Instead, this study seeks to shed light on investor behaviour in this complex and changing investment landscape, and provides some 'food for thought' for the investment industry that caters to them.

This 2017 edition of the study has been prepared by Deloitte Access Economics, a successor to decades of effort by ASX, which has biennially published a profile of Australian share ownership since 1986. This study is based on an online survey of 4,000 individuals (a representative sample of the Australian adult population). The focus is on Australian adults that invest outside of their institutional superannuation fund arrangements.

The investment landscape has become more sophisticated over time, and while Australia has ranked well against global measures of financial literacy, there is scope to improve. Australian investors' portfolios are not very diversified, and their awareness of financial products declines quickly outside of shares.

At the same time, the investment industry may not be engaging with investors as well as they could be. Some of the survey findings may challenge existing industry perceptions of investors. There is an opportunity for the industry to change and become more responsive to its customers, which can help deliver improved financial outcomes for Australians and the economy.

This study also identifies some 'food for thought' for the investment industry.

Food for thought for the investment industry

- Do you have a good understanding of how these changes will impact investors?
- Is your business model geared towards supporting investors as the investment environment and their preferences change?

Investment ownership trends

The level of ownership of ‘on-exchange investments’ (which is defined to include investment products that are bought and sold through a financial exchange, for example, shares and derivatives) has remained broadly consistent since the 2014 study, at around 37% of the adult population.

However, investing is becoming more common among young people. The proportion of 18-24 year olds investing has doubled in the past five years, from 10% to 20%.

Ownership of international shares has also increased. Today, nearly 8% of the adult population say that they directly hold shares listed on an international financial exchange, up from 5% in 2014.¹

Food for thought

- How is your business responding to the growth in numbers of young investors and self-directed investors?
- Do you promote the use of specific investments, like exchange-traded products, to facilitate easy access to international markets?

Profile of the Australian investor

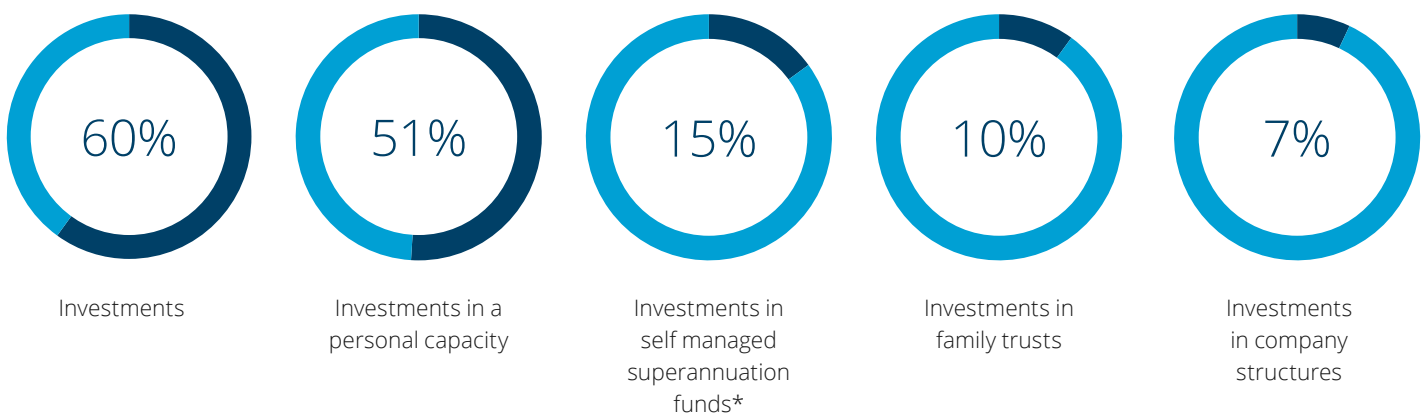
Three-fifths (60%) of Australian adults directly hold investments of some sort (including investments not available on a financial exchange) outside of their institutional superannuation fund (Figure i). This means that many Australian adults are comfortable investing, but they are not necessarily investing in on-exchange investments.

Most commonly, Australian investors hold their investments in a personal capacity. Of investors holding investments personally, young investors are the least prominent. This may partly reflect the real or perceived barriers that this group faces, or the fact that they have other priorities.

Young investors are more digitally savvy, and while the advent of digital wealth advisory (i.e. robo advice) offers opportunities for both investors and financial advisers to take advantage of digital innovation, use has been limited. This is mostly due to a lack of knowledge about these products, which suggests that the investment industry could do more to educate investors (and raises questions about whether these innovations truly meet investors’ needs).

Figure i: Investment structures used, proportion of adult population

Share of the Australian adult population holding:



*This is higher than the ATO’s SMSF statistical report – December 2016, which indicates that around 6% of Australian adults are members of SMSFs

Note: Options do not sum to 100% because many investors hold investments through more than one structure; 2017 (n=4000)

¹ It is possible that respondents may have misinterpreted the question and are in part reporting international shares they hold indirectly.

At the same time, and contrary to conventional expectations, young investors also appear more risk averse than older investors – with 4 in 5 young investors preferring guaranteed or stable investment returns. The investment industry could seek to better tailor their products and advice to meet this need, for example, by considering capital protected products and providing education on risk management.

Food for thought

- Does your business model cater for investors at all life stages?
- Are you developing low cost entry level products to cater for investors just starting out?
- How will you help educate young investors about the pros and cons of investing and of the value of professional financial advice?

Australian investors' portfolios are not very diversified

Diversification is about an investor limiting their exposure to any single asset (ASIC, 2017a). However, Australians have relatively concentrated investment portfolios, holding primarily cash savings, shares, and investment property. This only reflects investors' holdings outside their institutional superannuation fund, and could be balanced out depending on how their superannuation is invested. Typically, superannuation assets are primarily held in equities (ABS, 2017a).

On-exchange investments collectively comprise the most commonly held investments – 62% of all investors (that is, of the 60% of Australian adults that invest in some way) hold them in some form. This is followed by cash savings (56%) and investment property (37%).

Irrespective of household income levels, cash, shares, and property are the most commonly held investments in Australia, although wealthier households tend to invest relatively more in property and shares.

There is a significant domestic focus in Australians' investment portfolios, with 75% of all share owners (that is, those investors that hold shares of some kind) only holding domestic shares, although they may have overseas equities exposure through their institutional superannuation fund.

Over the next 12 months, more investors are planning to move out of cash than other investments. This is likely a result of record low interest rates and the low relative returns on cash. However, cash is likely to continue to be one of the most popular investment choices.

Food for thought

- How can you help investors think about diversification?
- How can you engage investors to improve their awareness of and confidence with different financial products?

Why Australians invest

Australians typically invest for the long term. Retirement and wealth accumulation are front of mind for all age groups, and individuals are investing in products that reflect these goals.

However, investing can be a path to achieving other life outcomes. For example, as reflected in the survey results and the case study on Wealth Enhancers Pty Ltd (see Box A on page 34), younger investors may be increasingly considering investing as a way to save for their home deposit. The investment advisory industry is already shifting away from business and product-led operating models to customer-led ones. By focusing on building long-term client relationships, financial advisers can help their clients invest to achieve a broader range of outcomes throughout different life stages. This will require financial advisers to have a better understanding of their clients' individual needs. Making better use of customer data will be an important enabler to achieving this at scale.

Investors, on the whole, feel confident investing in cash, shares, and property, but quickly lose confidence when asked about other investments. Less than 20% of all investors feel confident investing in unlisted managed funds, derivatives, and other on-exchange investments (such as bonds, hybrid securities, and exchange traded funds).

There are likely a number of reasons for this, which may include the lingering investor scepticism from the global financial crisis. It may also be partly driven by a lack of understanding of these investment products. At the same time over 30% of investors are not aware of these products. One way to improve awareness and understanding could be through improving financial education, including through greater use of financial advice.

The rise of SMSFs

Self-managed superannuation funds (SMSFs) have become increasingly popular. This study found that 30% of investors that do not currently use an SMSF intend to set one up in the future, suggesting growth in the number of users of this structure.

SMSF investors are long-term focused – in line with the purpose of superannuation. Their top investment goal is saving for retirement. They are also more likely to use professional advice than the average investor, citing the advantages of tailored advice, and the complexities of tax and administrative procedures as their main reasons for doing so.

Similar to Australian investors more broadly, SMSFs are invested heavily in cash, shares, and property, though the case study on Class Limited (see Box B on page 36) revealed that some SMSF investors are also interested in alternatives such as crowd-funding and peer-to-peer lending.

Food for thought

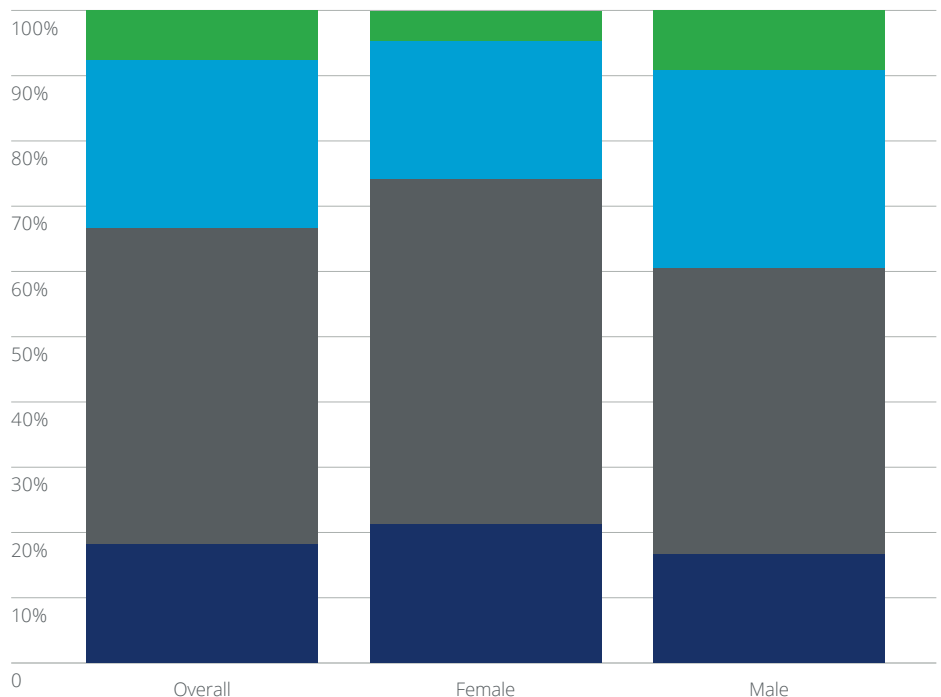
- How can you help investors think through whether an SMSF is right for them, including educating them on portfolio construction, administrative and regulatory requirements?
- Given the expected growth of SMSFs, can you afford not to be an SMSF expert?

Australians' attitudes to risk

Australians are risk averse by global standards. A global investment survey found that only 29% of Australian investors are prepared to increase their risk profile for the opportunity to earn more income, compared to 66% of investors globally (Legg Mason, 2015). This study finds that nearly 70% of all Australian investors are seeking stable, reliable or guaranteed returns from their investments (Chart i).

This risk aversion is particularly strong among young investors, challenging the stereotype that older people are more risk averse than young people. This is also reflected in young investors' higher aversion to loss (Chart ii). This may be related to the economic environment that the younger cohorts have grown up in – witnessing the impact of the global financial crisis in their formative years. At the same time, relatively lower financial knowledge and financial experience may also be driving this higher degree of cautiousness (Kan et al., 2016).

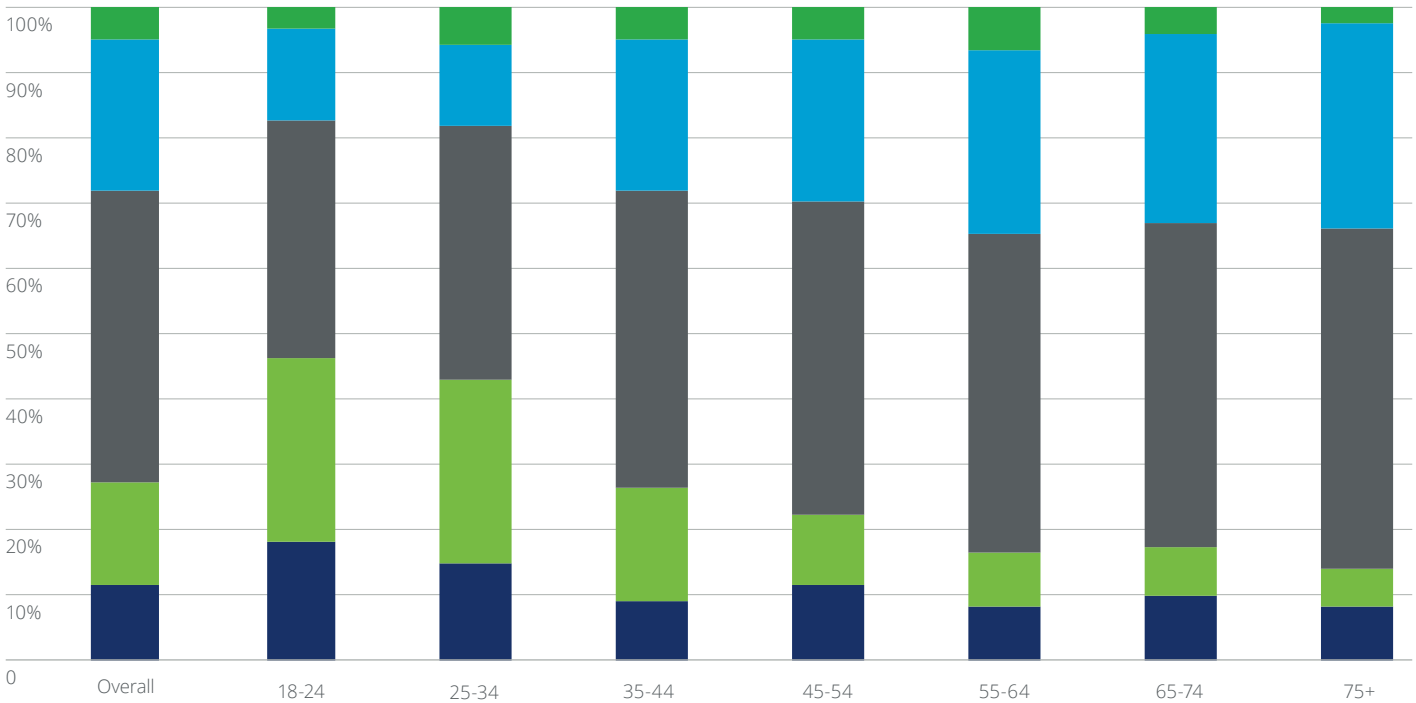
Chart i: Investors attitudes to risk, proportion of investors



- Accept higher variability with the potential for higher returns
- Accept moderate variability in returns
- Prefer stable, reliable returns
- Prefer guaranteed returns

Notes: n=2391

Chart ii: Reaction to investment balance dropping 20%, proportion of investors



- I'd invest more funds to take advantage of the lower unit/share prices expecting future growth
- This was a risk I understood - I'd leave my investments in place expecting performance to improve
- I'd be concerned, but would wait to see if the investments improve
- I'd cut my losses and transfer my funds to more secure investment sectors
- Lose sleep - Security of my capital is critical and I don't intend to take risks

Notes: n=2391

More risk averse investors are expecting (on average) lower returns than less risk averse investors. However, 1 in 5 of the more risk averse investors are seeking double digit returns. Given that interest rates are currently at historical lows, these investors may be unrealistically optimistic about their return expectations.

Diversification is one of the most effective ways to manage investment risk (ASIC, 2017a), and given the level of cautiousness amongst Australian investors, it may be expected to be widely used. However, around 40% of all investors report that they do not have a diversified investment portfolio.

Although some investors will have made a clear choice to have more targeted portfolios, others may be constrained by a lack of access to or knowledge of certain investment products.

While the investment industry has taken steps to improve public understanding of the benefits of diversification, there may still be an insufficient understanding of diversification amongst investors. This could mean that the investment industry is struggling to connect with investors. The industry needs to consider new approaches to help investors better understand and navigate their investment journey.

Food for thought

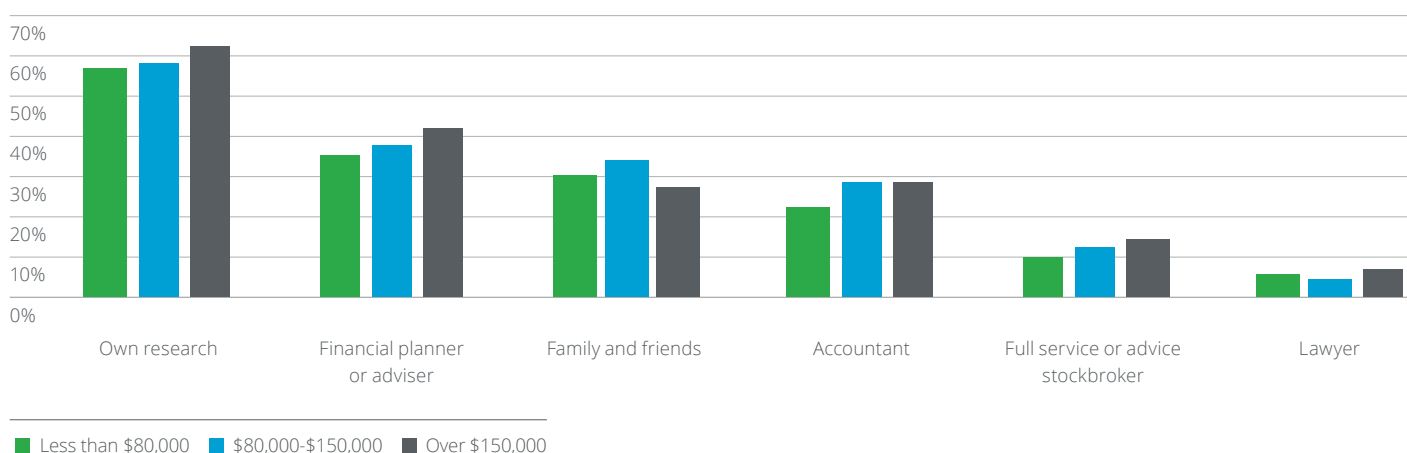
- How can you help investors understand what returns are reasonable for different asset classes in the current environment?
- How are you helping investors think through the risk and return trade-off?
- How can you help investors to understand the benefits of diversification?

How Australians approach investing

Financial advisers can assist investors with understanding and accessing their investment options. New technologies being introduced in this space have the potential to substantially change the future of financial advice provision.

Currently, around 60% of all investors use some form of professional advice (from a financial planner, full-service stockbroker, accountant, or lawyer) to help guide their investment decisions. Financial advice (from a financial planner or full service stockbroker) is more commonly sought by higher income investors, although the differences are modest (Chart iii).

Chart iii: Use of professional advice, by household income



Notes: Investors could select more than one answer, n=2391

Investors said that the top reasons they use advice are that the advice can be tailored to their personal circumstances, and that an adviser helps them better manage risk in their portfolio. For those not using advice, their main reasons are a preference to be in control ('do-it-yourself investors'), and that they are not convinced that advice adds value.

Of these 'do-it-yourself' (DIY) investors, they may not be averse to using financial advice, but it could be that the current form of advice does not suit their preferences. Innovations such as digital wealth advice (i.e. robo advice), which offers advisory services on-demand, may be more suitable to this group of investors. For example, Owners Advisory suggests that many SMSF users have taken up this service (see Box D on page 56).

However, when asked about robo advice, the majority of investors said that they did not know enough about robo advice to consider using it. Young investors were more positive about using robo advice than older investors.

Providers of financial advice need to better demonstrate the value of their services to investors. While developments in the industry have sought to increase the use of financial advice by improving its quality and affordability, convincing investors of the value of advice has been an ongoing challenge.

Developments in technology can help advisers to engage investors through more efficient and convenient channels. This will continue to be an important focus for the industry.

Food for thought

- Are you thinking about how you can engage DIY investors?
- How can you demonstrate the value of advice to counter the perceptions of a lack of value and high cost?
- Are you considering the development of your own technology or partnering with other organisations (white labelling) to increase the range of lower cost investment options for investors?

Understanding potential investors

Non-investors are potential investors. Understanding the barriers they face and their attitudes to investing will help to realise that potential.

Many non-investors are young, and as such have lower incomes. Of 18-34 year olds who do not invest, 61% have an annual household income of less than \$80,000. The main reason cited by individuals that have never invested for not investing was that they did not think they had enough money to do so. Three in five individuals that have never invested think that they need more than \$5,000 to begin investing.² As the incomes of these individuals increase, they will be more likely to invest.

Individuals that have never previously invested are also more risk averse than investors. Of these individuals, 36% would want guaranteed returns on their investments, compared to around 18% for investors. These individuals are also less financially savvy than investors and have lower awareness of alternative financial products.

Non-investors that have previously invested were not averse to start investing again once their personal circumstances allowed. Around 84% of lapsed investors said that they plan to start investing again at some point, with 41% of this group intending to invest again within the next two years.

The barriers to non-investors becoming investors are generally surmountable. Improving financial literacy will encourage many to start investing. The investment industry could review the types of 'entry-level' products and services that are offered to new or returning investors, and how to communicate their availability to these groups.

Food for thought

- How can you engage individuals that have never previously invested or have lapsed?
- Do you offer investment products with low entry costs and appropriate risk profiles for new investors?

Conclusion

Investing is important for Australians. As the population ages, and people spend more time in retirement, wealth accumulation is becoming critical to support standards of living.

A single person seeking a 'modest' lifestyle in retirement requires a lump sum of at least \$370,000 (without the age pension) invested and returning 7% p.a. (Super Guide, 2017). For couples, this lump sum needs to be at least \$400,000. In order to have a 'comfortable' retirement, households will require double these amounts (Super Guide, 2017, and ASFA, 2016). Compulsory superannuation will not always be enough to maintain individuals' lifestyle expectations in retirement.

Investing early to accumulate wealth will make the difference between a modest and a comfortable retirement in the future – and whether or not individuals will need to rely on the age pension.

While the majority of Australian adults hold investments of some kind, there remains a significant minority who do not invest. There is a big opportunity – engaging non-investors would significantly increase the pool of invested funds, as well as assisting those people to further their financial goals.

While most investors feel comfortable with shares, cash, and property, diversification remains an issue impacting overall risk. This may be constraining investors' ability to best match their investment behaviours to their financial goals. Furthermore, investors may not be optimising their return for the level of risk they are taking on.

Currently, most investors in Australia are self-directed, and choose to conduct their own research. Many also prefer to defer to their family and friends. More knowledgeable investors may make more use of a wider range of investments products. However, many investors simply do not see the value in seeking professional financial advice. This suggests that the industry needs to reconsider the way in which it interacts with investors to demonstrate its relevance as a partner in an investor's journey.

This may be through adopting business models that are customer-led and focusing on how it can help investors achieve their desired outcomes throughout different life stages. As well as adopting developments in technology. The impact of ongoing policy change also has the potential to improve the value and reduce the cost of financial advice. All of these developments have the potential to enhance the value of financial advice for investors.

There is also an opportunity to support participation of non-investors by raising financial literacy through financial education initiatives and greater access to financial advice, as well as offering entry level products to investors that are taking their first steps.

Australia has over 11 million investors. But this could be higher. The barriers to achieving this are not insurmountable.

² Excludes those individuals that did not know or were unsure.



1. Retail investment in Australia

The Australian Share Ownership Study is a long standing ASX initiative. First conducted in 1986, the study profiles investors to provide an understanding of the investment landscape in Australia: perceptions, attitudes, behaviours, and demographics of investors.

This 2017 Australian Investor Study is the most comprehensive iteration yet. This study discusses some megatrends and their impact on the investment landscape, as well as including more comprehensive questions about risk attitudes, familiarity with a larger range of on-exchange investments, use of diversification among investors, and views of new technologies such as robo advice.

This study also identifies some food for thought for the investment industry.

A survey was conducted online, with a nationally representative sample of 4,000 Australian residents answering questions about their investment activities. A full explanation of the survey methodology can be found in Appendix A.

Beyond the quantitative survey insights, case studies have been compiled from discussions with six industry participants, which provide insights into investing from the perspectives of service providers such as financial advisers and full-service stockbrokers.

1.1 Definitions used in this report

This report focuses on retail investors, specifically, those investors who choose to invest outside of their institutional superannuation fund (that is, superannuation held in retail, industry, public sector, and corporate funds), and those who take a more active role in managing their superannuation, such as users of self-managed superannuation funds (SMSFs).

In this report, investment is defined as any *'asset acquired for the purpose of producing income and/or capital gains for its owner'* (ASX, 2017c). This includes investment property, cash savings, and financial products available on a financial exchange such as shares, derivatives, bonds, and exchange traded funds. It also includes investments held through unlisted managed funds (excluding institutional superannuation funds).

1.2 The value of investing to individuals

Investment is an important source of income for Australians. For the median household, approximately 20% of weekly income comes from investing (ABS, 2015).³ It provides a way for individuals to diversify their sources of income, manage financial risk, grow their wealth, and plan their retirement. Almost all Australians are investors through their compulsory superannuation, but their level of participation in decisions around their investments can differ significantly.

1.2.1 Investment income and wealth creation

Wealth creation is about accumulating assets. Individuals can build their wealth more quickly by supplementing their wages with returns from their investments.

Key definitions

Adult population refers to all Australians aged 18 years and older.

Financial advice is advice provided by a financial adviser/planner or full-service/advice stockbroker. This is a subset of Professional Advice.

Lapsed investors are people who have held investments in the past, but do not currently do so.

Never invested are people who have never owned investments.

Non-investors comprise both Lapsed Investors and people that have Never Invested.

On-exchange investments is a term used in this report to refer to listed investments and other financial products available on a financial exchange and held through unlisted managed funds. This includes shares, derivatives, and other products such as bonds and ETFs.

On-exchange investors are people who hold some form of on-exchange investments.

Other investors are people who invest, but not in on-exchange investments. Instead they hold at least one of the following: commercial or residential investment property, cash or term deposits, or other investments that are not on-exchange investments.

Professional advice is advice provided by a financial adviser/planner, full-service/advice stockbroker, lawyer, or accountant.

Share owners are investors who hold shares, either domestically or internationally. This is a subset of on-exchange investors.

³ This figure includes households in the drawdown phase of their institutional superannuation.

Labour income is the main source of income for most people (ABS, 2015), but it is relatively difficult for people to adjust this income quickly. While some individuals may work longer hours this is limited by the number of hours in a day (and other physical limits). Other individuals may seek out higher paying jobs, but could be constrained by their qualifications and experience.

On the other hand, their money (such as savings accrued over time) may be easier to reallocate to more productive uses. Individuals can make a choice to allocate their money into different assets with income generating or capital growth potential. Effectively, investing is about making the most of their money, and by doing so helping them build wealth more quickly.

Wealth creation is important for sustaining quality of life, particularly in retirement. After retiring, individuals rely on their savings as their source of income, and having accumulated more wealth in their working years means a more comfortable retirement. Similarly, wealth accumulation enables individuals to achieve financial goals throughout life, whether they be home ownership, paying for children's education, travelling, or something else entirely.

1.2.2 Risk management and diversification

Without investment income, wages/salaries would be the only source of income for many (ABS, 2015). If people stop working or retire without having accumulated sufficient savings, they may have to rely on government support, e.g. age pension. Maintaining their desired standard of living could be challenging if they rely purely on welfare payments. Investment allows people to diversify their income streams, protect against loss of a single source of income, and maintain a higher standard of living in retirement (ASIC, 2017a).

Diversification is about an individual investor managing the risk/reward trade-off of their investment portfolio to achieve more consistent returns over time, by limiting their exposure to any single asset (ASIC, 2017a). This concept of risk management applies to an individual with labour income who also holds investment property and dividend-paying shares. The fact that this individual has multiple sources of income means that they may be less impacted by an event such as job loss.

At the same time, an investor that spreads their funds across a wide range of assets will limit the impact to their portfolio from the loss of value of any one asset. That is, by diversifying, individuals can reduce the chance that the value of their entire investment portfolio is impacted by a single event.

1.3 The value of a well-functioning financial exchange

Financial exchanges play a number of important roles in the economy, including being an information source and aiding efficient price discovery, and a platform of exchange. They provide individuals with access to capital markets, assist with ensuring resources are allocated efficiently, give businesses a cost effective way to raise capital, and allow governments to increase the depth of the bond market.

They also have institutional values, providing a framework and set of guidelines for ensuring financial trading is done in a way that manages individuals' risk and stability of the system.

Australia has well developed financial markets which offer investors access to a wide range of investment products. These markets have demonstrated economic resilience and adaptability, making Australia a safe, low-risk environment in which to invest (Austrade, 2017). More broadly, the Australian financial services sector also contributes to economic growth. In 2015, it contributed \$140 billion to GDP (The Treasury, 2016).

Individuals can participate in financial markets to diversify their income, manage their risks, and accumulate wealth. Individuals are also able to access investment opportunities that they may otherwise be unaware of or unable to access. For example, sophisticated financial products such as options and hybrid securities are made accessible to individuals through financial markets.

By providing transparency around the spectrum of investment options and the historical return and risk of each option, exchanges facilitate decision-making by investors. This can contribute to improving the allocation of capital, as funds are likely to be directed to their most productive use. Improving the productivity of capital contributes to economic growth (Musonera, 2008).

Exchanges also create substantial value for businesses. Benefits include access to a wider pool of investors, increased ability to raise equity, and reduced transaction costs of capital raising achieved through a platform.



2. The investment landscape is changing

In 2016, the Australian equity market generally outperformed other developed equity markets globally (RBA, 2017a). At the time of writing, the S&P/ASX 200 was at its highest level since prior to the global financial crisis. Trading volumes have increased 23% over the 12 months to March, and continue to grow (ASX, 2017a). The domestic equity market capitalisation is at a historic high, reaching \$1.8 trillion in March this year (ASX, 2017b).

At the same time, significant global events have influenced domestic markets over the last year. The announcements of decisions by British voters to leave the European Union and by US voters to elect President Trump coincided with increased trading volumes on ASX.

These two, largely unexpected, developments are key examples of a global environment characterised by significant uncertainty. Geopolitical developments are likely to continue to be a focus for investors in the near future (Investment Magazine, 2017).

The world of investing is fast paced and responds to change quickly. As the underlying environment evolves, so too do the investments people choose and the way they invest.

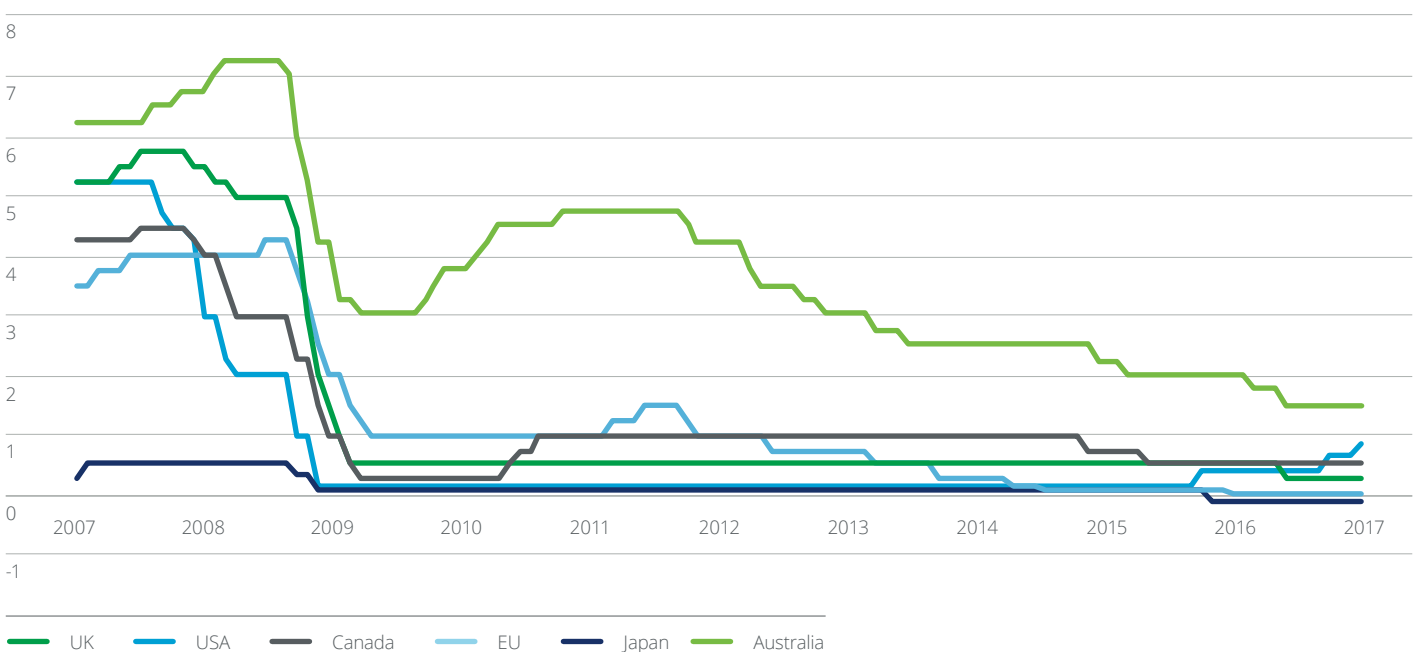
Megatrends such as the low interest rate environment, policy changes, digital innovation, and demographic shifts are influencing the way that the Australian investment market operates.

This chapter outlines these changes and how they will influence investors' approach to investing.

2.1 Low interest rate environment

Globally, interest rates are at historical lows, even at negative levels in some cases (see Chart 2.1).

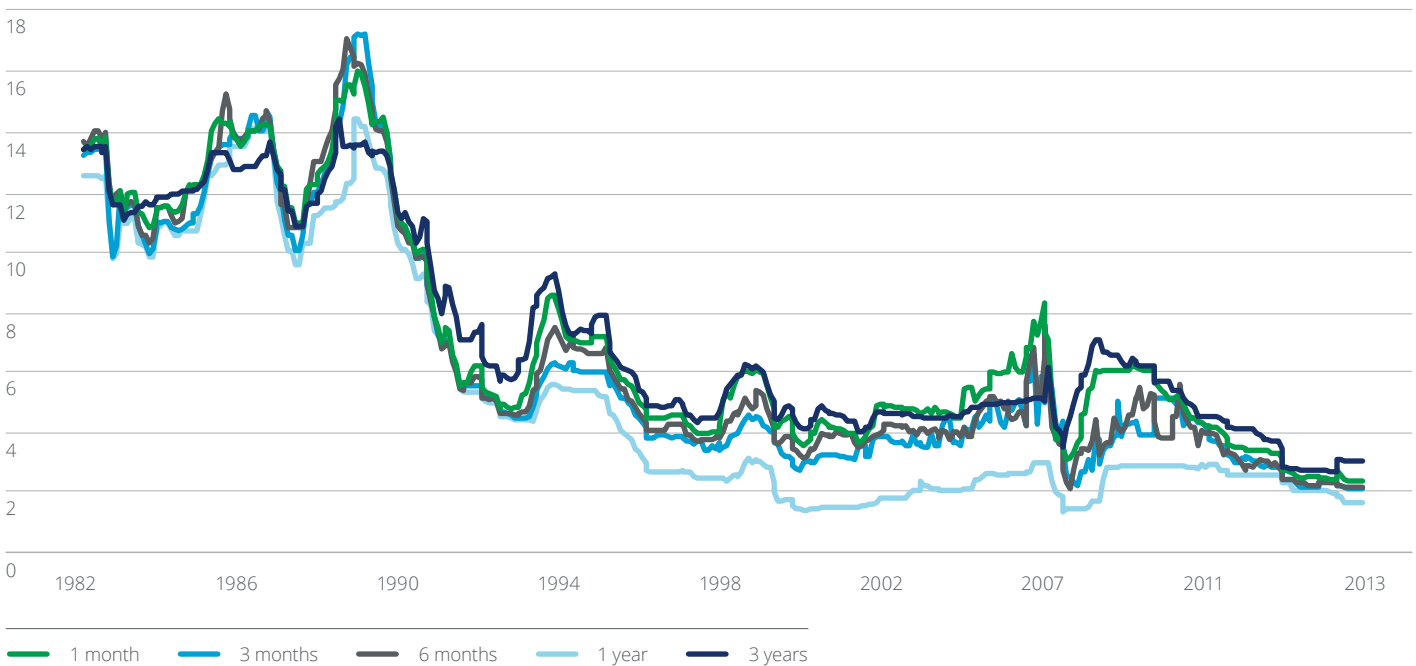
Chart 2.1: Selected policy interest rates (%)



Source: RBA

Since the GFC, Australian monetary policy has been eased in an attempt to stimulate growth, leading to a period of sustained low interest rates. Prior to the 2008 financial crisis, Australia's cash rate averaged 6.4%. Since 2008 this has dropped to 3.1%, and is currently at a record low of 1.5%. Chart 2.2 shows that interest rates on bank term deposits have fallen significantly over the last 20 years, reducing the return on cash investments.

Chart 2.2: Australian banks' term deposit rates (% per annum)



Source: RBA

Notes: Averages of the five largest banks' rates on \$10,000 term deposits, except prior to April 2001, when the averages are for the four largest banks.

The low interest rate environment has two main implications for investors.

Firstly, low interest rates have an impact on returns across a range of investments, not just cash. Credit Suisse analysis shows that low interest rates are associated with low future equity returns (Buttonwood, 2013). As a result, investors may be forced to seek out riskier investments in order to maintain the returns they are used to in their portfolios (Yeates, 2016).

Secondly, lower returns mean that fees as a proportion of returns are higher – essentially it has become more expensive to invest. Therefore, investors may seek out low-fee investment opportunities, for example in exchange traded investments (such as Exchange Traded Products) rather than unlisted managed funds. Alternatively, some investors may turn to financial advice to help them navigate this new environment.

2.2 Policy change

The Australian financial system has been subject to extensive review over the past few years. While the headlines have been dominated by banking sector regulation, Australian policymakers have been more widely focused, with initiatives that have implications for financial advisers, recipients of financial advice, and investors.

Opportunities and challenges have been created for both investors and financial advisers through these reforms. A changing policy landscape creates uncertainty and investors may turn to professionals to help them navigate it. Conversely, some of these reforms aim to empower investors and improve financial literacy, and therefore advisers may be used less by investors or in different ways to in the past.

A key stream of reform has aimed to improve the quality of advice and facilitate access to financial advice. The Future of Financial Advice (FoFA) legislation was introduced in 2012 and mandated in 2013, with aspects of it refined in 2016. FoFA aimed to improve the quality of advice while building trust and confidence in the financial advice industry through reducing conflicts of interest and better aligning the interests of the adviser with the client. At the same time, the reforms also aimed to increase the availability of low-cost simple advice to make financial advice more accessible to the public (Treasury, 2010).

The 2014 Financial System Inquiry (FSI) also recommended further reforms to strengthen consumer outcomes, and had a view that the current framework was not sufficient to deliver fair treatment to consumers around the performance of financial products and services. In particular, the FSI identified a need to address shortcomings in disclosure and financial advice.

The Government (2015) responded to the FSI and committed to a number of reforms, including:

- Raising the standards of financial advisers by introducing legislation which provides a professional standards framework;
- Improving the customer focus of financial product design and market by introducing legislation to make issuers and distributors of financial products accountable for their offerings;
- Developing a new product intervention power for the Australian Securities & Investments Commission (ASIC) that could be used to modify products or remove harmful products from the market; and
- Enabling innovative disclosure for financial products by introducing legislation to facilitate greater use of technology in fulfilling disclosure requirements.

More broadly, ASIC has focused its supervisory efforts on concerns around conduct and culture, in the context of consumer and investor protection and market integrity. The behaviour of “gatekeepers” – such as promoters of investment products – will be paid particular attention. Investor responsibility remains a “cornerstone” of financial markets, and improving disclosure for consumers is a key goal for the industry and regulators.

Such reforms are aimed at improving consumer protection in financial markets. They will impact the way that investors receive financial product information and obtain financial advice, and could encourage individuals to invest, as well as changing what products they choose to hold. The aim of the reforms is to improve investor confidence in financial markets and to increase trust in, and accessibility of, financial advice in Australia. Some of these initiatives may help address some of the barriers to individuals seeking financial advice (Section 4.2). On the other hand, the stricter requirements around qualifications of financial advisers and approach to providing advice could have implications for the supply of financial advisers and the price they charge for advice.

Other developments have sought to improve investor access to investment products. For example, the Asia Regional Funds Passport (ARFP) establishes a multilateral framework to facilitate cross border marketing of funds across countries in Asia. The ARFP is expected to commence by the end of 2017, and will mean that licenced managed fund managers are able to trade across not just Australia, but also New Zealand, Singapore, the Republic of Korea, Japan, Thailand, and the Philippines (APEC, 2017).

This will provide investors with greater access to investment options in the Asia region, and should enable greater investment flows between participating countries. The increased competition from international exposure could also mean that local fund managers become more competitive, increasing efficiency across the financial market.

The Parliament recently passed legislation to enable small and medium businesses to seek crowd-sourced equity funding. The legislation will allow unlisted entities to advertise their business plans on licensed crowd funding portals. This will open the market up to retail investors, where it was previously only available to ‘sophisticated investors’, and sets out various investor protection provisions including an investor cap of \$10,000 a year.

This reform will further expand the universe of investment products available to investors, and may have implications for investors allocating more of their portfolio outside of traditional investments. It also broadens the scope of information and products that advisers need to be across.

Overall these policy changes are likely to offer investors more choice and variability in how and what they choose to invest in.

2.3 Digital innovation

Digital innovation is occurring at an increasingly rapid pace, facilitating more efficient trading, faster and better access to information, and cheaper and wider access to global markets.

Mobile phones are being used to trade shares in Australia more than ever before. In fact in 2015, 6 out of 10 Australian online investors used a mobile device to trade (Investment Trends, 2015). Online trading platforms such as nabtrade, CommSec, Westpac Online Investing, and HSBC Online Share Trading allow customers to use their phones to buy and sell shares, view their portfolios, create watch lists, and observe market movements. According to this survey, online trading platforms are the most frequently used trading method amongst Australian investors (see Section 4.3).

These developments are changing the way that investors conduct their trading activity, and also how they access advice. The efficiency of these digital technologies and Australians' propensity to adopt such innovations may lead to a shift away from use of more traditional methods of trading and advice.

Australians are strong adopters of technology, for example, 86% of Australian households own smartphones (DAE, 2016a), making Australia the second most concentrated smartphone market in the world (SMSGlobal, 2016). This is often used as a measure of openness to technological advance, and may imply that domestic investors are more willing to adopt financial technology ('fintech') innovations such as robo advice.

Robo advice uses computing programs to generate customised investment advice based on information about an individual's portfolio. This can be an attractive, lower cost alternative to in person professional advice.

However, there is uncertainty amongst some investors as to the reliability of the advice generated, and using financial advisers will remain an important part of the investment process. Furthermore, while robo advice may be able to more efficiently generate transactional advice, and recommend sound investments, it relies on the investor knowing what investment support they need. Robo advice is discussed in more detail in Section 4.3.2.

With digital innovation comes a new concern: cyber security. As the economy becomes more reliant on computing systems, the importance of protecting those systems from attack increases. Cybercrime is now the second most reported type of economic crime in business (behind asset misappropriation) and is rising (Layer 8 Security, 2016). This trend could slow the pace of adoption of new technologies.

Overall, digital innovation is likely to have more of an impact on the methods of trading, and the ways investors choose to access advice about their investments than on the types of investments they hold.

2.4 Demographic shifts

Australia's population is ageing. The proportion of the Australian population aged 65 and over has almost doubled from 8% in 1964 to 15% in 2016 (AIHW, 2015 & ABS, 2017b). Declining fertility and falling mortality rates mean that this trend is expected to continue, and the number of people aged over 65 will again double by 2055 (Treasury, 2015a).

On average, older Australians are wealthier and invest more than younger Australians.⁴ This group is becoming a larger share of the population, and they have different preferences around how they receive advice, execute their trades, and what they choose to invest in.

The ageing population has important implications for the risk profile of Australian investors. As the Governor of the Reserve Bank of Australia put it, '*Older workers tend to become more risk averse when it comes to investment decisions...*' (Lowe, as quoted in Pickering, 2016). Risk attitudes in Australia will change as the population ages, and this will have a big impact on investment behaviour. However, results from this study find the opposite, at least in the context of investing (Chapter 5). Either way, the ageing population will change the overall mix of investments held by Australians.

⁴ Average household wealth for those aged 65 and over was \$900,000 in 2012, and \$710,000 for those aged 35-55 (Grattan Institute, 2014)

In the short term, an ageing population could counteract the effect of digital innovation on the way investors obtain advice, as older people are more likely to use in-person financial advice than new technologies such as robo advice. However, this trend could lessen as the current generation of young, technology-savvy investors age.

The ageing population should mean the quantity of investment and trading in Australia will increase. Older Australians have experienced the largest increase in wealth of any age group over the past decade. Households aged 65 and over have experienced 2.7% annual growth in wealth over the past decade, while 55-64 year old households have experienced 1.9% annual growth over the same period (Grattan Institute, 2014).

Demographic changes in the Australian population should see the types of investments individuals hold change, and also the way they obtain advice. For example, findings from this study show that older people are more likely to rely on their own research regarding investment than young people. This suggests that as the population ages, use of financial advice decreases (as the younger cohort who are not confident enough to rely on their own research mature and gain confidence). Alternatively it could mean that financial advisers adapt their role to become less prescriptive, more like a sounding board to test ideas with or a generator of ideas on investment options.

Food for thought

- Do you have a good understanding of how these changes will impact investors?
- Is your business model geared towards supporting investors as the investment environment and their preferences change?



3. Who is investing?

Investor profiles

	Next generation	Wealth accumulators	Retirees
Top 3 financial goals	<ol style="list-style-type: none"> 1. Accumulating wealth 2. Saving for a home deposit 3. Saving for travel 	<ol style="list-style-type: none"> 1. Planning for retirement 2. Accumulating wealth 3. Supplementing current or future income 	<ol style="list-style-type: none"> 1. Planning for retirement 2. Supplementing current or future income 3. Accumulating wealth
Risk appetite	81% are seeking guaranteed or stable returns	67% are seeking guaranteed or stable returns	60% are seeking guaranteed or stable returns
Return expectations	Expect on average a 8.2% return on their investments	Expect on average a 9.2% return on their investments	Expect on average a 8.0% return on their investments
Mix of investments	<ul style="list-style-type: none"> • 44% hold cash • 31% hold shares • 25% hold investment property • 22% hold other on-exchange investments, including derivatives 	<ul style="list-style-type: none"> • 53% hold cash • 51% hold shares • 42% hold investment property • 25% hold other on-exchange investments, including derivatives 	<ul style="list-style-type: none"> • 68% hold cash • 58% hold shares • 26% hold investment property • 18% hold other on-exchange investments, including derivatives
Use of financial advice	37% use financial advice	44% use financial advice	52% use financial advice
Top 3 reasons for using financial advice	<ol style="list-style-type: none"> 1. Obtain advice tailored to their personal circumstances 2. Get investment ideas 3. Help them diversify their portfolios and minimise risk 	<ol style="list-style-type: none"> 1. Obtain advice tailored to their personal circumstances 2. Help them diversify their portfolios and minimise risk 3. Gain access to investments they would otherwise not be aware of or able to access 	<ol style="list-style-type: none"> 1. Obtain advice tailored to their personal circumstances 2. Help them diversify their portfolios and minimise risk 3. Help them navigate the administrative and tax requirements of investing
Use of robo advice	15% would use robo advice, 28% would not, (the rest are unsure)	13% would use robo advice, 29% would not (the rest are unsure)	4% would use robo advice, 41% would not (the rest are unsure)
Trading methods of investors that have transacted in the past 12 months	<ol style="list-style-type: none"> 1. 42% used a non-advice broker or online trading platform 2. 36% used an advice or full-service broker 3. 24% used a financial planner 	<ol style="list-style-type: none"> 1. 65% used a non-advice broker or online trading platform 2. 21% used an advice or full-service broker 3. 18% used a financial planner 	<ol style="list-style-type: none"> 1. 69% used a non-advice broker or online trading platform 2. 21% used an advice or full-service broker 3. 13% used a financial planner

Notes: 'Next generation' is defined as 18-24 year old investors; 'Wealth accumulators' is defined as 25-59 year old investors; and 'Retirees' is defined to be investors aged 60 and over.

Three-fifths (60%) of Australian adults directly hold investments of some sort (including those not available on a financial exchange) outside of their institutional superannuation fund. This chapter examines who these investors are, as well as providing some insight into why the remaining 40% of Australian adults do not invest.

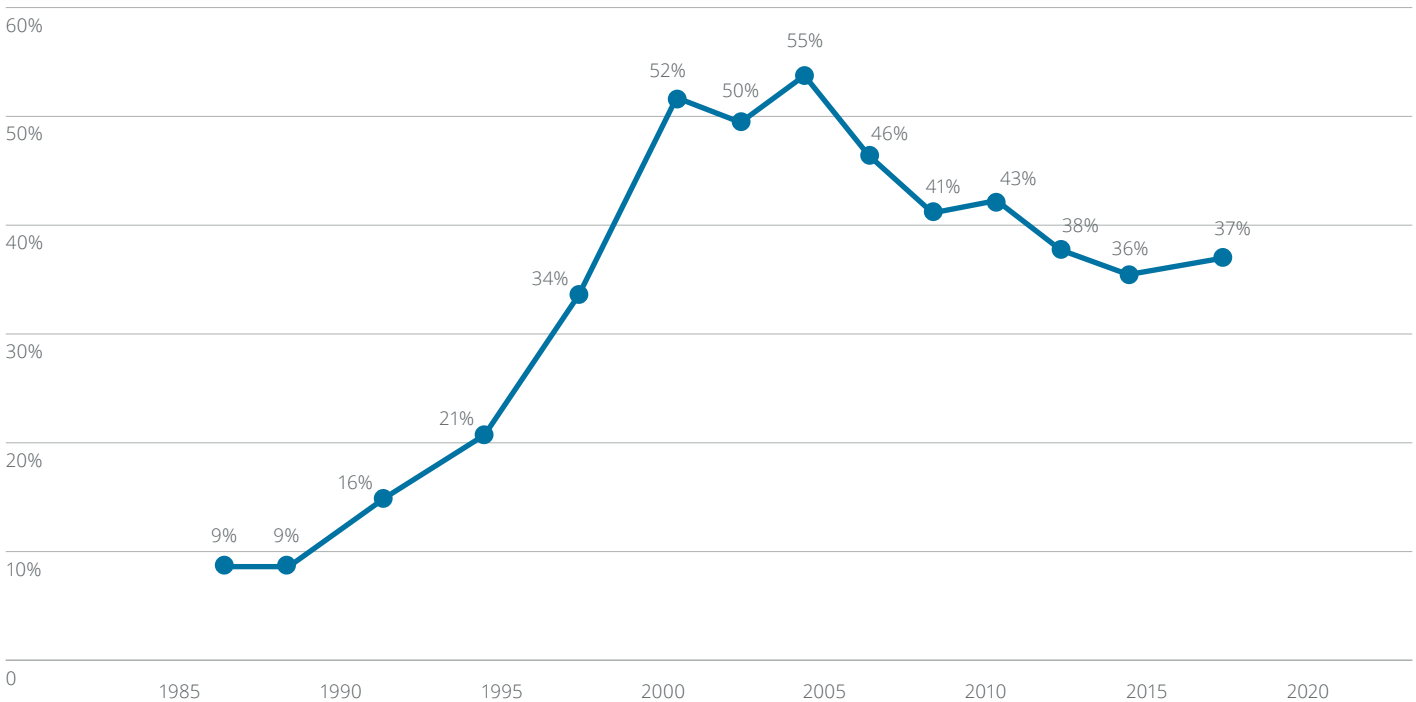
Before diving into the detail, this chapter begins by reviewing some of the high-level trends in investment ownership.

3.1 Changes in investment ownership in Australia

Ownership of on-exchange investments has remained broadly consistent since the 2014 study. There has been an increase in young investors however, who have been engaging more with on-exchange investments. The proportion of 18-24 year olds who hold on-exchange investments has doubled in the past five years. There has also been an increase in international share ownership in this time.

Around 37% of the adult population held on-exchange investments as of February 2017, up slightly from 2014. Ownership was higher among men than women, with 44% and 31% holding on-exchange products respectively. The rate of on-exchange investment ownership has been fairly stable over the past five years, following a significant decline after the early 2000s (Chart 3.1).

Chart 3.1: Ownership of on-exchange investments, proportion of adult population



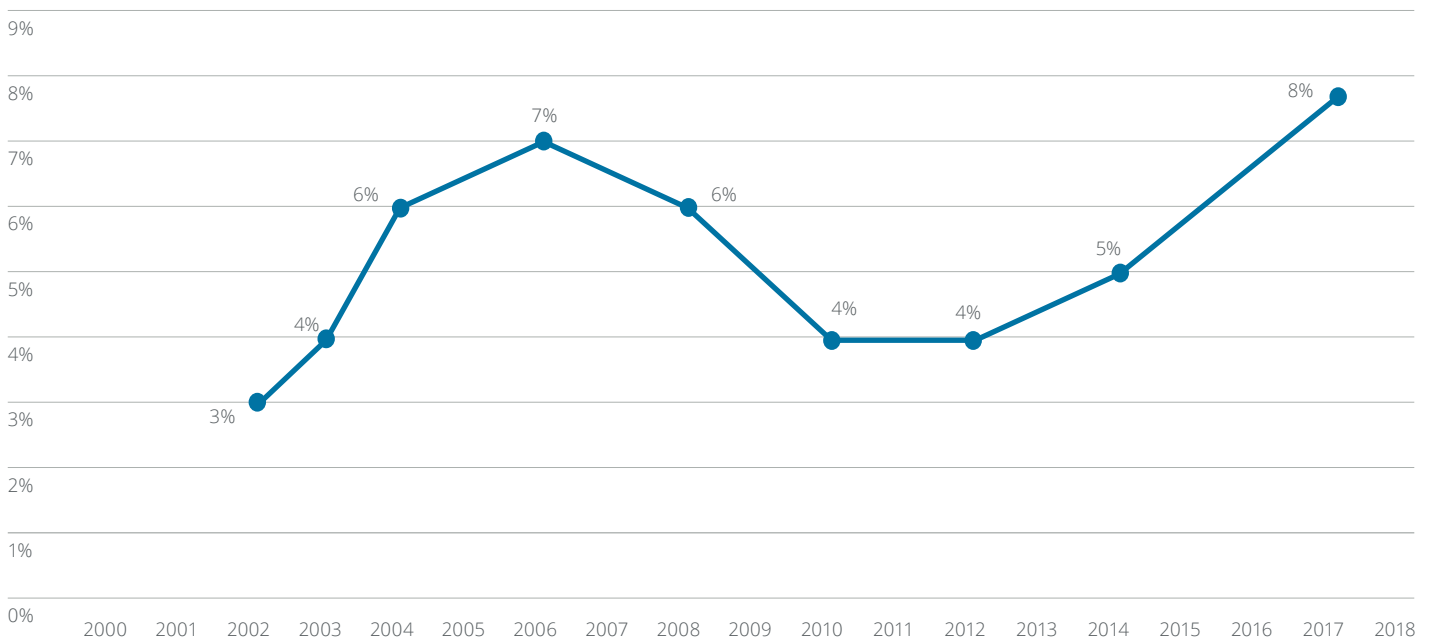
Notes: 1986 (n=1304), 1988 (n=2637), 1991 (n=3018), 1994 (n=3253), 1997 (n=1174), 2000 (n=1200), 2002 (n=2401), 2004 (n=2402), 2006 (n=2405), 2008 (n=2400), 2010 (n=2400), 2012 (n=2000), 2014 (n=4009), 2017 (n=4000)

The significant increase in ownership in the 1990s may be partly explained by the large initial public offerings (IPOs) over the period. For example, the Commonwealth Bank in 1991, Qantas in 1993, and Telstra in 1997 (RBA, 1997). The Global Financial Crisis (GFC) in 2007-08 shook investor confidence globally, and some investors may still be recovering. At the same time, record low interest rates have led to increased property investment and high property prices in capital cities (ABS, 2017c).

Ownership of international shares, bought directly through overseas exchanges, has returned to its pre-GFC peak (Chart 3.2). This may partly reflect improved appetite for overseas listed investments as well as better access. However, investing directly in international shares can be expensive, and many individuals instead invest through managed funds or exchange traded funds (ASIC, 2016a).⁵

ASX data indicate that, since the last study (in 2014), the number of ETFs on issue in Australia has increased by 61%, to 203. Over the same period, the proportion of funds under management allocated to global equity has increased by 7.7 percentage points to 39.2%.

Chart 3.2: International share ownership, proportion of adult population



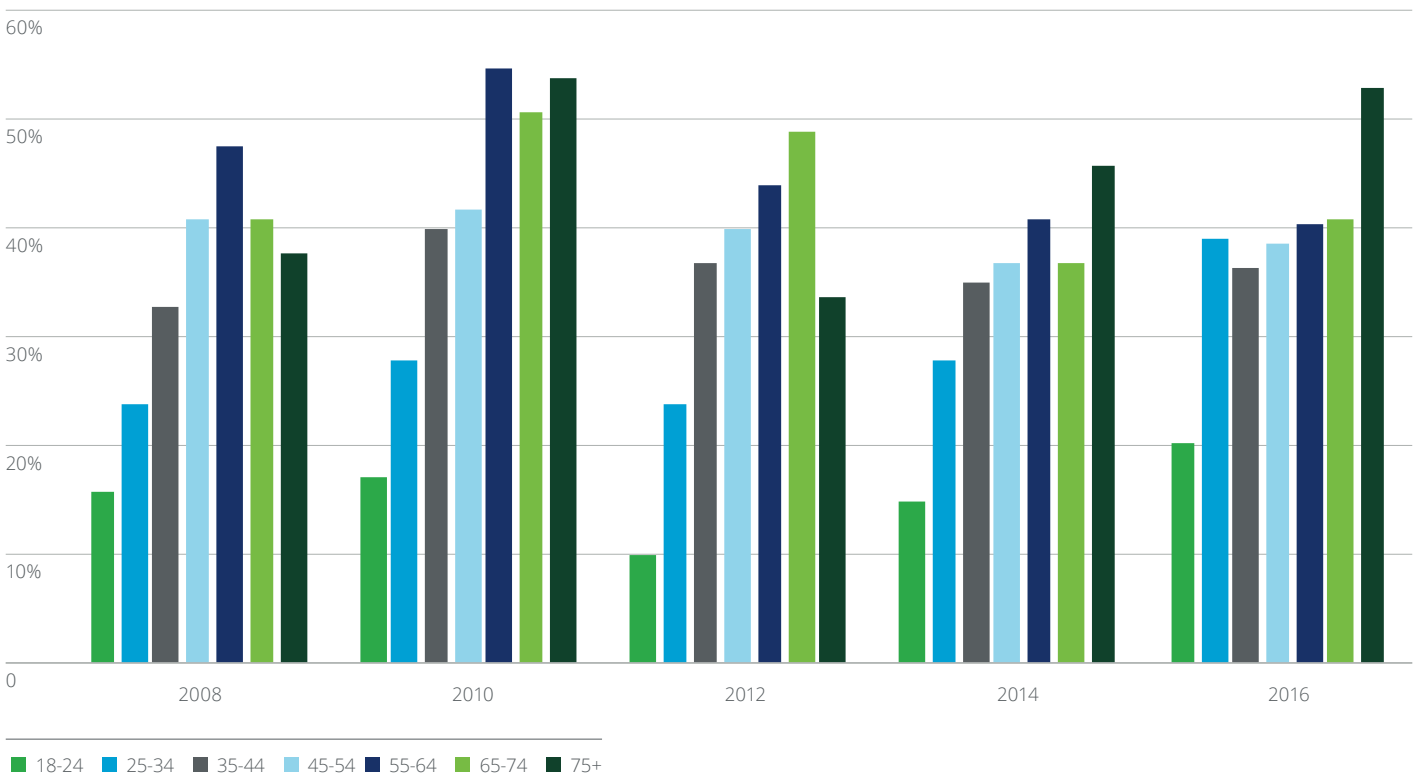
Notes: 2017 (n=4000)

⁵ Against this background, it is possible that some respondents may have misinterpreted the question and are in part reporting international shares they hold indirectly, for example, through exchange traded products (ETPs).

3.1.2 Change in investor profile

Young Australians are investing more. Between 2012 and 2017 the proportion of investors aged between 18 and 24 years old that hold on-exchange investments has doubled to just over 20%, and there has been a 15 percentage point increase in the proportion of 25-34 year olds investing in on-exchange investments over the same period (Chart 3.3). The age distribution of investors has become flatter, the proportion of each age range investing is evening out.

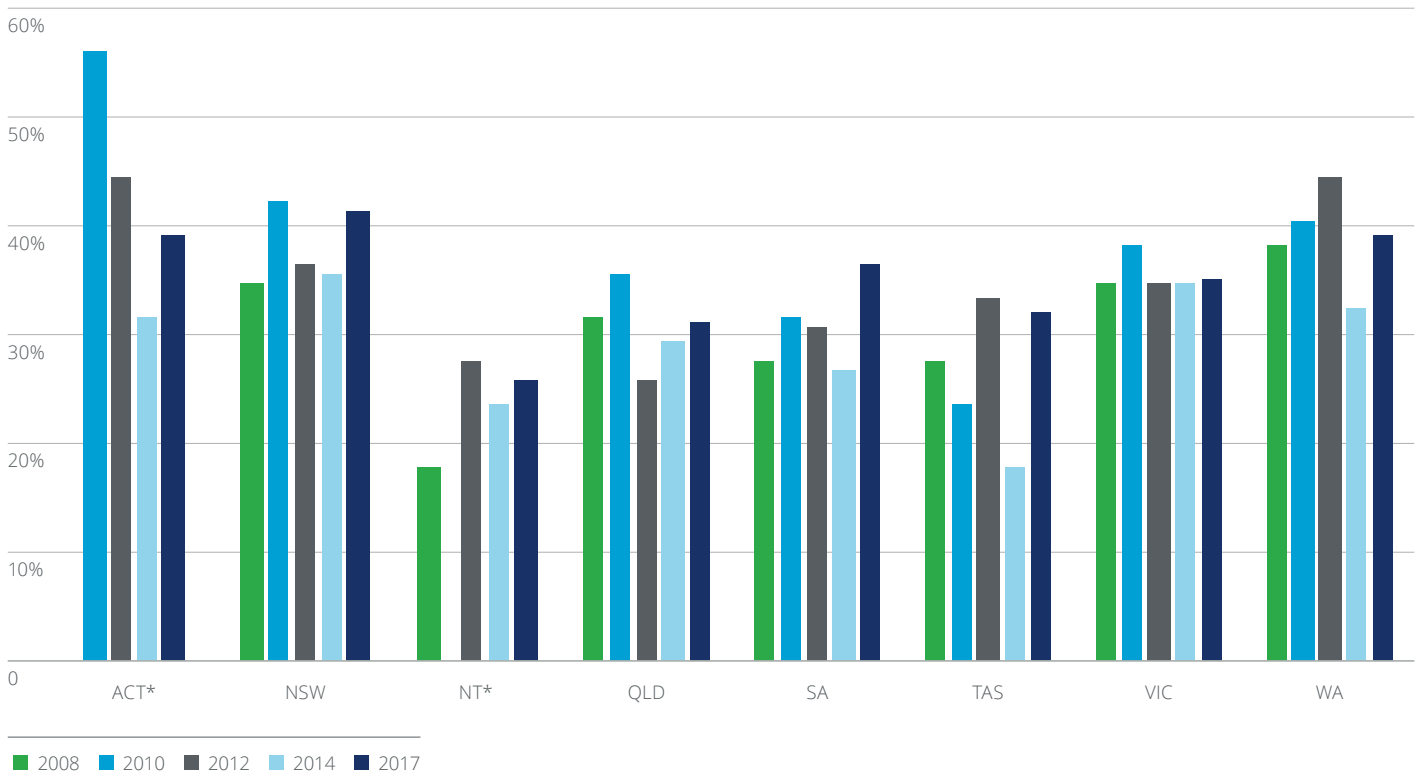
Chart 3.3: Age profile of on-exchange investors, proportion of adult population



Notes: 2017 (n=4000)

The share of adults that own on-exchange investments has been broadly unchanged for most states and territories over the past decade (Chart 3.4). On-exchange investment rates have historically been (and continue to be) highest in New South Wales (42% in 2017), the Australian Capital Territory (40%), and Western Australia (40%), and lower in the Northern Territory (26%), Queensland (32%), and Tasmania (33%).

Chart 3.4: Incidence of on-exchange investors by location, proportion of adult population

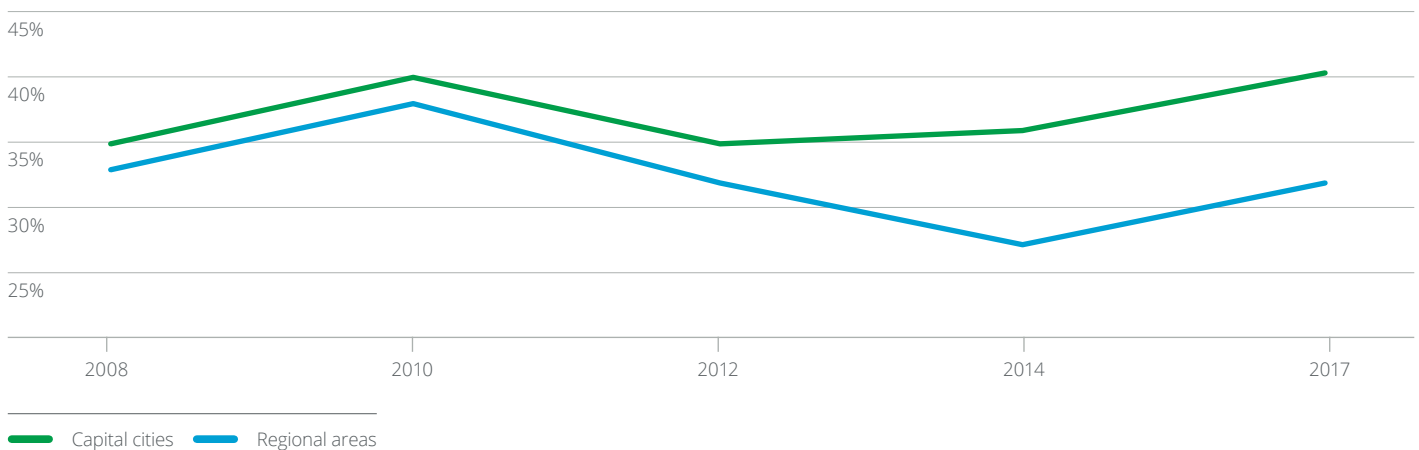


* Data are unavailable for ACT in 2008 and NT in 2010.

Notes: 2017 (n=4000)

In 2017 just over 40% of adults living in metropolitan areas were on-exchange investors compared to 32% of adults in regional areas (see Chart 3.5). The share of adults in capital cities that held on-exchange investments has returned to its decade high.

Chart 3.5: Incidence of on-exchange investors by metro/regional split, proportion of adult population















Notes: 2017 (n=4000)

3.1.3 Changes in investor behaviour

Non-advice brokers and online trading platforms have remained the preferred trading method for investors, and have become more popular since 2014 (Table 3.1).

Table 3.1: Changes in method of trading, proportion of on-exchange investors who have traded in the last 12 months

Method	2014	2017
Non-advice broker or online trading platform e.g. nabtrade	 58%	 65%
An advice or full-service broker e.g. Bell Potter	 15%	 22%
Through a financial planner/adviser	 16%	 17%
Purchased directly via a prospectus of a company listed on a stock exchange	 17%	 11%
Through an employee share scheme	 8%	 4%
Other	 4%	 1%

■ Investors using this method ■ Investors not using this method

Notes: 2017 (n=605)

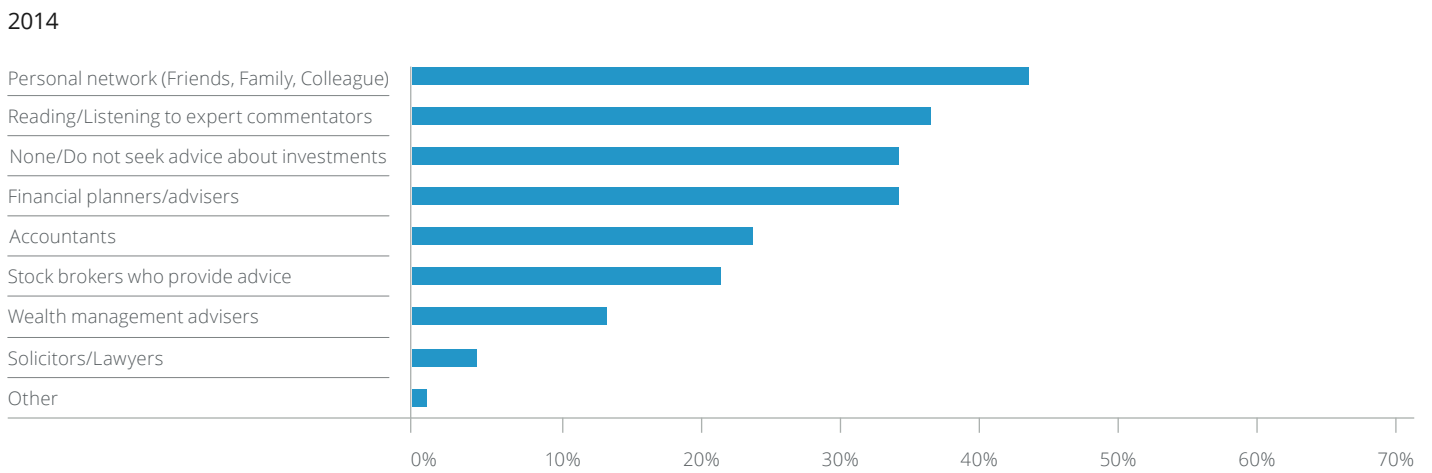
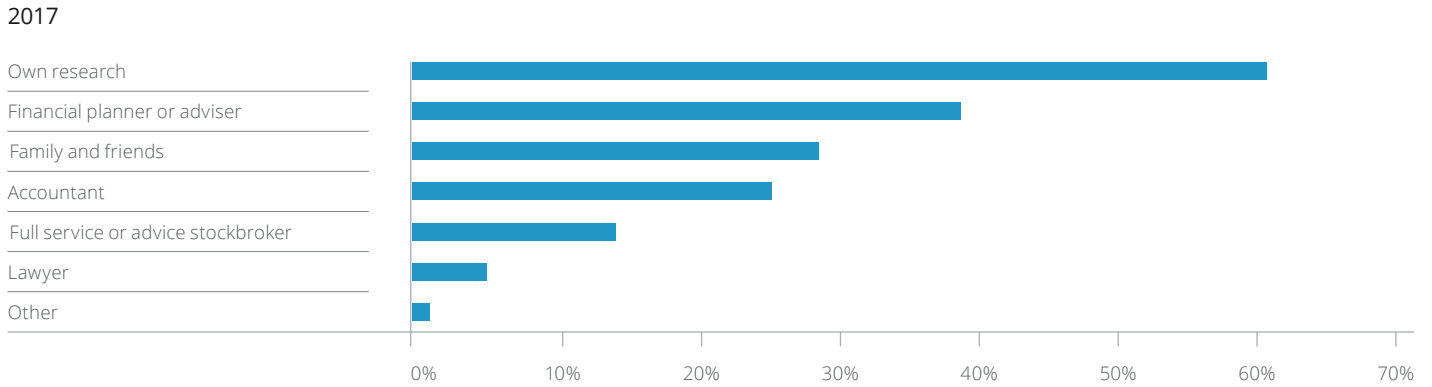
There has been an increase in the share of investors using both non-advice brokers and trading platforms, and full-service brokers compared to 2014. There has been a decline in the share of investors directly purchasing listed investments through a company prospectus and employee share schemes. Digital innovation is likely influencing this trend. Technological advances have made it easier for more investors to directly participate in trading through online platforms such as nabtrade.

While changes to the survey mean that direct comparison with the 2014 results are not possible, many investors in on-exchange investments continue not to use advice from professionals (Chart 3.6). Other investors use more than one form of advice; for example, 13% of investors selected both 'financial planner/adviser' and 'own research'.

Food for thought

- How is your business responding to the growth in numbers of young investors and self-directed investors?
- Do you promote the use of specific investments, like exchange-traded products, to facilitate easy access to international markets?

Chart 3.6: Investment advice sought by investors, proportion of on-exchange investors



Notes: 2017 (n=1494)

3.2 The profile of the Australian investor

Three-fifths (60%) of Australian adults directly hold investments of some sort (including those not available on a financial exchange) outside of their institutional superannuation fund. This section examines both on-exchange and other investors, who they are and how they invest.

3.2.1 What investment structures do investors use?

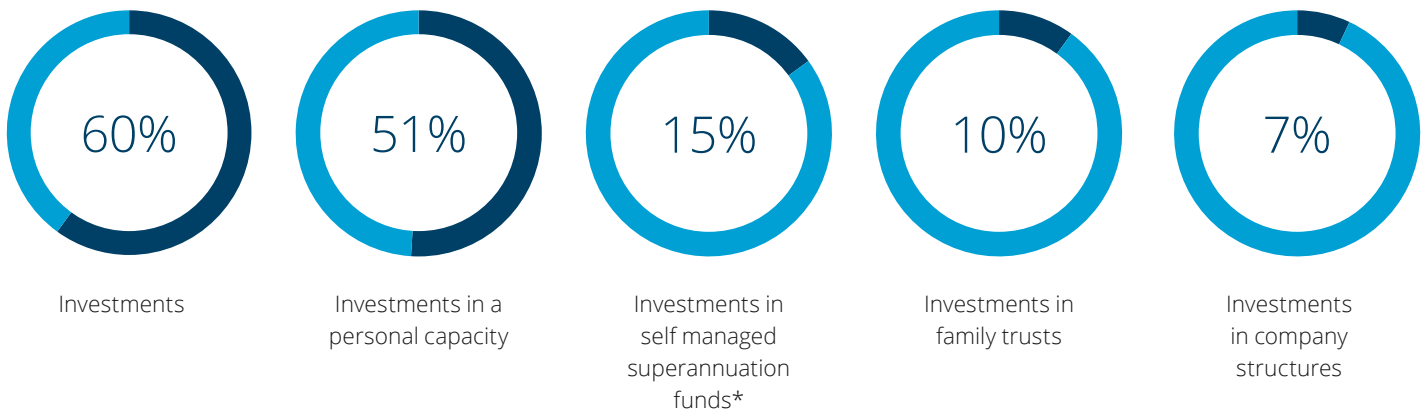
There are four main structures through which Australians hold investments:

- Investments held in their personal capacity, either alone or in joint names
- Investments held in a company structure where they are a director of the company
- Investments held in a family trust
- Investments held in a self-managed superannuation fund (SMSF), where they are a trustee or member of the fund.

Around half (51%) of Australian adults choose to invest in their personal capacity (Figure 3.1).

Figure 3.1: Investment vehicles used, proportion of adult population

Share of the Australian adult population holding:



*Figure is likely to be overstated due to sampling error. The ATO's SMSF statistical report – December 2016 indicate that around 6% of Australian adults are members of SMSFs

Note: Options do not sum to 100% because many investors hold investments through more than one structure; 2017 (n=4000)

3.2.2 Which Australians are investing?

The proportion of Australians with personal investments increases with age, while use of other structures typically reflects their use for tax planning and other purposes (Chart 3.7).

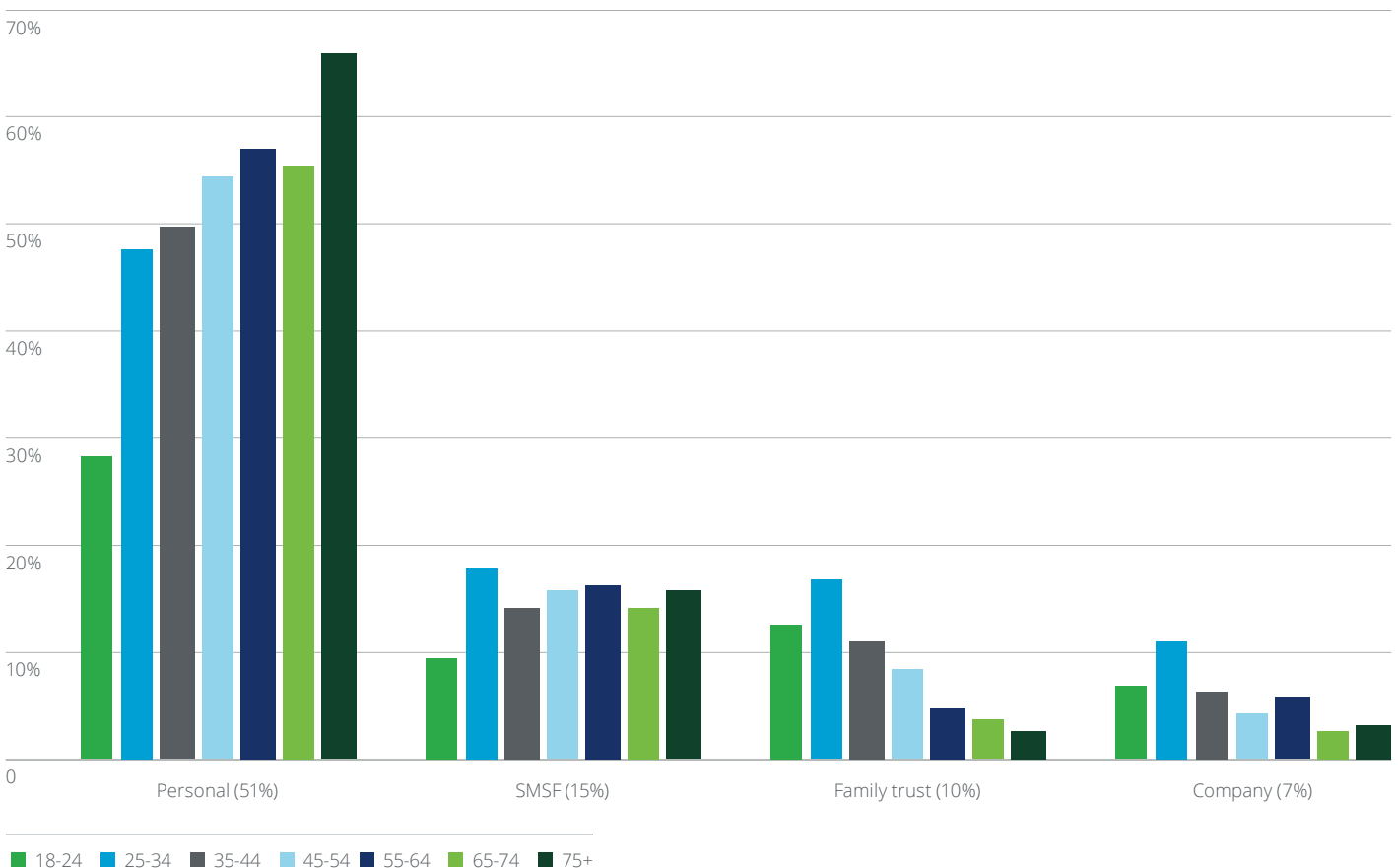
Of investors holding investments personally, young investors are the least prominent (Chart 3.7). However, investing is becoming more common among young people (Section 3.1.2).

However, the industry may not be adapting to the preferences of this group quickly enough. Young investors are more digitally savvy, and while the advent of digital wealth advice (i.e. robo advice) offers opportunities for both investors and financial advisers to take advantage of digital innovation, take-up generally has been limited (Section 4.3.2). This is mostly due to a lack of knowledge about these products, which suggests that the investment industry may not be doing enough to educate investors about them (and raises questions about whether these innovations truly meet investors' needs).

At the same time, and contrary to conventional expectations, young investors also appear more risk averse than older investors – with 4 in 5 young investors preferring guaranteed or stable investment returns (Section 5.2). Financial product developers and financial advisers could seek to better tailor their products and advice to meet this need, for example, by considering capital-protected products.

The characteristics of young investors are discussed further in Section 3.2.3, and in Box A.

Chart 3.7: Use of investment structures by age, proportion of adult population



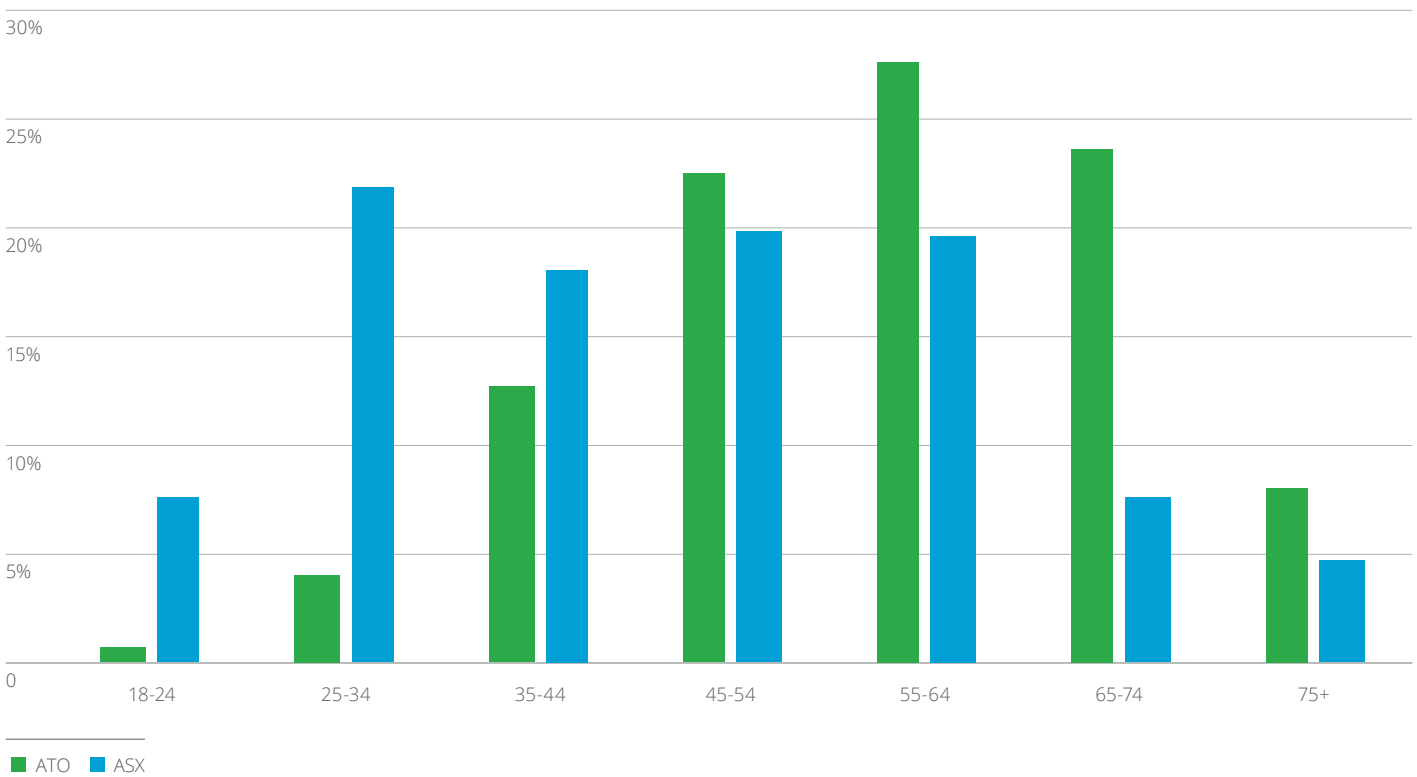
Notes: n=4000

The proportion of family trust investors declines with age: 17% of 25-34 year olds have a family trust, but just 4% of those 65 and above do. This suggests that family trusts are, in some cases, being used as a means of achieving a more tax effective outcome for the family by redistributing income to family members that have lower incomes, such as younger family members.

The use of SMSFs is relatively stable across all age groups, although this may be capturing younger investors who are members of a family SMSF. Chart 3.8 shows the ATO's record of use of SMSFs by age compared with what was found in this survey. This survey found a higher proportion of young people with SMSFs than what is recorded by the ATO.⁶

Company structures are most often used to run a business although in some circumstances may also be used for investment purposes. This may partly explain the fact that these structures are more commonly used among investors of working age.

Chart 3.8: Use of SMSFs by age



Source: ATO; survey findings

⁶ This sampling error is likely the reason SMSF use is overstated in this survey.

3.2.3 Next generation

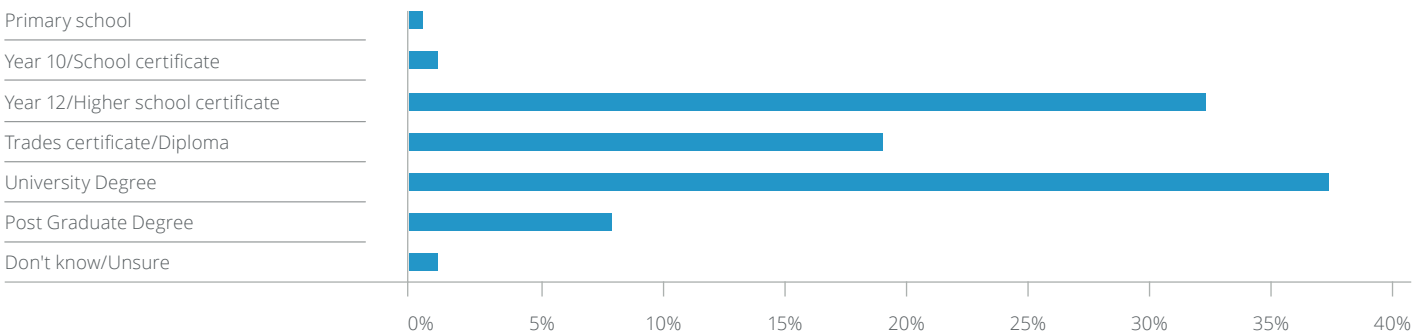
The proportion of 18-24 year old individuals investing has doubled in the past five years. An annual survey of millennial attitudes by Deloitte shows that while in 2015 and 2016, millennials were pessimistic about the future, and getting more so, this trend has flipped in 2017 and millennials are now cautiously optimistic about the future (Deloitte, 2017).⁷ As their overall confidence in the economy continues to improve, this may open the door to more young people being open to investing.

Nonetheless, despite this recent growth in participation they remain underrepresented as investors; this age group represents around 12% of the total population but under 9% of all investors.

Against this background, it is useful to understand the characteristics of individuals within this age group. This section identifies some of the characteristics of these young investors.

Most young investors are at least Year 12 graduates, with a large share being tertiary educated (Chart 3.9).

Chart 3.9: Highest education qualification, 18-24 year old investors

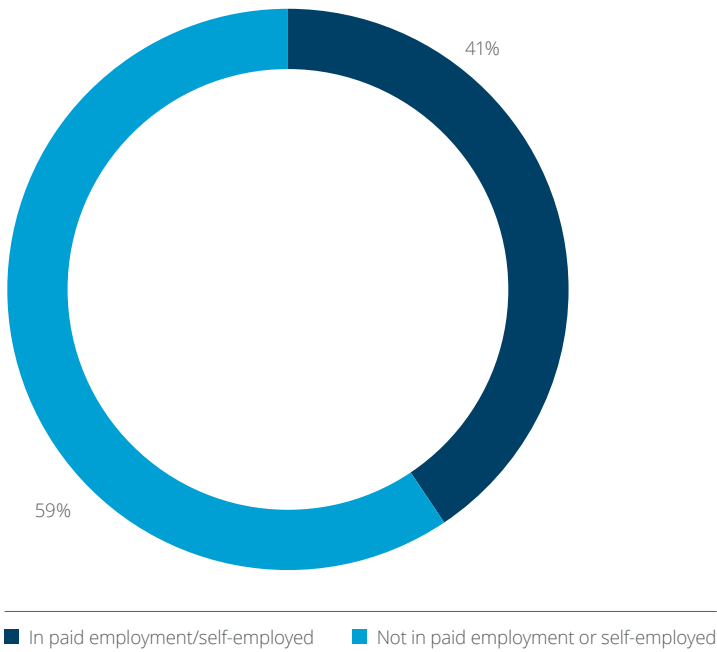


Notes: n=207

⁷ The Deloitte Millennials Survey defines a millennial as someone born in or after 1982. This captures a wider cohort than the 18-24 year olds referred to in this section as 'young investors'.

Most investors in this age group are in some kind of paid employment or are self-employed (Chart 3.10).

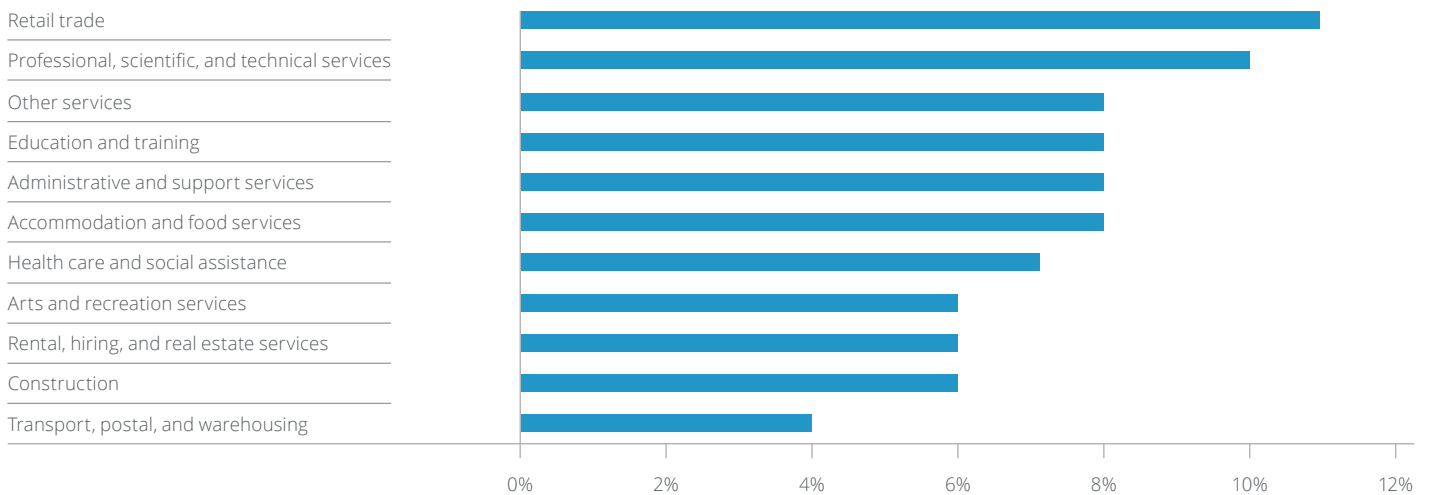
Chart 3.10: Employment status, 18-24 year old investors



Notes: n=207

Of those young investors that are in paid employment or self-employed, most work in the trade or professional services industries (Chart 3.11).

Chart 3.11: Top employing industries, 18-24 year old investors



Notes: n=207

Reflecting the early stage of their working life, individuals in this age group typically comprise lower income households. On average, young investors have higher household incomes compared to non-investors (Chart 3.12).

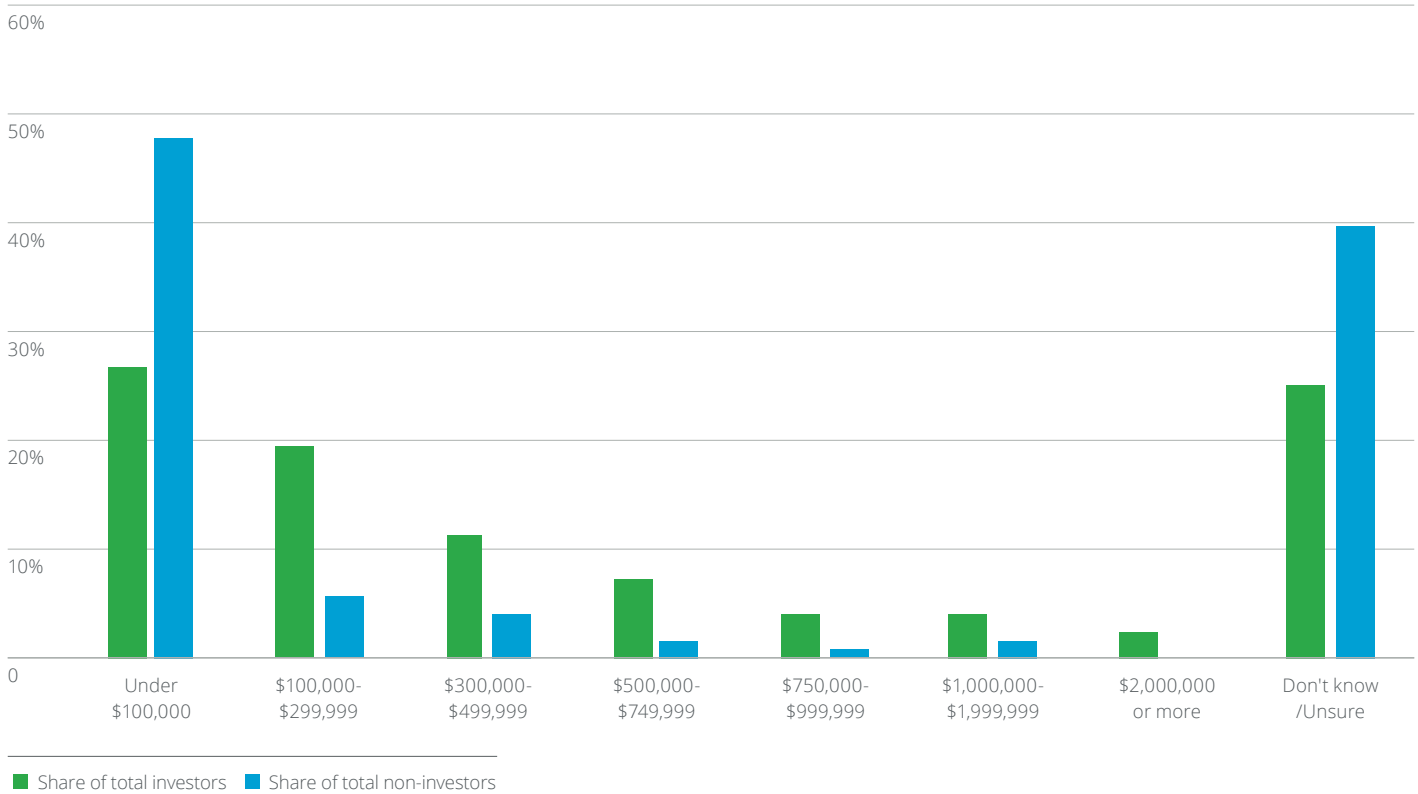
Chart 3.12: Gross household income per year, 18-24 year olds



Notes: Total investors (n=207); total non-investors (n=485)

In line with the distribution of household incomes across this age group, young investors are typically wealthier than non-investors (Chart 3.13).

Chart 3.13: Value of total household assets, 18-24 year olds*



* Excludes value of the family home, car and institutional superannuation balance

Notes: Total investors (n=207); total non-investors (n=485)

As individuals mature and their income and wealth grows, they will be more likely to invest. Nonetheless, this does not mean that 18-24 year old individuals could not invest more at this stage. Professional advisers can play a role in educating young investors. However, only 37% of young investors use financial advice, compared to 45% of all investors (see Section 4.2).

Of the young investors that do not use any professional advice, the top two most cited reasons were they believed that:

1. Advice was too expensive for them to obtain; and
2. Their investment was too small to need advice.

According to George Lucas, managing director of Acorns Grow, millennials do not understand the importance of engaging with financial professionals (Lucas, 2017). They tend to prefer online engagement, and while they are not currently looking for strict financial guidance, they will look for more advice as they get older. It is important for advisers to adapt to digital platforms now, so that millennials will be more comfortable seeking advisers over time.

Wealth Enhancers Pty Ltd, a financial advisory firm with a focus on younger investors, has found that young investors are cost conscious – many feel that advice is too expensive, particularly those with smaller portfolios. Box A contains further views from Wealth Enhancers Pty Ltd.

Food for thought

- Does your business model cater for investors at all life stages?
- Are you developing low cost entry level products to cater for investors just starting out?
- How will you help educate young investors about the pros and cons of investing and of the value of professional financial advice?

Box A: Wealth Enhancers Pty Ltd

Wealth Enhancers is a financial advisory firm catering predominantly to younger investors. For their clients, getting value is front of mind and they are conscious of the cost of advice. Many feel that they may not have enough money available to invest to warrant getting advice on how to invest well.

Among those using advice, there are a wide range of financial goals. Some are saving for education, a wedding, starting a business, while others are looking for wealth accumulation or income replacement in order to start a family. However, for almost everyone, investment is about feeling more secure, having a buffer.

Wealth Enhancers considers there to be three main barriers to investing for Gen Y: a lack of confidence, negative prior experiences, and a misunderstanding as to the amount of money required to get started.

- Many young people are not confident in their ability to invest well, and for those who think advice is too expensive, this may not be easy to overcome
- Some young investors may have invested before, but were overly speculative, and subsequently lost money. This experience has been discouraging to them, and made them nervous to invest again
- Many Gen Y investors have a misconception that investment must be done with a large sum of money, and do not understand that they can start building their portfolio with small amounts

Advisers at Wealth Enhancers have also noticed that many Gen Y investors are open to the idea of borrowing to invest. At the same time, some are also using equity investments as a short term tool in order to save for a deposit and enter the housing market.

In Wealth Enhancers' experience, robo advice has not been something that Gen Y investors have been well aware of. Wealth Enhancers have suggested robo advice as an alternative source of advice to those investors that are likely to value its cost-effectiveness.

3.2.4 The rise of SMSFs

SMSFs allow investors to have greater control over their superannuation, something that many investors want (see Chapter 5). The number of SMSFs in Australia is growing rapidly, and is set to continue to do so into the future. In December 2012, there were around 491,000 SMSFs in Australia compared to over 585,000 today (ATO, 2017). More investors will use SMSFs in the future. Some 30% of investors that do not currently use an SMSF intend to set one up in the future.

Why do investors use SMSFs?

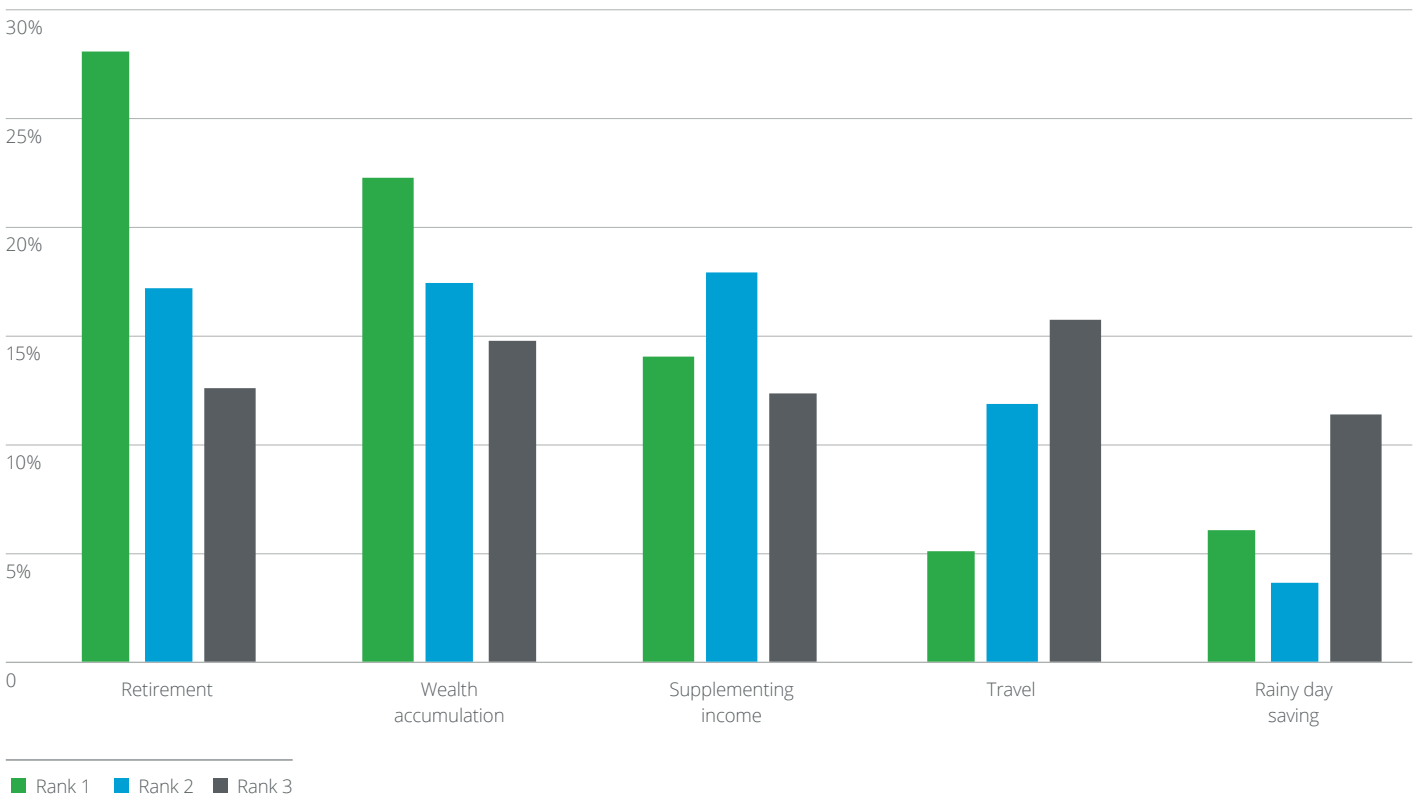
SMSF investors have long term goals broadly in line with the purpose of superannuation – 58% of SMSF investors choose saving for retirement as a goal, and 55% selected wealth accumulation. Chart 3.14 presents a breakdown of the top five goals among investors that use SMSFs (respondents were asked to rank up to three goals in order of importance).

Research by AMP Capital shows that 56% of SMSF trustees established their SMSF in an effort to have more control over their investments, and 32% established them so that they could choose specific shares to invest in (AMP, 2017).

The desire for greater control over their investment portfolio is a common characteristic of investors that use SMSFs. As such, SMSF investors are engaged investors, and use financial advice for guidance rather than instruction.

Class Limited (Box B), whose software is used by professionals to advise SMSFs, has also found that SMSF investors are using the flexibility of this structure to invest in alternative products. This could be a result of the low interest rate environment, where investors are searching for ways to earn high returns outside of traditional investment options.

Chart 3.14: Top 5 goals of SMSF investors, proportion of SMSF investors



Notes: n=607

Box B: Class Limited

Class Limited creates innovative software used by accountants and financial advisers to service SMSFs. Its software is currently used to administer over 120,000 portfolios across Australia.

Class cites the desire for control as the number one reason that investors use SMSFs.

An SMSF opens the door to more flexible uses of an investor's superannuation balance. For example, Class says that some SMSFs are used by clients to invest in their own business.

Class says that SMSF investors are bold and open to alternative investment opportunities. One example is a recent trend observed by Class that some SMSFs are investing in peer-to-peer (P2P) lending platforms. On average, when SMSFs invest in these platforms, they invest far more than other investors do – in many cases five times as much as a typical investor. This trend has been so strong that Class has begun to partner with P2P platforms (Rate Setter, and SocietyOne–underway) in order to make it easier for SMSFs to invest.

Class notes that SMSF clients typically look for advice rather than instruction, as these are engaged investors. At the same time they are also looking for value. In this context, Class expects that technology such as robo advice will become increasingly popular amongst SMSF investors.

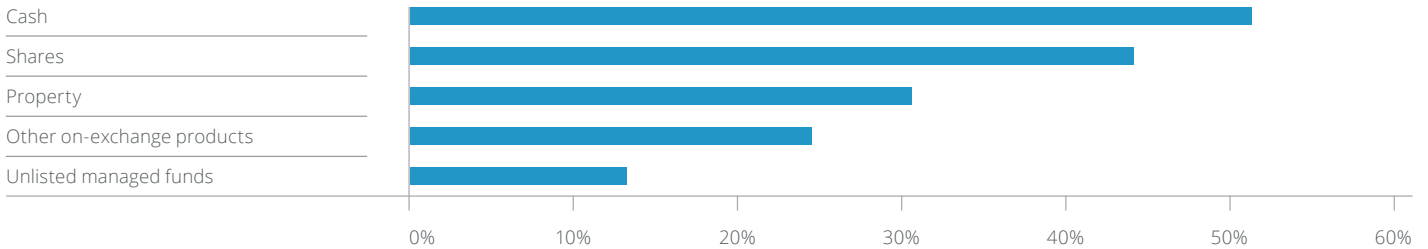
SMSF investors' profile

As discussed earlier in this chapter, SMSF investors are fairly evenly split from an age perspective, and are more likely to be established by people with higher household income and assets.

The risk profile of SMSF investors is similar to that of investors more broadly. Most SMSF investors are seeking stable, reliable returns as opposed to variability.

Chart 3.15 shows the make-up of SMSF portfolios. Cash is the most commonly held asset (51% of SMSF investors report holding cash in their account), followed by shares and then other on-exchange investments.

Chart 3.15: Investment products held in SMSFs, proportion of SMSF investors



Notes: n=607 'Other on-exchange products' is defined in Chapter 1 in the definitions box, as well as in Appendix B.

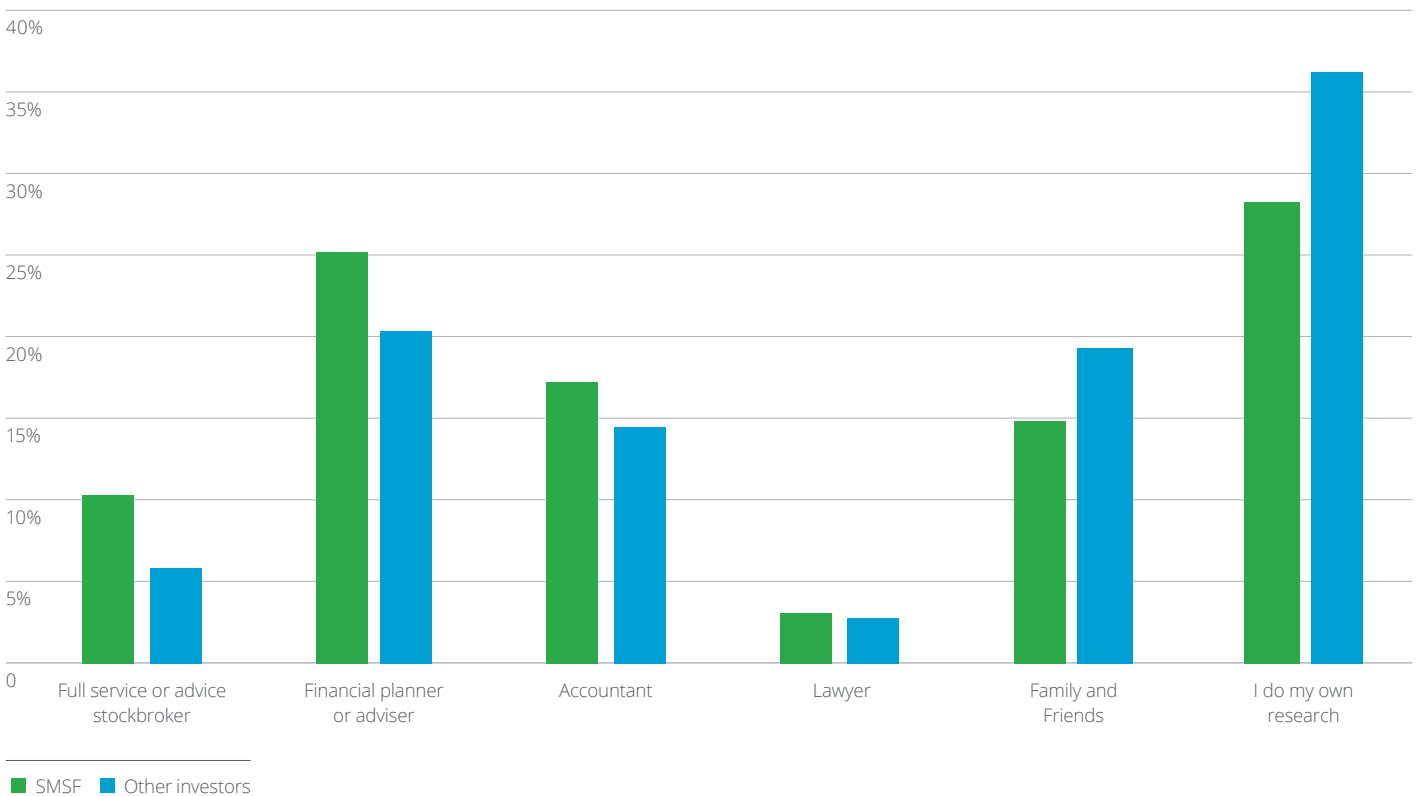
While the survey found that 15% of Australian adults have an SMSF, this is likely an overestimate. The Australian Taxation Office estimates the number of SMSFs in Australia at around 585,000, with just over 1.1 million Australians members of an SMSF (ATO, 2017).

This number is likely to continue to grow. Of those investors that do not use an SMSF, when asked about their future intentions, 30% of this group plan to set one up in the future.

Who advises SMSF investors?

Chart 3.16 shows that SMSF investors are more inclined to use professional advice than investors more broadly, and while doing their own research is still the most popular option, fewer SMSFs rely on this than investors more broadly.⁸

Chart 3.16: Advice channels used by SMSF investors, proportion of SMSF investors



Notes: Respondents could select up to three answers, n=2391

⁸ Professional advice refers to paid advice from a financial adviser, a full service stockbroker, a lawyer, or an accountant.

The greater use of advice may be due to the more complex nature of the administrative and taxation requirements of establishing and managing an SMSF. Invest Blue Pty Ltd (a financial adviser) found that their clients often require assistance with the administrative side of investing. Box C has more detail on the types of SMSF investors that seek advice and what they typically invest in.

When questioned on why they use financial advice, SMSF investors nominated three main reasons:⁹

- 25% said – “My adviser provides me with advice tailored to my personal circumstances”
- 23% said – “My adviser helps me navigate the administrative and tax requirements of investing”
- 22% said – “My adviser gives me access to investments I otherwise wouldn't know about or have access to”

Box C: Invest Blue Pty Ltd

Invest Blue is a financial advice practice with 14 offices located in rural and coastal locations across Queensland and NSW. They provide financial advice to people at all stages of life, including SMSF investors.

Among their clients, managing administrative compliance is the main advice sought. Few SMSFs are completely self-run, most use some form of advice, either for navigating compliance or to get investment choice advice.

Invest Blue advisers work with three broad types of SMSF investors: young accumulators, pre-retirees, and retirees. Each of these types of investors have different goals and therefore different investment portfolios.

Young accumulators in their late 30s or early 40s are typically high-income individuals (or couples). Given they have a fair amount of time before they need to access their super balances, they are typically advised to invest in growth assets. Because of their age they are unlikely to have large superannuation balances, so diversification is a challenge. Invest Blue uses a range of on-exchange products to help them diversify within their constraints, such as exchange-traded funds.

Pre-retirees invest more conservatively than young accumulators. This is because they have less time available before they begin to access their super balance, and as such they are advised to invest around 30% of their funds in defensive assets. A common investment among this group is commercial property, particularly among the self-employed. Some choose to purchase the premises from which their business is run.

Retirees are advised to invest for moderate growth – with around half growth assets and half defensive assets. This is to minimise the risk that their balances will drop at the stage of life where they rely, at least to some extent, on their SMSF for income. Fixed income assets such as corporate bonds are commonly used. Given the low interest rate environment, term deposits (which used to make up a large part of their portfolios) are now not recommended.

Invest Blue sees technology playing an important role in advising all three of these groups in the future. It will improve the customer experience, such as by improving real-time reporting, and allowing investors to check their balance at their convenience. At the same time it could lower the cost of advice.

⁹ Financial advice means either using a full service or advice stockbroker, or a financial planner or adviser.

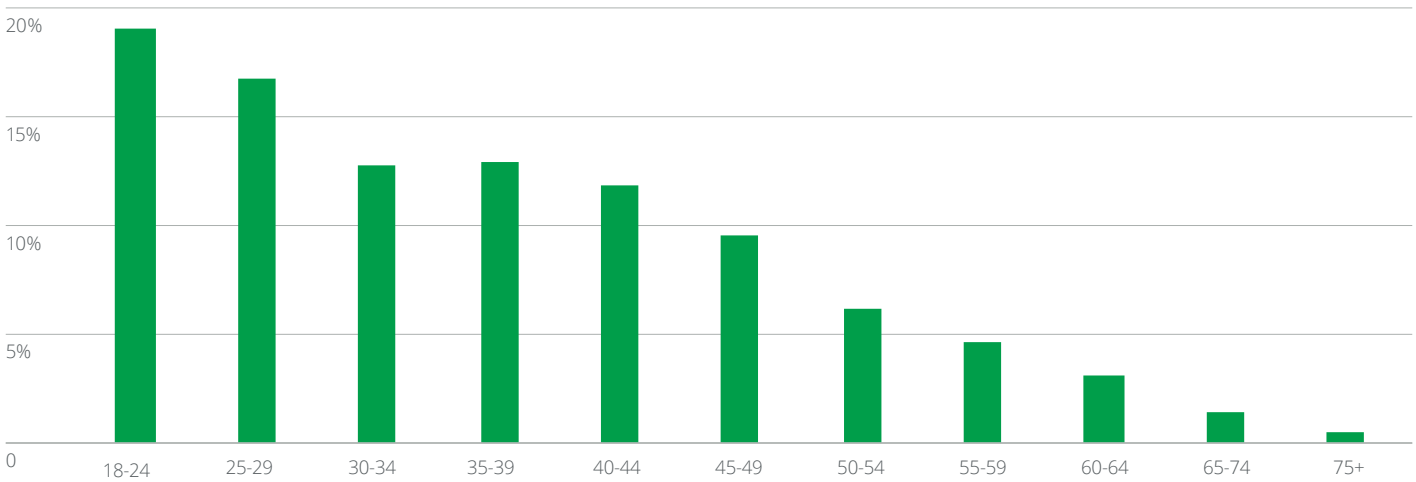
Future SMSF users

Of those individuals that do not currently use an SMSF (investors and non-investors), 30% are planning to establish an SMSF in the future, 13% of them within the next year. It may be useful to understand who these people are.

Most (65%) of these potential SMSF users already invest elsewhere, either in on-exchange products or other investment products.

They are split evenly along gender lines, but do vary by age. As Chart 3.17 shows, potential SMSF investors are generally younger, 36% of them are under 30. Given that SMSFs are established before retirement it is not surprising so few of these potential SMSF investors are over 60, but it is noteworthy that there is significant interest among those at very early stages of their career.

Chart 3.17: Age of potential SMSF investors, proportion of non-SMSF investors



Notes: n=1017

Potential SMSF investors are, on the whole, medium income earners (Chart 3.18). Relative to the Australian average, potential SMSF investors are slightly less likely to be low income earners (39% earn less than \$80,000 relative to 43% of the population) and slightly more likely to be medium or high income earners.

Chart 3.18: Income of potential SMSF investors, proportion of total



Notes: Total investors (n=207); total non-investors (n=485)

Food for thought

- How can you help investors think through whether an SMSF is right for them, including educating them on portfolio construction, as well as administrative and regulatory requirements?
- Given the expected growth of SMSF use, can you afford not to be an SMSF expert?

3.3 Understanding potential investors

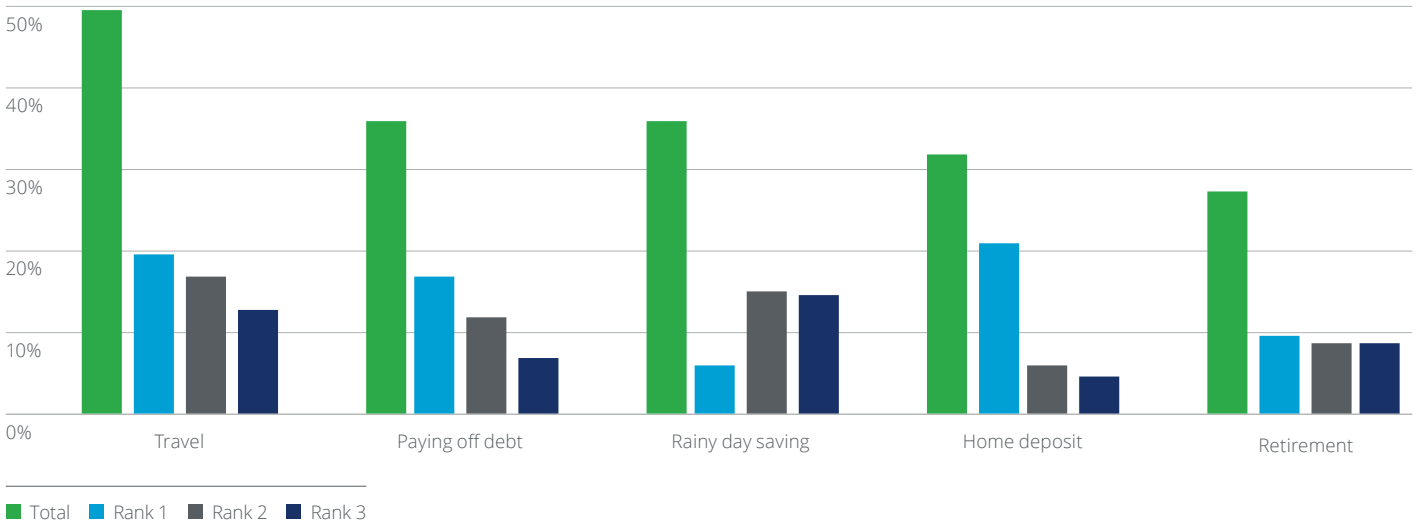
Non-investors are potential investors. Understanding the barriers they face and their attitudes to investing will help to realise that potential. The majority of non-investors (54%) state that a lack of money is the reason they have never invested. This is followed by 33% of non-investors quoting a lack of confidence in their ability. This indicates that lack of funds and confidence are key characteristics of these investors.

Many non-investors are in the younger age groups, and as such do not yet have the income to invest. Of the 18-34 year olds who do not invest, 61% have an annual household income of less than \$80,000. One quarter of non-investors are under the age of 35, compared with just 11% over 65. It is likely that many of these young people will invest in the future, as their incomes grow, provided education and advice are available to them when they are ready to begin. This section focuses on what drives non-investors and former investors in on-exchange products (who we refer to as lapsed investors), and how they differ to investors.

3.3.1 Awareness, knowledge and attitude

Non-investors have different financial goals to investors. While investors are focused on the long term (saving for retirement, wealth accumulation, supplementing income), non-investors are interested in the shorter term. Top goals include travel, paying off debt, and saving for a rainy day (Chart 3.19).

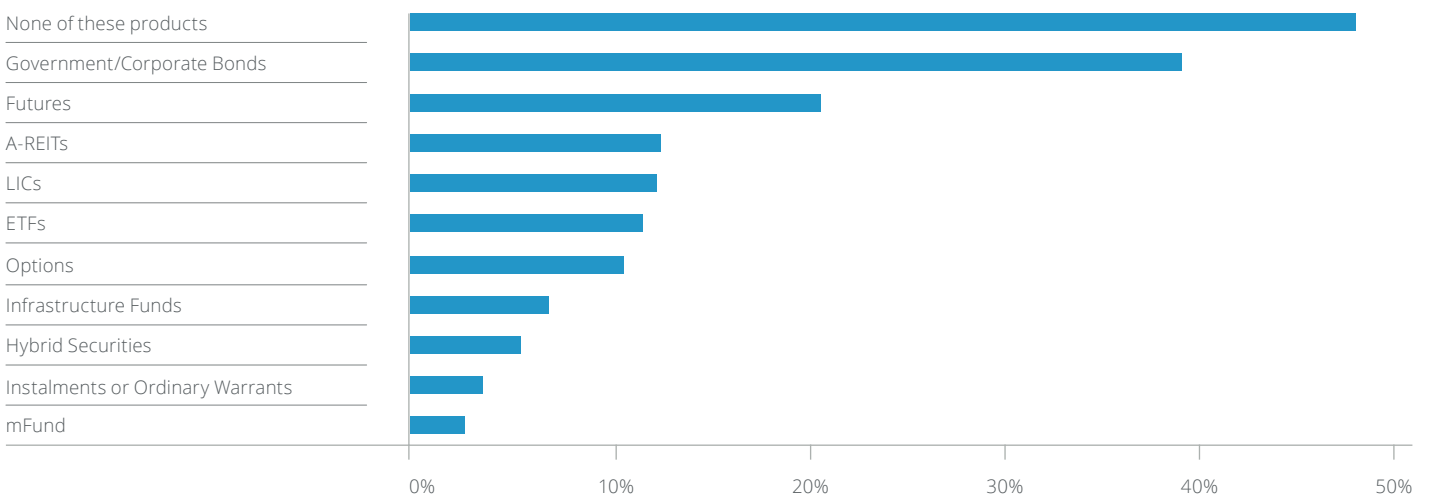
Chart 3.19: Top financial goals among non-investors, proportion of non-investors



Notes: n=1609

Their awareness of alternative investment products is lower compared to investors (Chart 3.20). Almost half of all non-investors were completely unaware of all these products. Of those non-investors that were somewhat aware, the order of awareness is similar to that of investors.

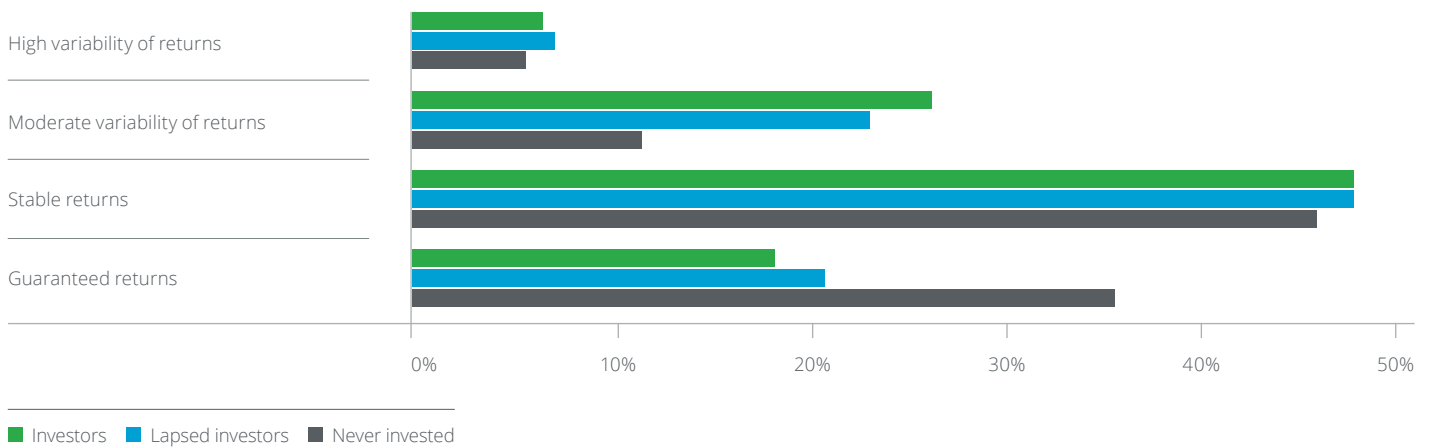
Chart 3.20: Awareness of on-exchange investments, proportion of never invested



Notes: Asked only of those who have never invested, n=1203

Individuals that have never invested are more risk averse than those that have (Chart 3.21). Over one third (36%) of those who have never invested would seek guaranteed returns compared with 18% of investors. One possible driver of this is that investors (and lapsed investors) have a better understanding of investing and are therefore more comfortable, making them less risk averse than those who have never invested (Kan et al., 2016).

Chart 3.21: Attitudes to risk, by investment group



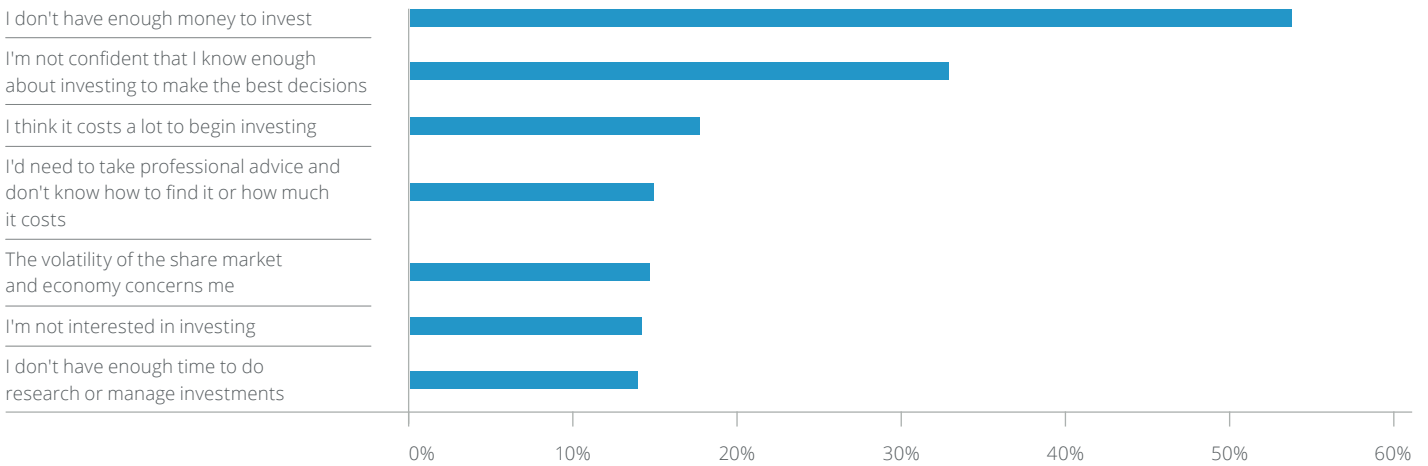
Notes: n=4000

When asked about advice, 58% of those who have never invested said that they would seek professional advice to help manage their investments if they were to invest, and only 13% said they would not.

3.3.2 Barriers to investing

Those who have never invested nominated a number of reasons for not investing (Chart 3.22). The main reasons are a perceived lack of funds, a lack of confidence, and uncertainty as to how to get advice. Encouragingly, a lack of interest was ranked very low on the list.

Chart 3.22: Reasons for never having invested, proportion of never invested

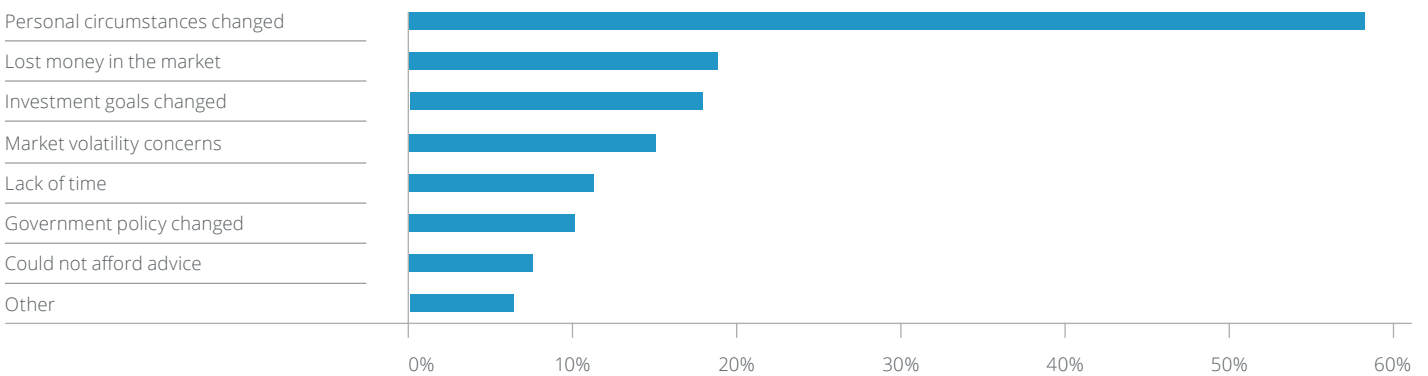


Notes: n=1203

Many individuals that have never invested said that they thought it cost too much to begin investing. When asked how much they actually thought they would need to begin investing, the distribution was fairly even. Around 15% of these individuals each said that they would need less than \$2,000, between \$2,000 and \$5,000, and between \$5,000 and \$10,000. Just one quarter of non-investors expected to need more than \$10,000 to begin investing. Another 25% of these individuals did not know or were unsure. Young individuals that never invested also provided answers in line with this broader trend – most thought they would need less than \$10,000. There are opportunities here to both educate and inform these potential new investors of products that are suitable for those without a large amount of capital.

When asked why lapsed investors no longer invest, most said that it was due to a change in their personal circumstances (Chart 3.23). This could include anything from a change in employment status to an increased need for disposable funds after having children.

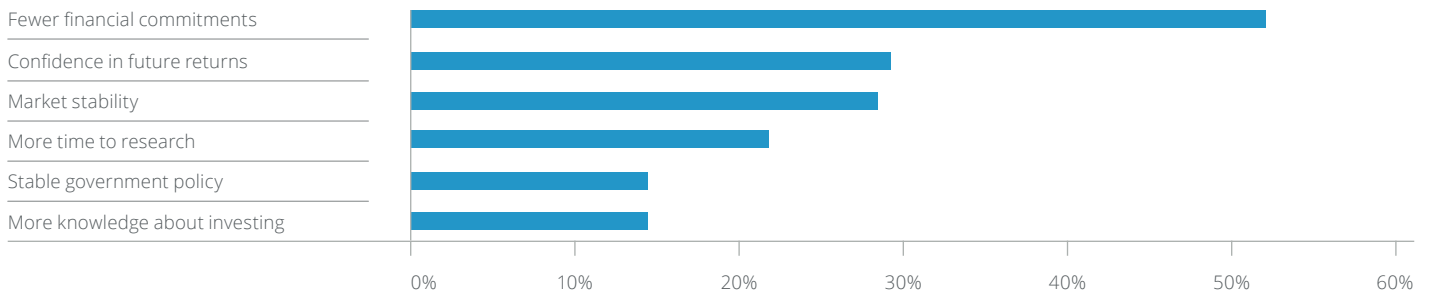
Chart 3.23 Reasons for ceasing investment, proportion of lapsed investors



Notes: n=406

Around 84% of lapsed investors said that they plan to start investing again at some point, with 41% of this group intending to invest again within the next two years. What they need in order to begin investing again is fewer financial commitments, confidence in future returns, and market stability (Chart 3.24). The survey did not ask what these financial commitments were, but they could include a range of things such as paying off their mortgage or other debt, or their children's education expenses.

Chart 3.24: What lapsed investors need before they will invest again, proportion of lapsed investors



Notes: n=406

These findings suggest that the barriers to non-investors becoming investors are generally surmountable. For more than half of non-investors a lack of funds is what prevents them from investing, but improved financial literacy may help a large minority to start investing. Additionally, being sure of how to get financial advice may also increase interest in investing for some. The investment industry could review the types of 'entry-level' products and services that they are offering, and whether they are suitable for new investors.

Food for thought

- How can you engage individuals that have never previously invested or have lapsed?
- Do you offer investment products with low entry costs and appropriate risk profiles for new investors?



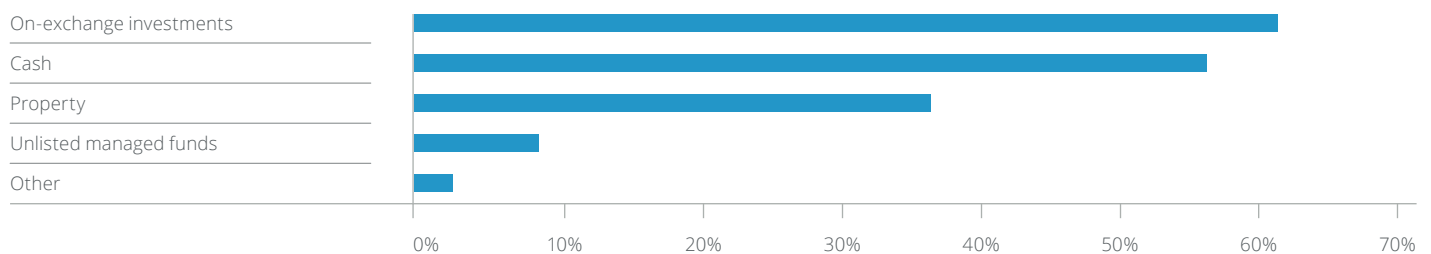
4. What are Australians investing in and how?

Investment in on-exchange investments is more common than investment in any other product (including cash savings) – 62% of investors hold some form of on-exchange investment. Of these, 40% have actively traded in the past year. Investors are increasingly using technologies such as online platforms to buy and sell, however there is still a significant portion of investors who prefer to use full-service stockbrokers and other more traditional means of transacting. This chapter looks at what Australians choose to invest in, and provides an overview of attitudes to advice and methods of trading amongst investors.

4.1 Australian investors' portfolios are not very diversified

On-exchange investments are held by more investors in Australia than any other investment. Almost two thirds (62%) of investors hold some form of on-exchange investment. This could be partly attributable to the low interest rate environment (Section 2.1) – holding cash is not very rewarding in the current market.

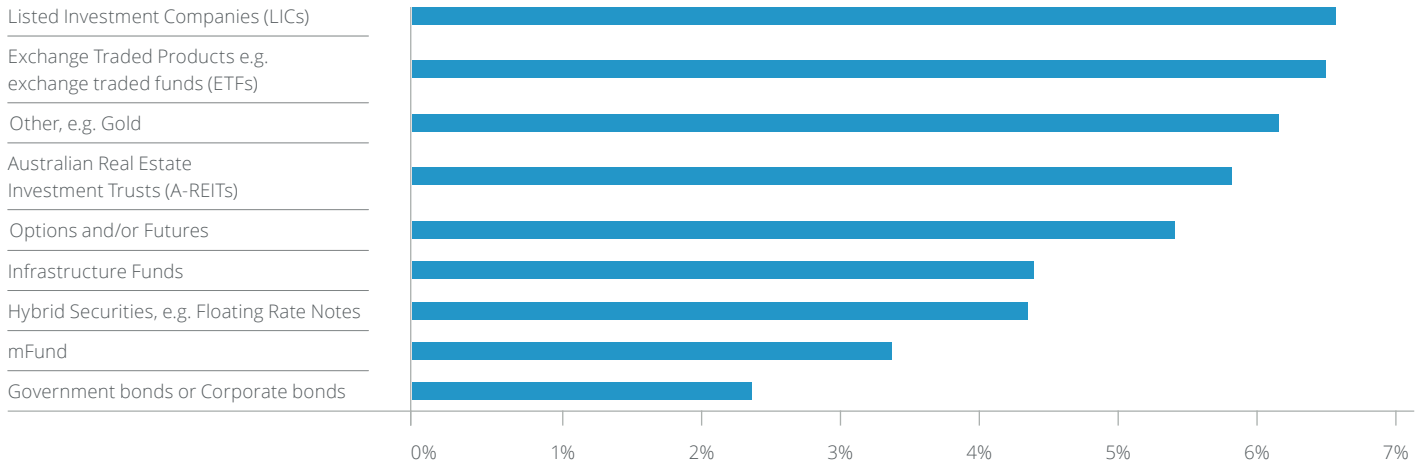
Chart 4.1: Investments held by investors, proportion of investors



Notes: n=2391

Shares are by far the most commonly held on-exchange investment; just 24% of investors (or 14% of the adult population) own other on-exchange investments. Of other on-exchange investments, listed investment companies are the most common product to invest in, followed by exchange traded products (Chart 4.2).

Chart 4.2: Other on-exchange investments held by investors, proportion of investors



Notes: Includes domestic and international holdings; n=561

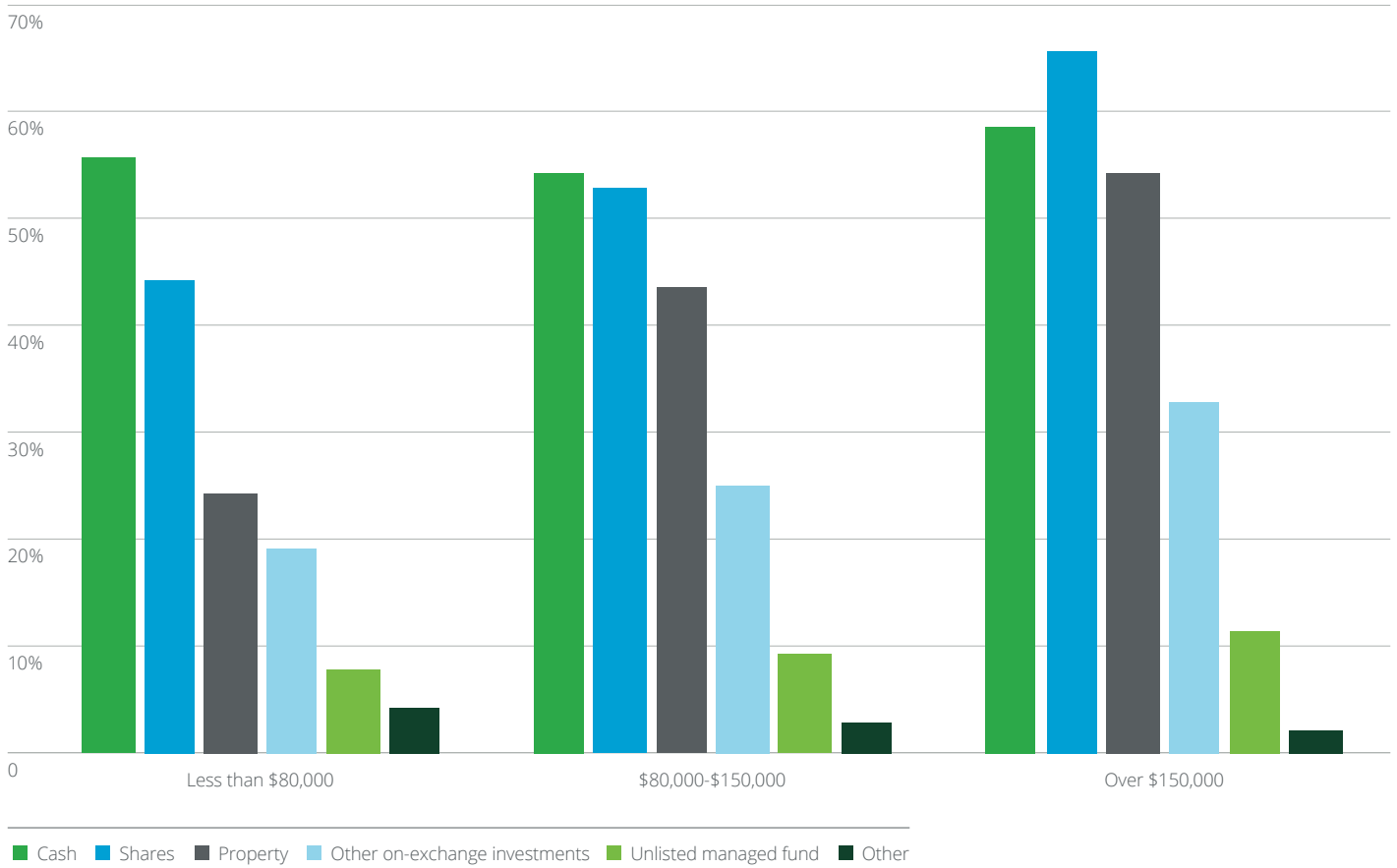
The use of these products has increased from the 2014 to the 2017 survey. LICs for instance are now held by 3.9% of the population, more than double the 2014 figure of 1.1%. Over the same period, the number of LICs operating on ASX has increased 88% to 96 (ASX, 2017d).

Not all on-exchange investors actively buy and sell. The majority (60%) have not bought or sold in the previous 12 months. These investors may be employing passive investment strategies, such as holding on to selected securities with the purpose of achieving capital growth over the long-term. This broadly aligns with the long term focus of their investment goals (see Section 5.1).

Chart 4.3 shows that the composition of investor portfolios are not heavily influenced by household income – with cash, shares, and property being the most commonly held assets. Higher income households tend to invest more in shares and property, possibly deriving tax benefits from holding property in particular.

This concentration of investors' portfolios only reflects their holdings outside their institutional superannuation fund, and could be balanced out depending on how they invest in their superannuation fund. On the other hand, superannuation assets are primarily held in equities (ABS, 2017a).

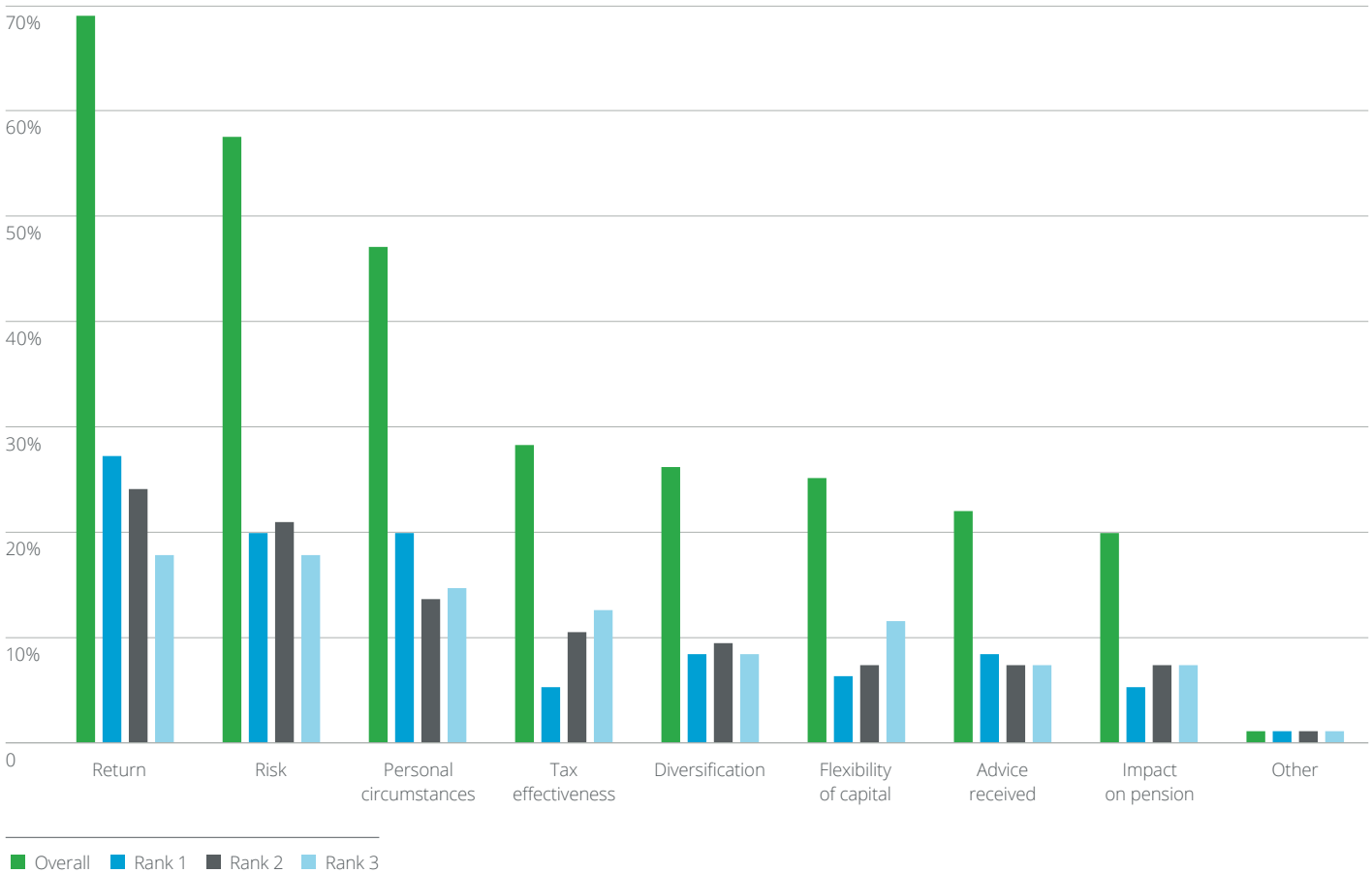
Chart 4.3 Investments held by household income, proportion of investors



Notes: n=2391

When making investment decisions, return and risk remain the most important considerations for investors (Chart 4.4).

Chart 4.4: Top considerations for investors, proportion of investors



Notes: Respondents were asked to rank up to three considerations in order of importance, n=2391

Chart 4.4 shows that for investors, tax effectiveness is not a top consideration. Of those who selected it they predominantly ranked it third (as a minor consideration). This is interesting given the policy debate around taxation requirements when investing (for example discussion around capital gains tax discounts).

These findings suggest that the appeal of investments lie in their risk/return profiles, rather than tax concessions.

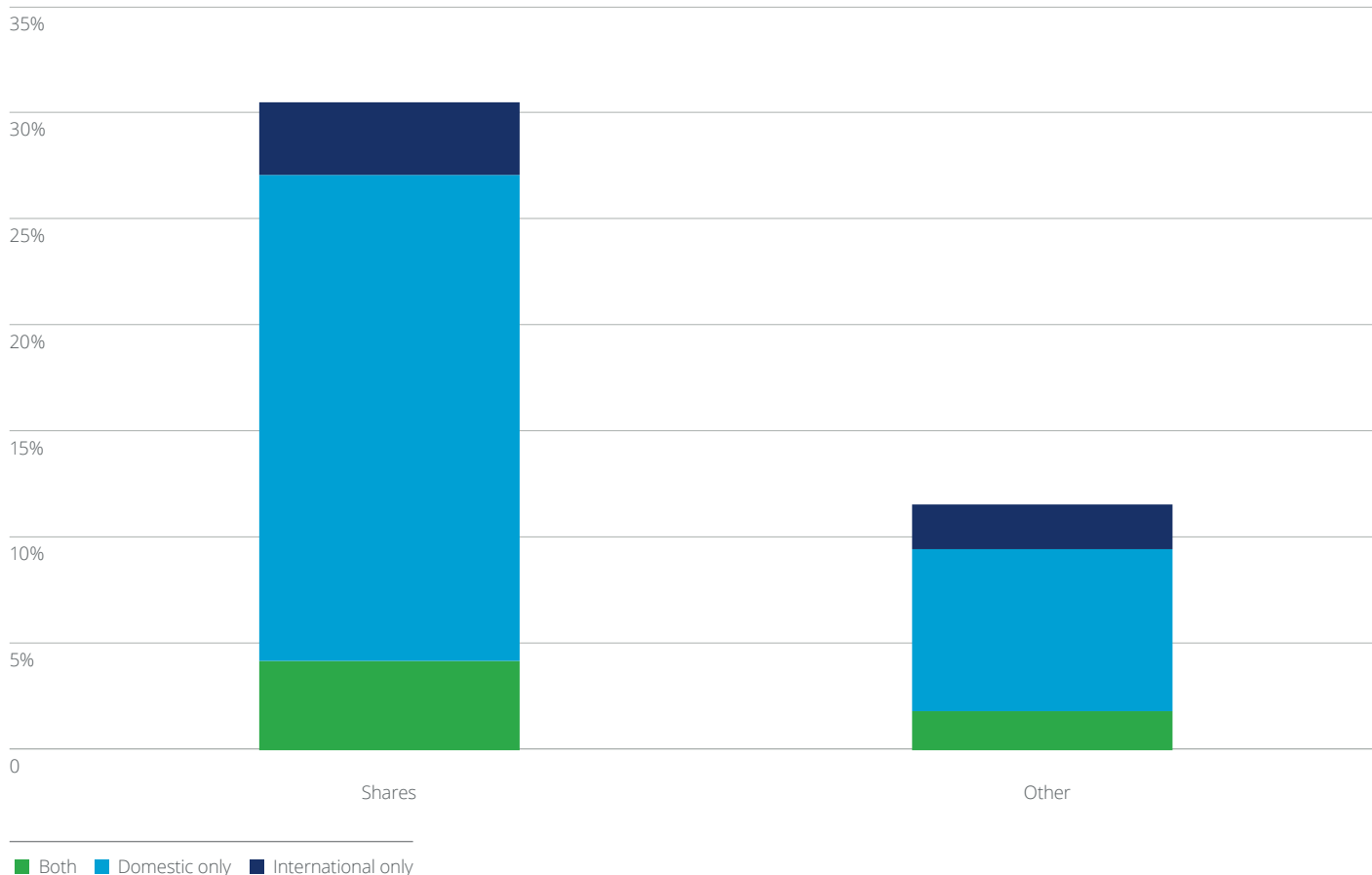
4.1.2 Domestic or overseas focus

As discussed in Chapter 3, international share ownership is rising, but on-exchange investments are still largely held domestically. For instance, 75% of share owners hold only domestic shares, while just 11% hold only international shares (Chart 4.5).

Further, some of this 11% could be the result of overseas companies purchasing Australian companies where investors were

already holding shares (for instance the sale of Optus to Singtel in 2001). Migration is another factor which could account for the 11% international ownership, if people have moved to Australia already holding shares from other countries. At the same time, some people may be reporting their indirect ownership of international shares through ETFs.

Chart 4.5 Domestic and international holdings of on-exchange investment products, proportion of adult population



Notes: n=4000

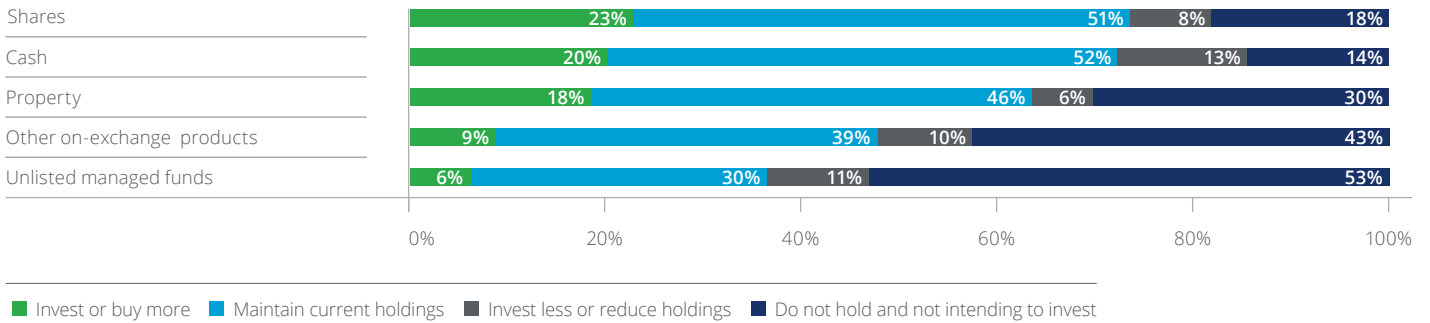
On average, the returns sought by those investing overseas are only slightly higher than those investing domestically (8.8% compared to 8.5%). The narrow difference in expectations may reflect that while over the past 30 years, the annual return to Australian shares has exceeded that of global shares (9.1% p.a. compared with 7.0% p.a.), this gap has closed over the past 10 years: annual returns on Australian shares have been 4.5% p.a. over the past 10 years compared with 4.7% globally¹⁰ (Fidelity International, 2016).

4.1.3 Investors' outlook

Over the next 12 months, a larger proportion of investors are planning to move out of cash than other investments. This is consistent with predictions in the low interest rate environment. Low return is driving investors to look beyond cash for investment opportunities. Shares, cash, and property continue to be the most popular destination for investor funds (Chart 4.6).

¹⁰ Calculated looking at the average annual returns over the past 10 and 30 years of the S&P/ASX 200, All Ordinaries TR, and MSCI World Index NR. The calculation assumes dividend reinvestment over the period.

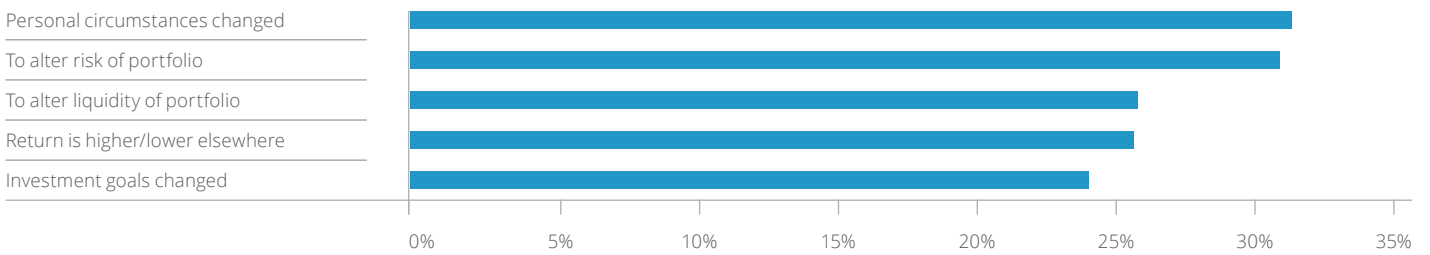
Chart 4.6: Future intentions, proportion of investors



Notes: n=2391

Investors were asked whether they planned to change their holdings of each investment product, and those who answered 'yes' were asked, 'why?'. In response, most investors cited changing personal circumstances and a desire to alter risk levels in their portfolios (Chart 4.7). This is in line with the finding in Chart 4.4, which shows the top reasons for changing holdings all relate to return, risk, and personal circumstances.

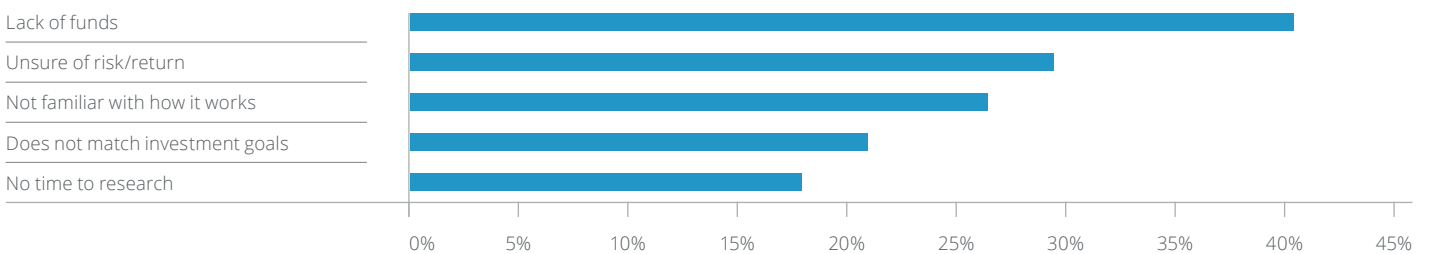
Chart 4.7: Top reasons for planning to change holdings over the next 12 months, proportion of those investors who have plans to change



Notes: n=1470

In addition, investors who answered that they did not hold certain products were asked why not. Chart 4.8 shows their responses; lack of funds was the most common reason given.

Chart 4.8: Reasons for not investing, proportion of those investors who have no plans to invest



Notes: n=1460

These findings suggest that more education is needed amongst investors, and that access to advice needs to be easier to find and use. Being unsure of the risk/return of an investment, or unfamiliarity with how it works suggests a lack of understanding.

Food for thought

- How can you help investors think about diversification?
- How can you educate and engage investors to improve their awareness of and confidence with different financial products?

4.2 Use of advisory services

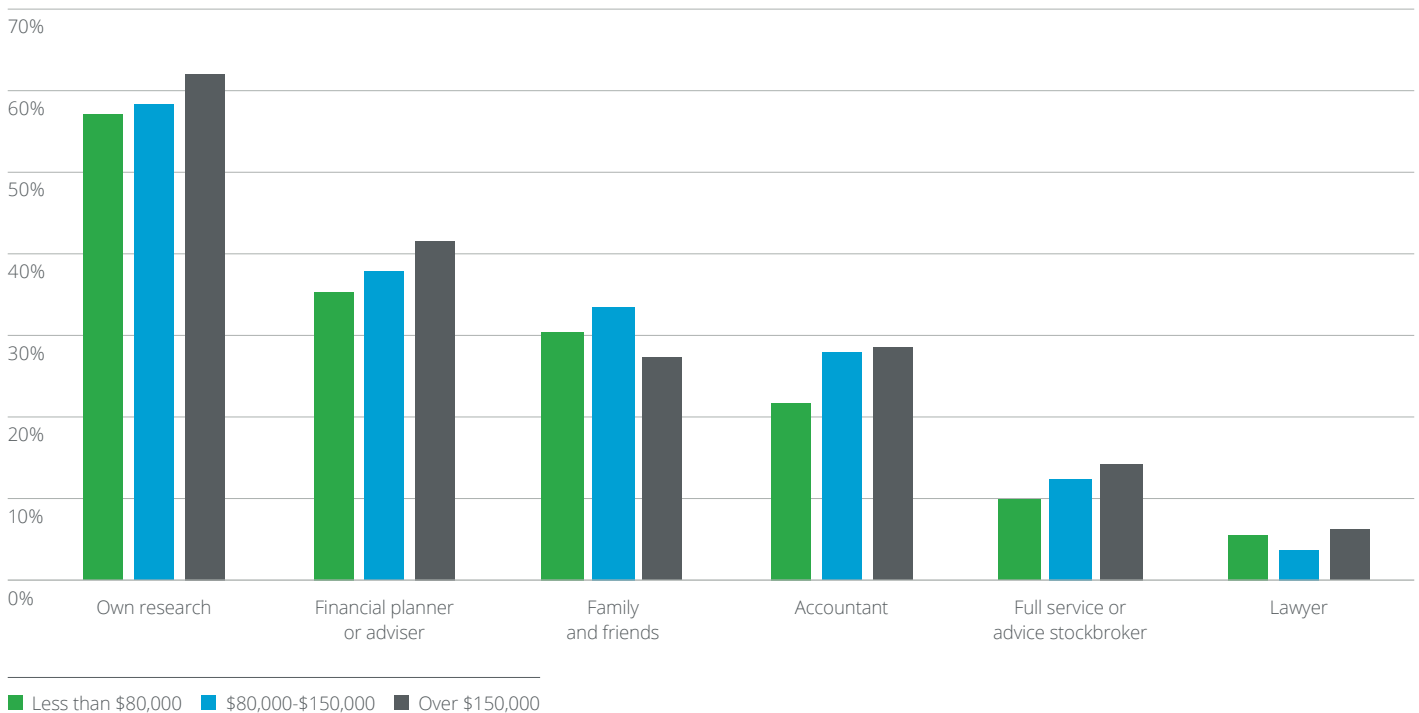
Some 61% of investors use some form of professional advice when investing (Chart 4.9). This includes advice from a financial planner or adviser, a stockbroker, an accountant, or a lawyer. Only 45% of investors use financial advice (that is, a financial planner or full service broker).

Higher income households (income over \$150,000) are slightly less likely to rely on family and friends, and slightly more likely to use a financial planner. One potential factor behind this is that higher income households believe it is worth spending the money on a financial planner, and have the means to do so.

On the other hand, lower income households are less likely to rely on financial planners, accountants, and stockbrokers, perhaps due to a lower amount of investment and diversification.

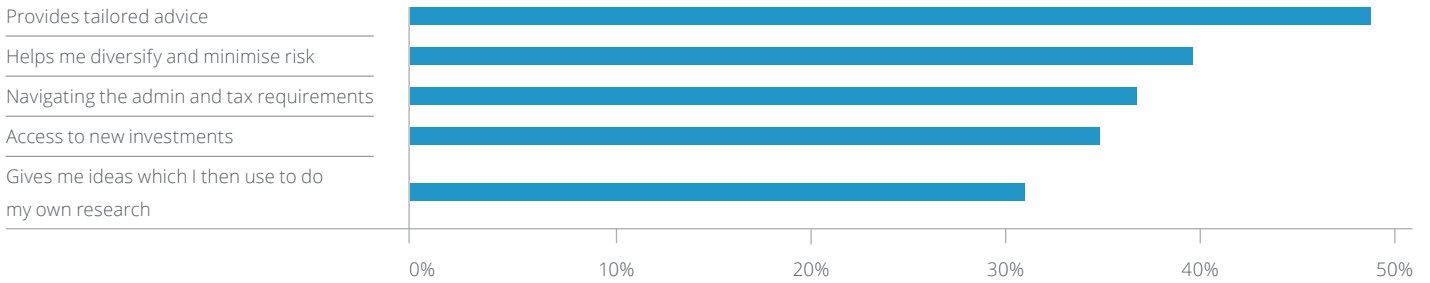
Among those who do seek financial advice, 49% said they go to a professional adviser to get investment advice tailored to their personal circumstances (Chart 4.10). Other common areas where advice was sought included diversifying and minimising risk (40%), and assistance with navigating the administrative and taxation requirements of investing (37%).

Chart 4.9: Source of investment advice by household income, proportion of investors



Notes: Respondents could select more than one option, n=2391

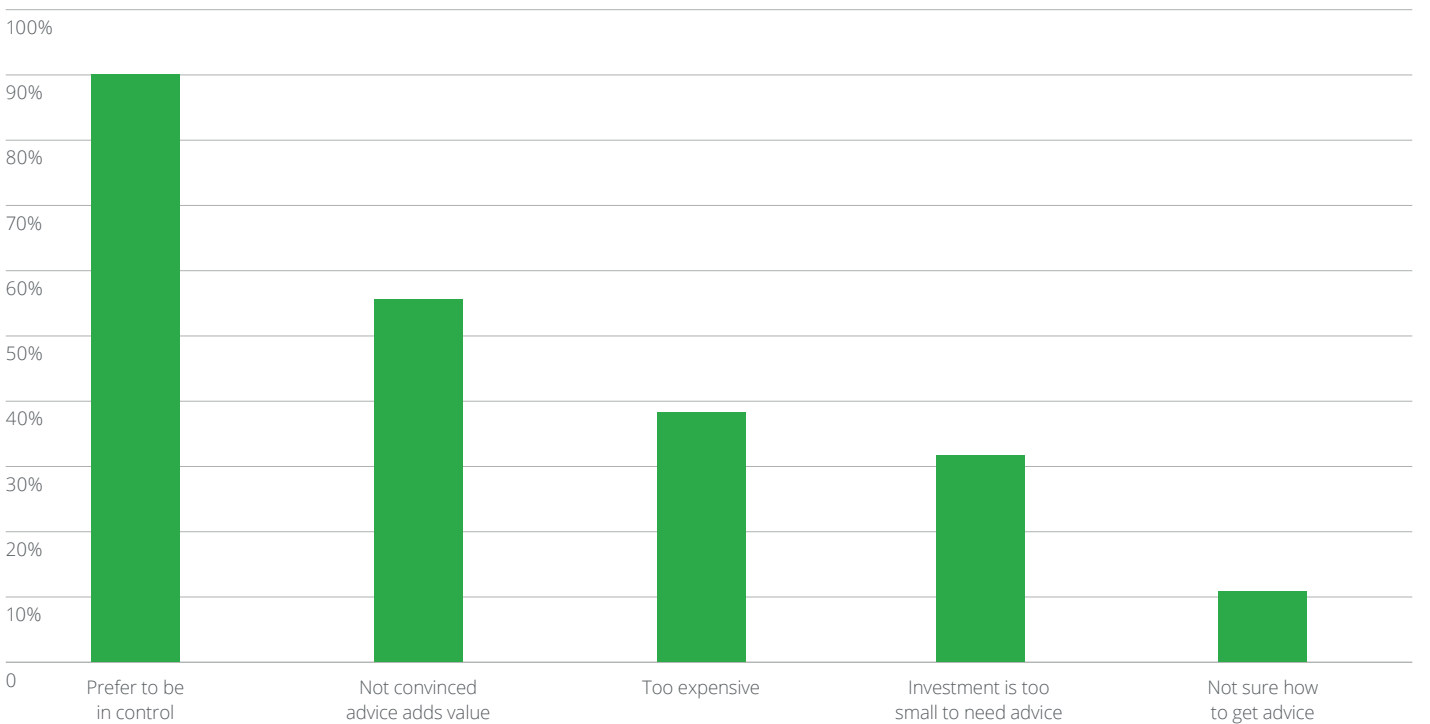
Chart 4.10: Top reasons for seeking professional advice, proportion of those investors who use financial advice



Notes: n=1077

Of the investors that do not use professional advice, the most commonly cited reason is that they prefer to be in control of their investments (see Chart 4.11). Of concern for the advice industry are the perceptions of a lack of value (over half 56%), high costs (39%) and investments being too small to need advice (32%).

Chart 4.11: Reasons for not seeking professional advice, proportion of those investors who do not use advice

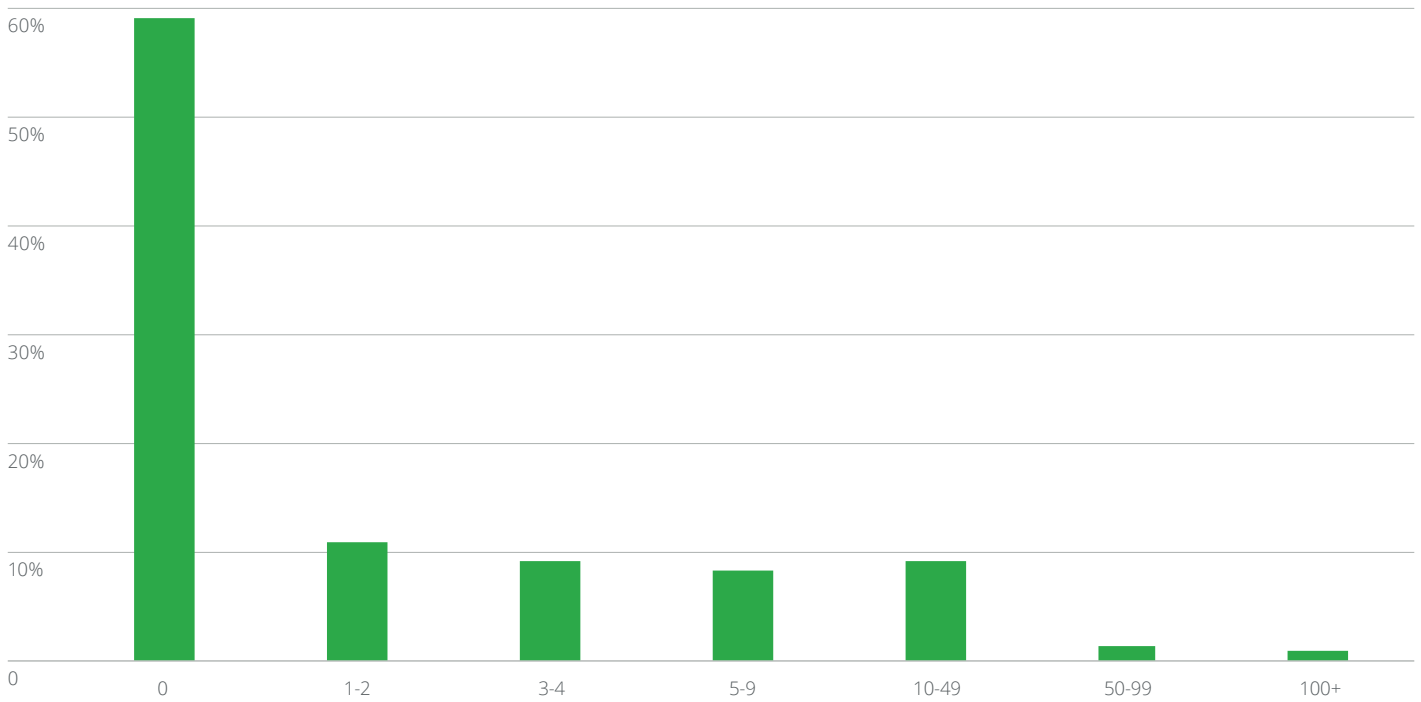


Notes: n=948

4.3 Use of transaction services

Buying and selling through a non-advice broker or online trading platform was the most common method of transaction over the last 12 months. As Chart 4.12 shows, just over 40% of on-exchange investors have actively bought or sold in the last year, and of those, 65% used a non-advice broker/online trading platform.¹¹

Chart 4.12 Number of trades in the past 12 months, proportion of those on-exchange investors who have traded in the past 12 months

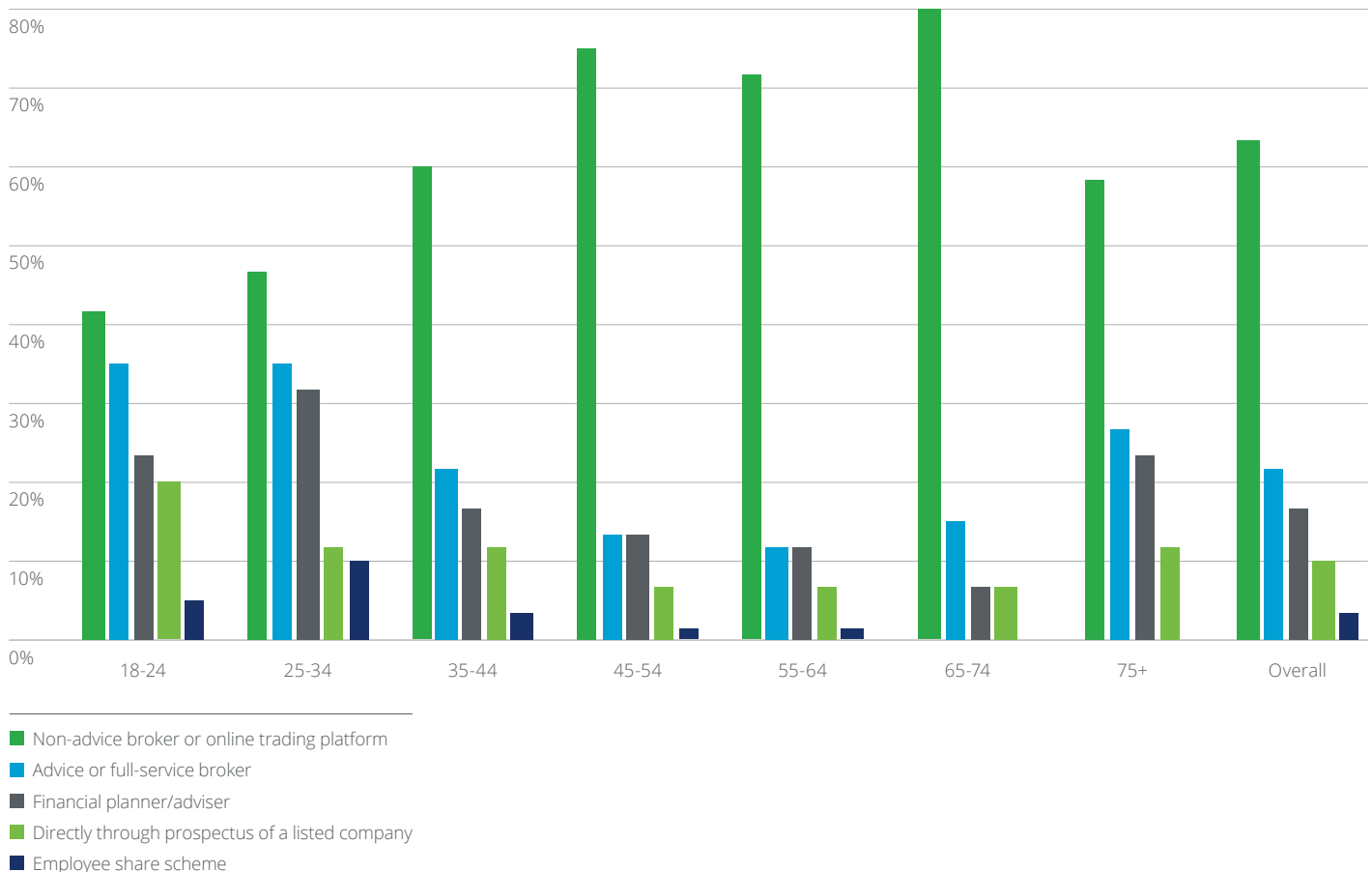


Notes: n=1494

¹¹ Investors could select more than one method of trading.

Chart 4.13 shows how trading methods varied by age group. In every case a non-advice broker or online trading platform was the dominant transaction method. Young investors are more likely to use a full-service broker or financial adviser to buy and sell than older investors, perhaps reflecting inexperience or a lack of confidence doing it themselves.

Chart 4.13: Method of trading by age of investor, proportion of those on-exchange investors who have traded in the last 12 months



Notes: n=604

4.3.2 Attitudes to robo advice

Digital and automated advisory services are still in their early stages of adoption. Platforms that utilise client information and algorithms to develop automated portfolio allocation and investment recommendations tailored to individual client preferences are known as robo advice (Deloitte, 2015b).

Robo advice, also known as digital wealth management, can draw on client information to determine certain variables such as risk appetite or liquidity, to propose appropriate investment opportunities

(Deloitte, 2016). It will provide greater opportunities to understand investors using information such as income, marital status and total super and non-super assets (Ashe, 2016). The evolution of the platform is heading towards the use of self-learning artificial intelligence investment algorithms, which leverage sophisticated risk management and profiling questionnaires to determine direct investments.

The robo advice platform has a number of benefits, including significantly lower fees and creating further value for investors by appealing to current-generation preferences (i.e. more control over finances anywhere and anytime) (Deloitte, 2015b). Owners Advisory, the digital advice division of Macquarie Group, sees the main advantages of robo advice come from its increased rigour, unbiased advice, and increased convenience for investors (see Box D).

However, some investors may still prefer obtaining advice in person, and Owners Advisory expect that in the future hybrid models where in-person financial advisers use robo advisers to improve the quality of advice available to investors.

The uptake of robo advice is still in its early stages. This is partly due to a knowledge gap, that is, many investors do not know of or understand robo advice. Chart 4.14 highlights that at least 50% of investors across all age groups do not know enough about robo advice to consider using it.

Box D: Owners Advisory

Owners Advisory is the digital advice division of Macquarie Group. It focuses on providing digital wealth management – known colloquially as ‘robo advice’.

Owners Advisory's direct online advice tool is able to provide customised advice quickly and cheaply. Advice can be high level, or very granular (down to recommending the sale of individual shares). It can also take legacy assets into account, so it recommends investments to fit in with an existing portfolio.

Users of their tool typically have a ‘do it yourself’ attitude, and see the tool as a second opinion before making their own investment decisions. A large portion of users are SMSF investors, and the average age of users is just over 50, which contrasts with the view that older investors are less open to the idea of using robo advice.

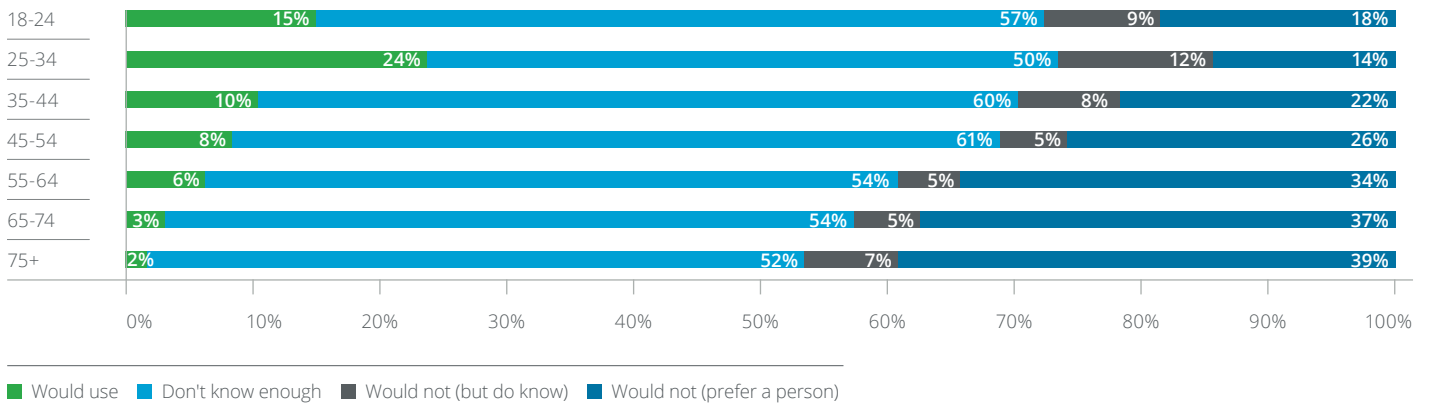
Owners Advisory sees a number of advantages to investors of robo advice. Firstly, it can be more rigorous in its investment selection process. Their system can sort through 30,000 investment opportunities and find the investment best suited to each client.

Secondly, it is non-biased in its recommendations. Using digital advice means that the marketing aspect of selecting an investment is removed – a computer will look beyond the well-known and find new opportunities which may fit an investor's portfolio better.

Thirdly, it is more convenient for a lot of people. Robo advice can be used whenever and wherever is convenient for each individual, whereas often professional advice must be sought within business hours, or at the office of the adviser.

These advantages combine to make robo advice more efficient and convenient than traditional advice channels. The automation process has made providing advice faster, and more easily customised, meaning better value for investors.

Chart 4.14: Attitudes to robo advice by age of investor, proportion of investors



Notes: n=2391

This lack of knowledge means there are opportunities for significant take up with improved financial literacy. Particularly, the younger cohorts appear to be more open to using robo advice - 15% of investors aged 18-24 and 24% of investors aged 25-34 would use it. This has implications for the advice industry in the coming decades as these investors' portfolios grow and they become used to seeking automated advice with limited in-person advice.

On the other hand, the proportion of the remaining cohorts that would use robo advice decreases as age increases. One reason for this is that older investors are more likely to prefer a person to provide them with advice. Around 40% of investors aged 75 and older sit in this category, compared with only 18% in the 18-24 age group.

Providers of financial advice need to better connect with investors. The investment industry has been subject to significant change over the past decade. In particular, developments in the industry have sought to increase the use of financial advice by improving the quality and affordability of advice (Chapter 2.2).

Nonetheless, many Australian investors remain largely self-directed, preferring to do their own research. The single most commonly cited reason for this is that investors desire to be control of their financial affairs. Many investors do not see the value of using financial advice.

Convincing investors of the value of financial advice has been an ongoing challenge for the industry. New developments in technology provide opportunities for financial advisers to deliver advice even more efficiently, such as by using robo advice engines to support their portfolio construction activities. They can then pass these efficiency gains onto their clients.

Food for thought

- Are you thinking about how you can engage DIY investors?
- How can you demonstrate the value of advice to counter the perceptions of a lack of value and high cost?
- Are you considering the development of your own technology or partnering with other organisations (white labelling) to increase the range of lower cost investment options for investors?



5. Why do Australians invest?

Australians typically invest for the long term. Retirement and wealth accumulation are front of mind for all ages, and individuals are investing in products that reflect that. Also reflected in product choice is the relatively high risk averse nature of Australian investors. More than two thirds (67%) of Australian investors are seeking guaranteed or stable returns from their investments.

This proportion is higher for young investors, challenging the widespread belief that older investors are more risk averse. This chapter examines investor goals, knowledge, and risk attitudes.

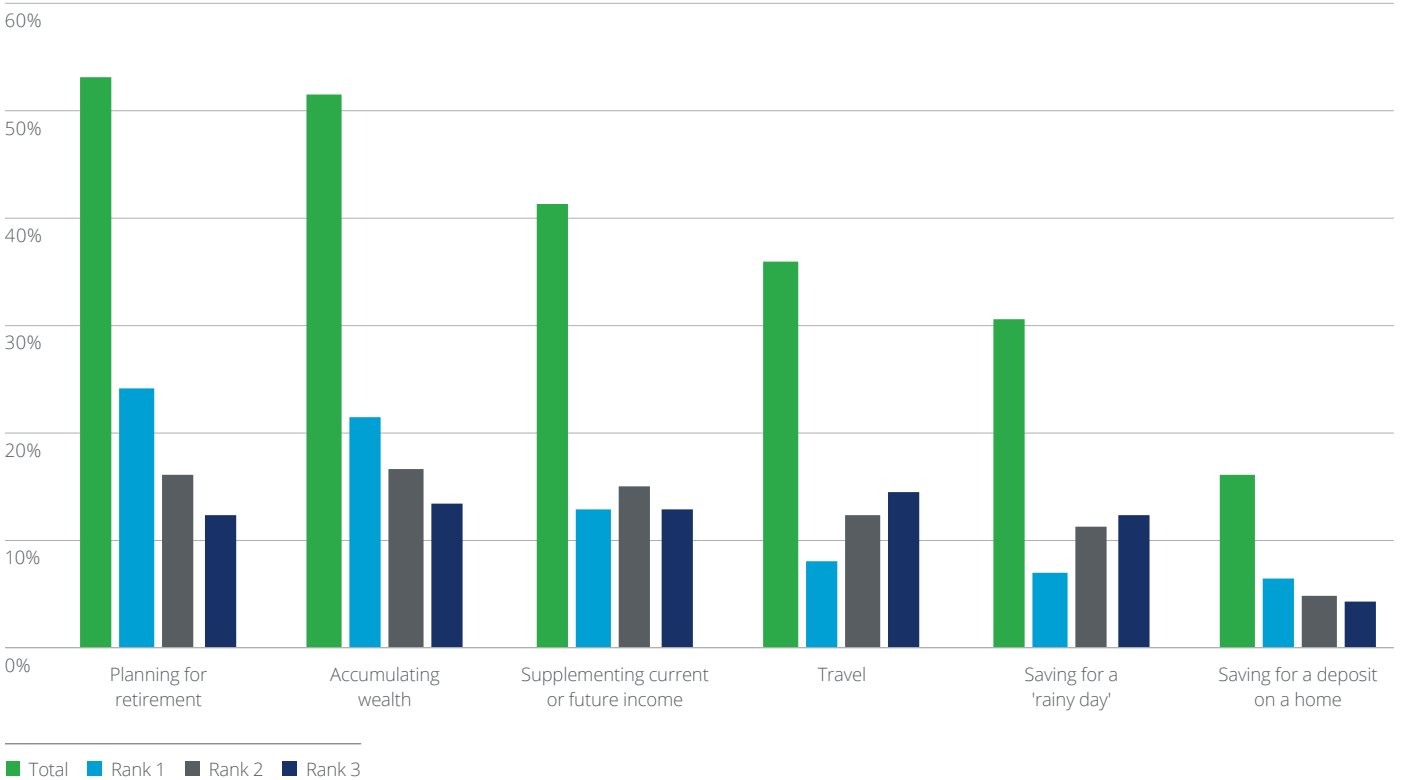
5.1 Awareness, knowledge and attitudes

Investors reported that their top three goals when investing are planning for retirement, accumulating wealth, and supplementing current or future income (Chart 5.1).

While the specific goals vary by investor age, they remain focused on the long term (Chart 5.2). The younger age groups (18-24 and 25-34) are focused more heavily on saving for home deposits, especially in a time where house prices have been on the increase for some time.

Wealth accumulation appears to be a relatively consistent goal across all ages, considering that investors are likely to be always thinking about being financially prepared for the next stages of their lives and having enough money.

Chart 5.1: Top investment goals, all investors



Notes: n=2391

Investors aged 18-34 are likely to plan for travel more than those in the 35-44 age group. This could be explained by individuals in the 35-44 age group being more likely to have dependants and potentially shifting their goals towards saving for education.

The goal of planning more for retirement is likely to be more common as investors become older and begin to place more importance on having enough money at that time.

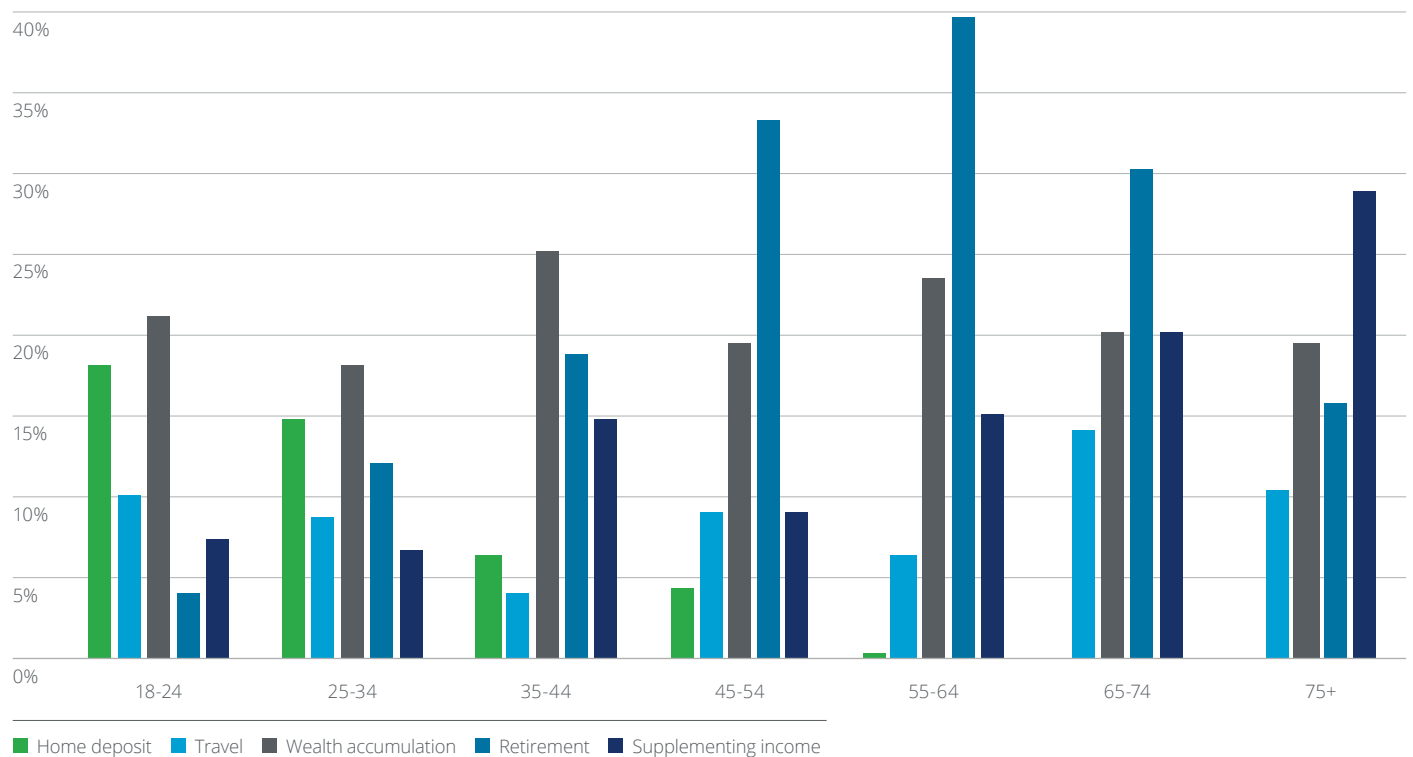
For example, the 18-24 age group plan the least for retirement because of other impending purchases such as houses. On the other hand, Chart 5.2 shows that as investors become older, they begin to save more for retirement, until they reach retirement age (since they are already living in retirement).

At the same time, supplementing income appears to be more important for investors aged 65+ compared with the younger ages.

In retirement, investors need to supplement the income they receive from pensions and superannuation, while investors aged 18-34 do not require as much.

However, the importance of supplementing income is higher for investors aged 35-44, potentially due to families needing to pay for children's education and the increased cost of living as children become older.

Chart 5.2: Top investment goals by age of investor, all investors



Notes: Other, less common, goals were included in the survey but are not presented here, n=2391

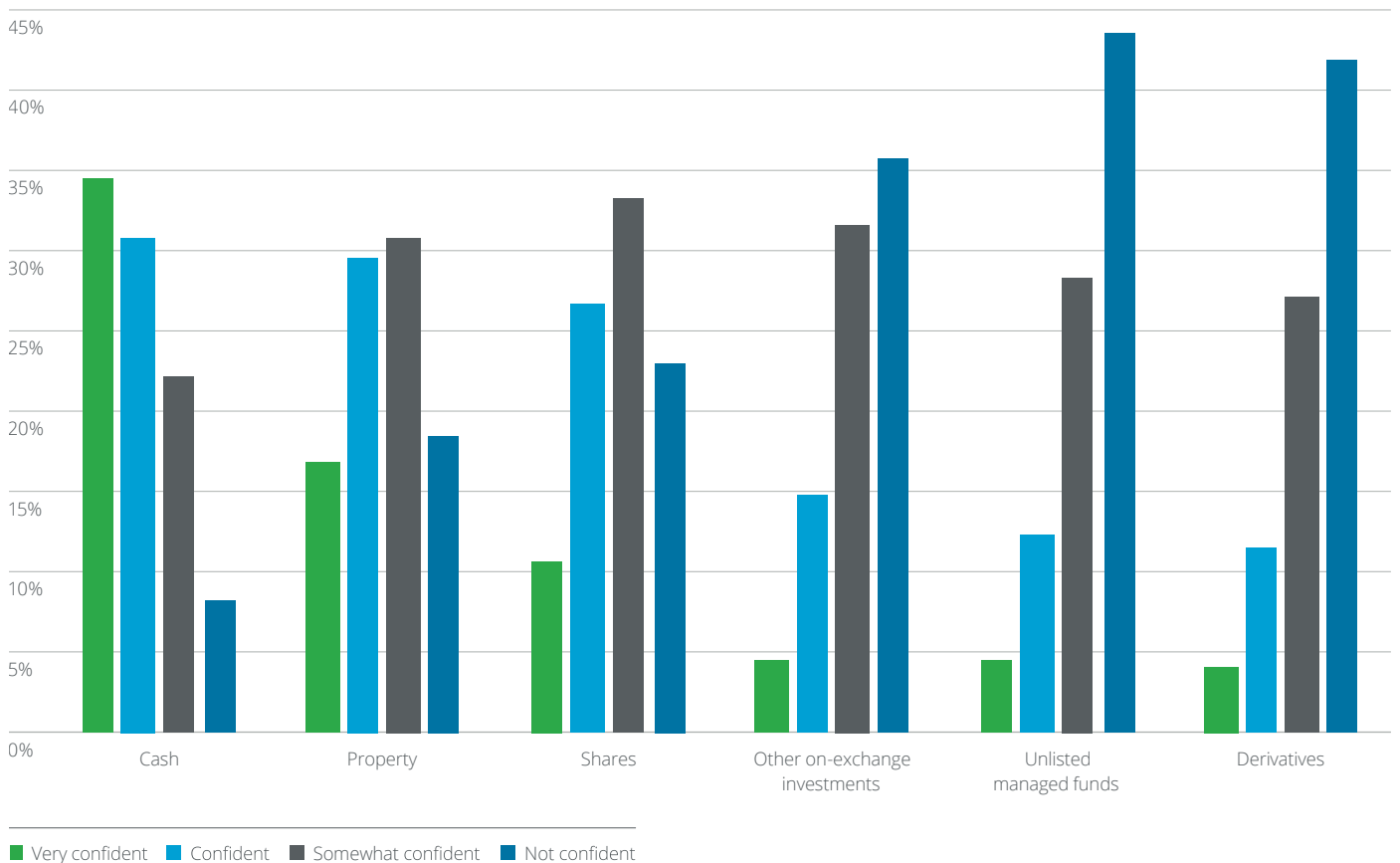
While most Australian investors are generally long-term focused, investing can be a path to achieving other life outcomes. For example, as reflected in the survey results and in consultation with Wealth Enhancers Pty Ltd, younger investors are considering investing as a way to build their home deposit. The financial advice industry is already shifting away from business and product-led operating models to customer-led ones. By focusing on building long-term client relationships, financial advisers can help their clients invest to achieve a broader range of outcomes throughout different life stages.

This will require financial advisers to have a better understanding of their clients. Being willing to review business models to ensure they align with emerging customer needs, and making better use of customer data will be important components of this.

Investors' confidence varies across investment products (Chart 5.3). Investors generally feel confident investing in cash, property, and shares, and progressively less so with more alternative products. Less than 20% of investors feel confident investing in

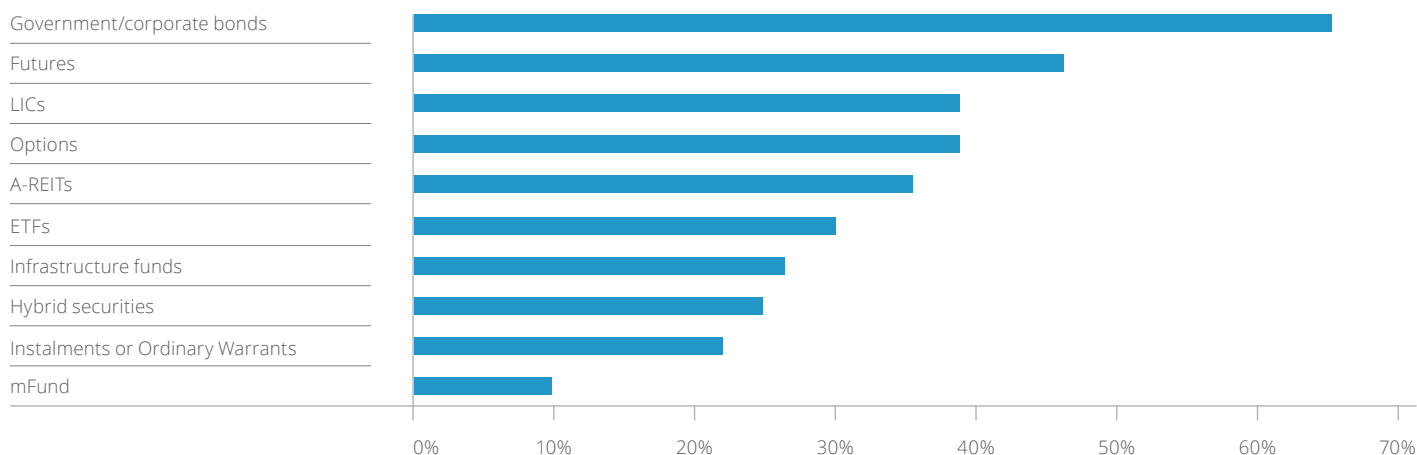
unlisted managed funds, derivatives, and other on-exchange investments (such as bonds, hybrid securities, and exchange traded funds). There is an opportunity here for financial advisers: if investors were better educated about these products they may begin to engage with them and invest more broadly.

Chart 5.3: Investor confidence level with investing by investment product, all investors



Notes: n=2391

This could be driven by a number of things (for instance, lingering investor scepticism from the GFC), but lack of awareness is likely a significant factor. Chart 5.4 shows investor awareness of selected 'Other on-exchange investments'. While bonds are the most well-known, with nearly two-thirds of investors aware of them, this awareness quickly declines for other financial products. While awareness for products such as A-REITs is not very high, they perform quite well with an average annual return of just under 17% over five years to March 2017 (Collett, 2017).

Chart 5.4: Awareness of specific financial products, proportion of investors

Notes: Notes: n=2391

5.1.2 Financial literacy

While investors are confident investing in cash, property, and shares, there are a range of other more complex or alternative products with which investors are not (Chart 5.3). At the same time, investors are not as aware of those products that are seen as complex (i.e. hybrid securities), when compared to products such as government/corporate bonds (Chart 5.4). The lack of awareness about more complex financial products and the corresponding lower confidence, highlights a knowledge gap.

Financial literacy is defined as a combination of financial knowledge, skills, attitudes, and behaviours necessary to make sound financial decisions, based on personal circumstances, in order to improve financial wellbeing (ASIC, 2017b). Australia has the highest financial literacy rate in the Asia-Pacific region, and is ranked ninth globally (Klapper et al., 2015).

There is still room for Australia's literacy to improve. The most recent Australian Financial Attitudes and Behaviour Tracker shows that understanding key financial concepts such as the 'risk/return trade-off' and 'diversification' is a challenge for Australians.

Only one in three Australians report understanding the risk/return trade-off, and even fewer understand diversification (ASIC, 2016b). This is indicated by the relatively higher confidence of investing in more well-known products, as discussed above.

It is important for individuals to understand how to manage their money and financial risks effectively, in order to protect against various pitfalls. In regards to investments, financial knowledge is vital at a time where complex financial products are freely available to the broader population.

This presents an opportunity. With most investors being self-directed rather than seeking financial advice (Chapter 4), one way to boost awareness and confidence is through promoting greater use of financial advice. Another would be to commit more resources to educating investors about these products.

5.2 Australians' attitudes to risk

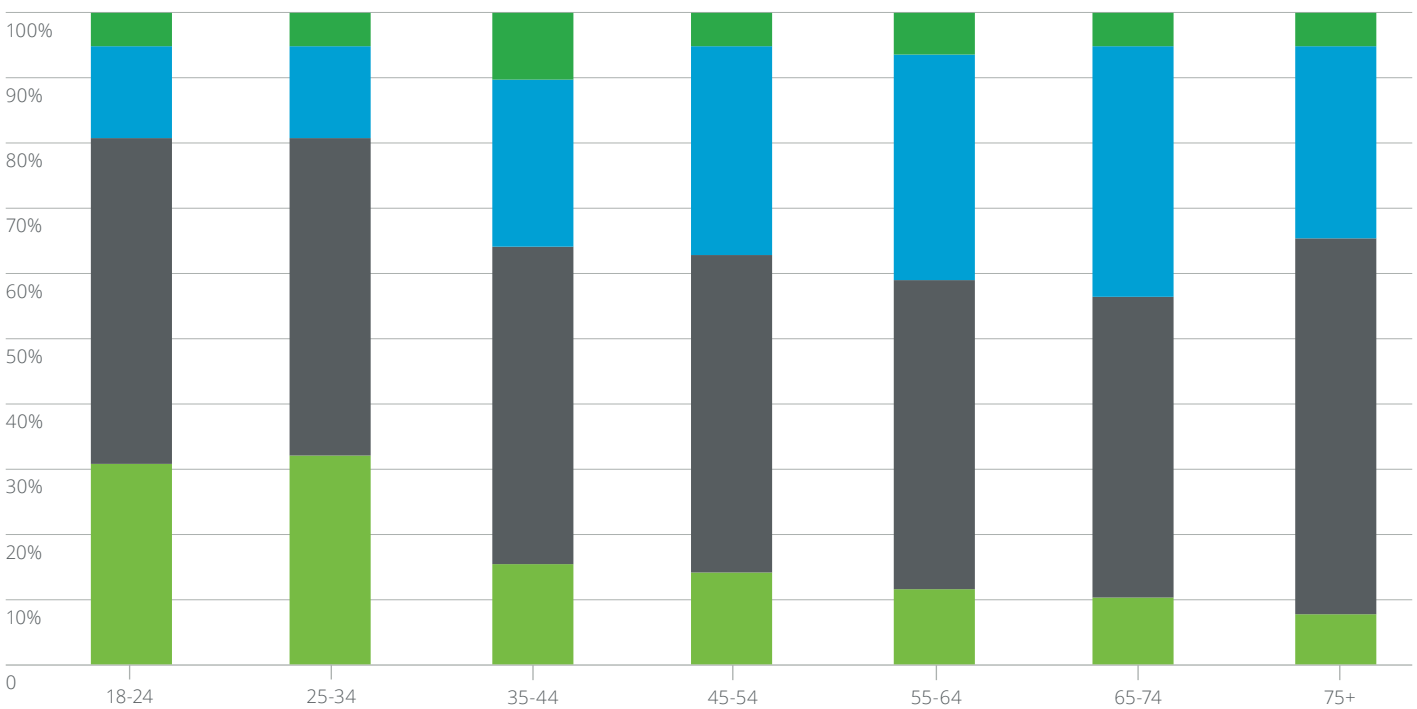
Australians are relatively risk averse. According to a global investment study conducted by Legg Mason (2015), only 29% of Australian investors are prepared to increase their risk profile for the opportunity to earn more income, compared to 66% of investors globally, and 77% of Australian investors describe themselves as conservative compared to 59% globally.

In this study, 48% of investors report that they prefer stable, reliable returns. Some 34% of investors would accept moderate or higher variability in returns.

Contrary to perceived wisdom, young investors are more risk averse than older investors (Chart 5.5). About 31% of 18-24 year olds seek guaranteed returns on their investments, and only 19% would accept variability in returns.

In contrast, just 8% of those aged 75 and over look for guaranteed returns, and 35% would accept variability. This may partly reflect a level of risk aversion attributed to limited investment experience, or not having experienced buoyant pre-GFC conditions.

Chart 5.5: Investors' attitudes to risk by age of investor, proportion of investors

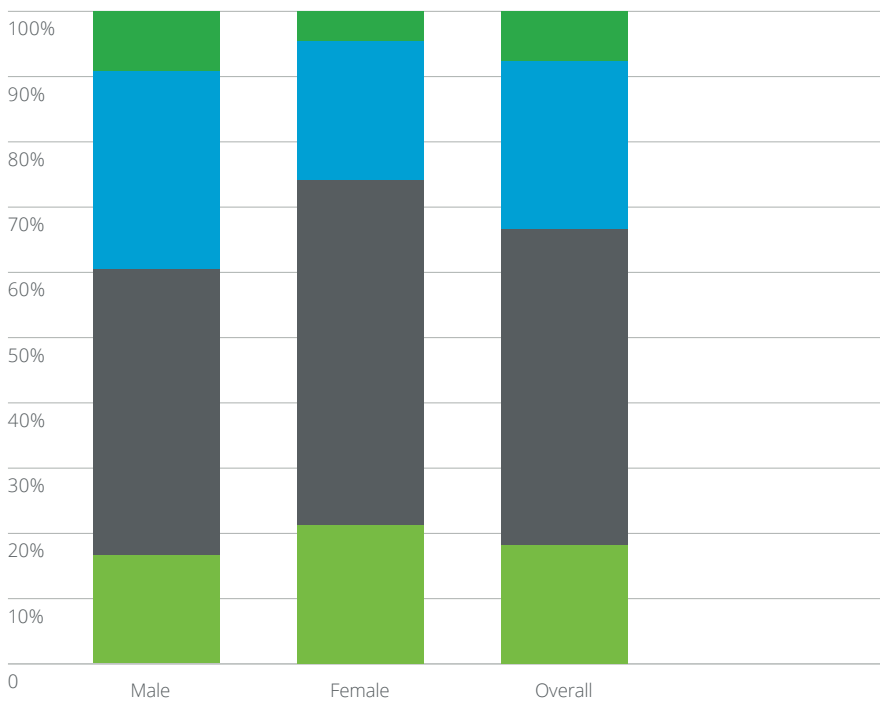


- Accept higher variability with the potential for higher returns
- Accept moderate variability in returns
- Prefer stable, reliable returns
- Prefer guaranteed returns

Notes: n=2391

Female investors are more risk averse than male investors, with just 26% of female investors willing to accept variability in returns compared with 40% of male investors (Chart 5.6).

Chart 5.6: Investors' attitudes to risk by gender of investor, proportion of investors

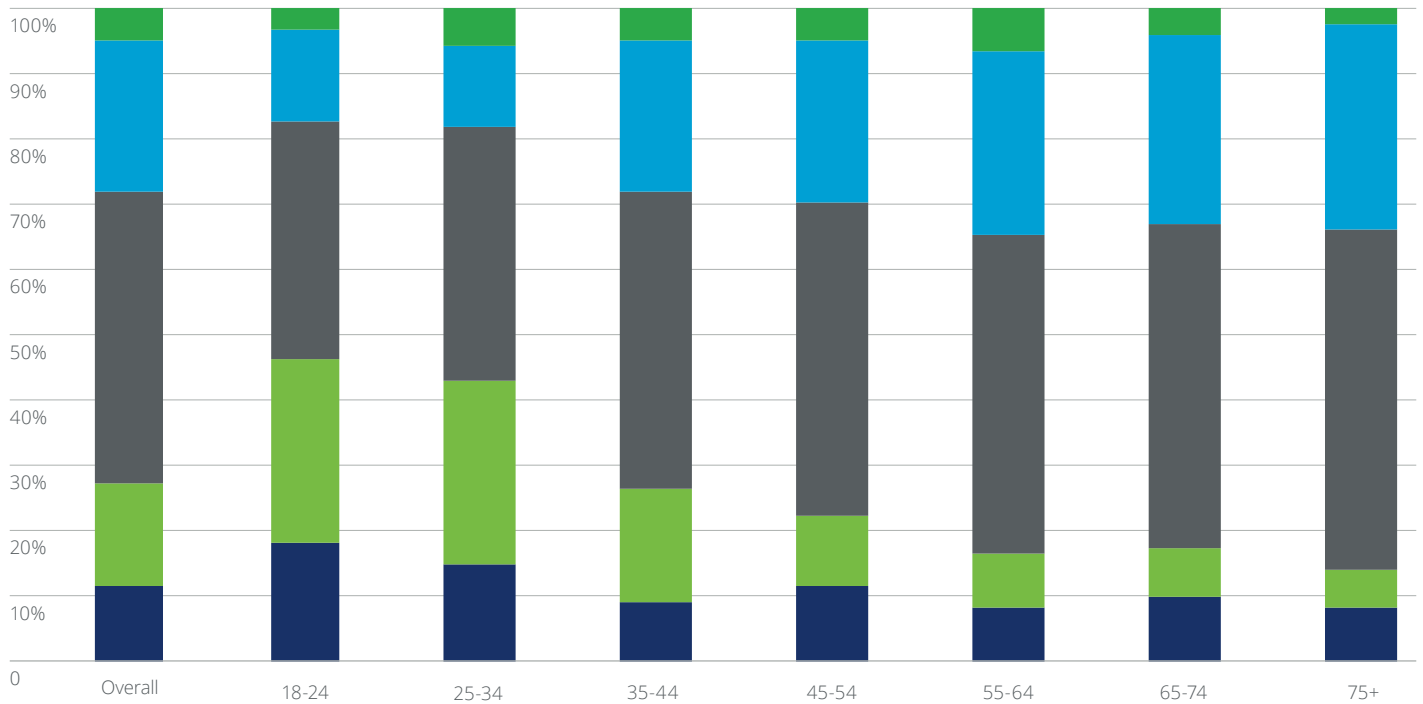


- Accept higher variability with the potential for higher returns
- Accept moderate variability in returns
- Prefer stable, reliable returns
- Prefer guaranteed returns

Notes: n=2391

Chart 5.7 reports what the investors' reactions would be to finding their portfolio balance has dropped 20% overnight. The same pattern is observed, with young investors being more risk averse than older investors. Investors in the 18-24 and 25-34 age brackets are more likely to respond to such an event by transferring their funds into more secure investments, while investors aged over 55 mostly reported that while they would be concerned, they would wait to see if the investments improve.

Chart 5.7: Investors' reaction to investment balance dropping 20% overnight, proportion of investors

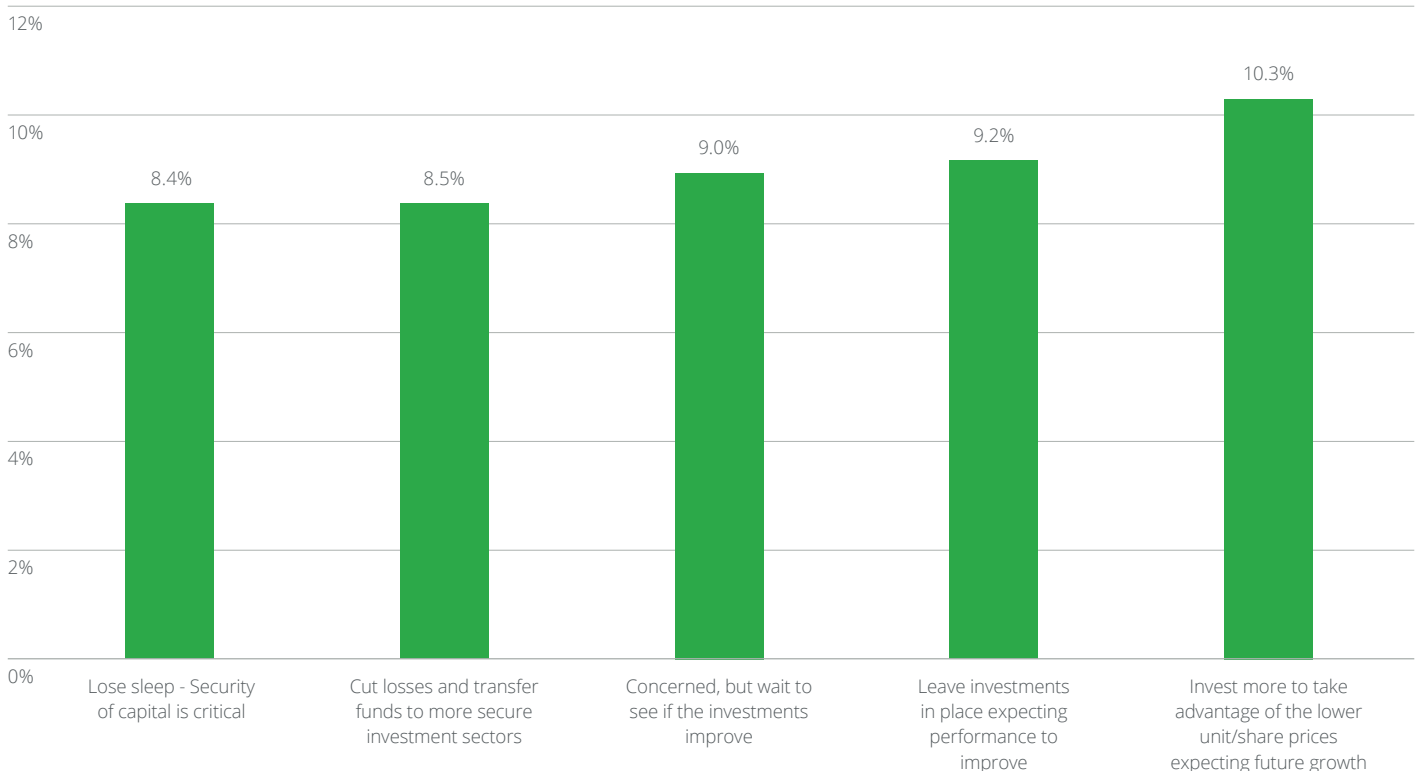


- I'd invest more funds to take advantage of the lower unit/share prices expecting future growth
- This was a risk I understood – I'd leave my investments in place expecting performance to improve
- I'd be concerned, but would wait to see if the investments improve
- I'd cut my losses and transfer my funds to more secure investment sectors
- Lose sleep – Security of my capital is critical and I don't intend to take risks

Notes: n=2391

Chart 5.8 shows that on average, the most risk averse investors seek lower portfolio returns compared to less risk averse investors. It shows the average returns that people reporting each level of risk are expecting from their portfolios. Of those that are the most risk averse, 18% seek between 0% and 5% returns on their portfolio, compared with just 2% of the least risk averse investors. In line with this, 21% of the most risk averse investors seek double digit returns, compared to 34% of the least risk averse investors.

Chart 5.8 Average expected portfolio returns by reaction to loss, all investors



Notes: n=2391

While this does follow the expected trend of risk averse investors expecting lower returns, the fact that one in five risk averse investors still seek double digit returns is surprising. The current investment environment is one of low returns, so to get double digit returns investors would need to choose higher risk products.

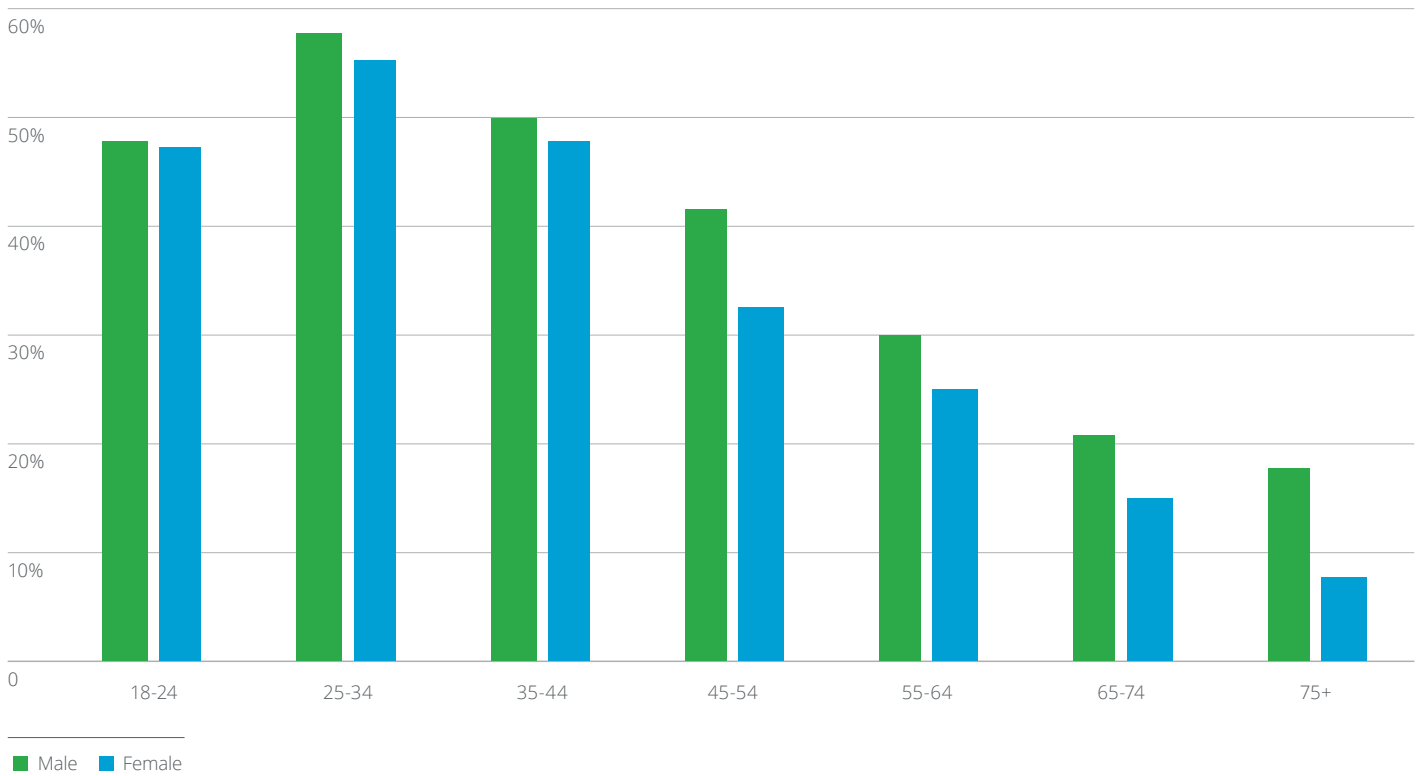
It could be that financial literacy among these investors is low, and that they do not fully understand the risk/return trade-off and the current financial climate.

An alternative explanation is that the rapid appreciation of house prices in Australia (particularly in Sydney and Melbourne) has given investors a warped idea as to what is reasonable to expect when investing. Housing prices in Sydney have appreciated an average of 11.3% per annum over the last five years, and across all capital cities the average has been 7.7% over the same period (ABS, 2017c).

Media coverage of the housing market and the speed with which it is growing may be giving investors the incorrect idea that double digit returns are 'normal' in this low interest rate environment.

While young investors are most risk averse, they are also most willing to borrow in order to invest (Chart 5.9). Nonetheless, while some may be comfortable borrowing to invest, only a small proportion of investors actually do so (less than 5% of investors).

Chart 5.9 Proportion of investors comfortable borrowing to invest, by age and gender

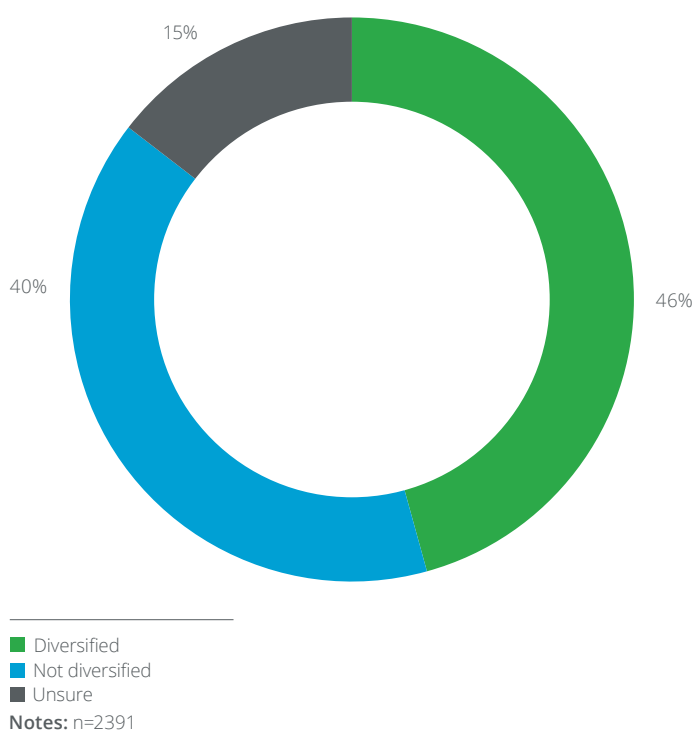


Notes: n=2391

5.3 Diversification

Nearly half (46%) of investors considered their portfolios to be diversified (Chart 5.10). However, 15% of investors were unsure if they had diversified portfolios, while 40% considered that they did not.

Chart 5.10: Diversified portfolios, proportion of investors



These answers align with what investors reported having in their portfolios. Those who said that they were diversified had an average of 2.7 asset classes in their portfolios while those who were not diversified had 1.6.¹² The investors that do not diversify may be doing so by choice or may be facing barriers to diversification, such as lack of access or they perceive the buy-in price to be prohibitive.

Patersons Securities Limited, a stockbroking firm, has seen a shift in understanding of diversification among investors over the past decade (see Box E). It has noted that an industry-wide push has led to improvements in investors' understanding of the concept, but some still do not see the benefits of diversification. National Australia Bank Ltd (NAB) also considers that there is a gap between understanding of diversification and implementation (Box F). These suggest that there may still be work to do to improve investors' use of diversification.

Box E: Patersons Securities Limited

Patersons Securities Limited is a full-service stockbroking firm operating nationally.

They noted that risk attitudes have changed over the past decade, and that since the GFC and the end of the resources boom investors have become more conservative.

This has also been accompanied by a shift in responsibility relating to their expectation of advice – during the boom investors would come to advisers with a plan of what they wanted to do, and seek advice as to how to achieve it. Today, investors come for advice about what to invest in, and advisers take more of a driving role, explaining what is possible and realistic for them.

Investors' understanding of diversification has also changed. As a result of an industry-wide push, investors have a better understanding of diversification, but there are a number of reasons why people do not diversify.

While some people may understand the concept, they do not see the benefits for their portfolios. For others, they have specific investment interests and do not want to diversify beyond them. Some investors have insufficient capital to enable efficient diversification.

¹² Asset classes refer to different products: shares, property, cash, derivatives, other on-exchange investment products, unlisted managed funds, other investments.

Box F: National Australia Bank – Self-Directed Investors

Investors generally acknowledge the importance of diversification, however implementation of the concept is varied at times. When this is the case, investors may wrongfully believe they have a diversified portfolio when in reality this may not be the case.

The types of investments selected also depend on an investor's objectives and risk tolerance. An investor with a higher risk tolerance may have a larger allocation to more volatile assets (in search of higher returns). However the diversification premise remains consistent; seeking to achieve your objectives consistent with your risk tolerance.

The greatest diversification benefits are achieved when portfolio assets move in opposite directions when a market event occurs (they are negatively correlated). In a practical sense, this is generally achieved by investing across several sectors rather than just one. As an example, a four stock portfolio invested in four different sectors will have different diversification characteristics than a four stock portfolio invested in four companies within the same sector. NAB often sees a disconnect between investors' understanding and implementation of diversification. A big part of this is access. Investors do not always have easy access to certain asset classes making diversification more challenging. Therefore, one of NAB's priorities is assisting investors in accessing other assets (for instance, international equities and fixed income).

NAB sees technology such as robo-advice playing an important role in helping investors build diversified portfolios to meet their investment objectives. Offered at a lower cost than personal advice, it is an attractive option with great potential as investors begin to place more trust in robo-advice.

Diversification helps to spread investment risk. A diversified portfolio means that investors are less exposed to a single economic event, and thus are less likely to suffer financial loss (ASIC, 2017a). Investors who considered their portfolios diversified were on average less risk averse than those who considered their portfolios undiversified (Chart 5.11). They also had slightly higher return expectations - those with a diversified portfolio said they expect 9.1% returns, while those who are undiversified are expecting 8.8% returns.

Most of the undiversified investors seeking 'stable, reliable returns' are invested in cash. Shares and property are the other products used by this group, but far less frequently.

The investment industry has taken steps to improve public understanding of the benefits of diversification, but many Australian investors are not diversified.

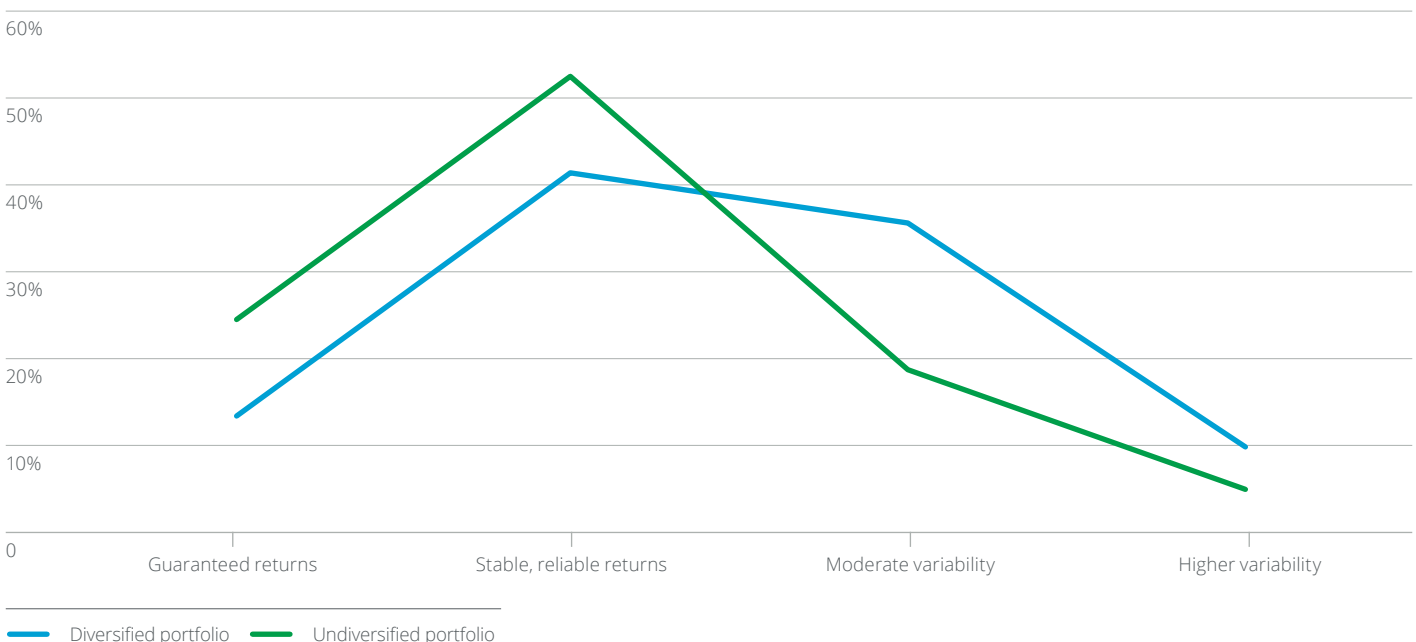
While access to different asset classes and the availability of investment products has improved over time, shares, cash, and property are the most commonly held investments (Section 4.1). This asset mix does not change significantly for investors in different life stages.

Against this background, investors may not be holding the optimal portfolio for their circumstances. Partly, this may be because investors are not actively engaged in their investment activities; almost half (45%) of investors reviewed their portfolios only a few times in the last year, or less frequently. This may suggest that financial education is still lacking. It could also mean that financial advisers are struggling to connect with investors. The financial advice industry needs to consider new approaches to help investors better understand and navigate their investment journey.

Food for thought

- How can you help investors understand what returns are reasonable for different asset classes in the current environment?
- How are you helping investors think through the risk and return trade-off?
- How can you help investors to understand the benefits of diversification?

Chart 5.11 Relationship between diversification and risk attitudes among investors



Notes: n=2391



6. Seeking a more diversified future

Investing is important for Australians and it is going to be even more important over time. As the population ages, and people spend more time in retirement, wealth accumulation is becoming more and more important. Compulsory superannuation will not always be enough to maintain individuals' lifestyle expectations in retirement.

In 2013/14, the mean superannuation balance for an individual at retirement was around \$214,000 (ASFA, 2015). The average total superannuation balance for a household at retirement was \$355,000 (ASFA, 2015).

A single person seeking a 'modest' lifestyle in retirement requires a lump sum of at least \$370,000 (without the age pension) invested and returning 7% p.a. (Super Guide, 2017). For couples, this lump sum needs to be at least \$400,000. In order to have a 'comfortable' retirement, households require between 1.8 and 2.3 times these lump sum amounts (making \$665,000 and \$910,000 the new lump sums needed for singles and couples respectively) (Super Guide, 2017, and ASFA, 2016).

Investing early to accumulate wealth will make the difference between a modest and a comfortable retirement in the future – and whether or not individuals will need to rely on the age pension.

Most (60%) Australian adults now engage in some form of investing (in addition to their institutional superannuation fund), but there is still a significant minority who do not invest. There is a big opportunity there – engaging non-investors would significantly increase the pool of invested funds, as well as assisting those people to further their financial goals.

Most investors feel comfortable with shares, cash, and property, but little else. This is partly driven by a lack of awareness and understanding of certain investment products, which may be constraining investors' ability to best match their investment behaviours to their financial goals.

At the same time, it means that investors have less diversified portfolios than they otherwise could have. That is, investors may not be optimising their return for the level of risk they are taking on. While the understanding of diversification among investors has improved, there seems to be further work to do. Around 40% of retail investors report not having a diversified investment portfolio.

This could be driven largely by choice, however the case studies suggest that there may be barriers hampering investors' efforts to diversify. In addition to a lack of ready access to certain asset classes, either because of limited availability or pricing being out of reach for some, the lack of understanding of the benefits or contribution that more sophisticated financial products can have in a portfolio is also a barrier.

Currently, most investors in Australia are self-directed, choosing to conduct their own research. More knowledgeable investors may make more use of a wider range of investments products. However, many investors want to be in control and do not see the value in seeking professional financial advice.

This suggests that the investment industry needs to review the way in which it interacts with investors. Partly, this will be through adopting business models that are customer-led and focusing on how it can help investors achieve their desired outcomes throughout different life stages.

At the same time, adopting developments in technology and the impacts of ongoing policy changes also have the potential to improve the value and reduce the cost of financial advice. These things can change the value proposition of professional financial advice for investors.

There is also an opportunity to support participation of non-investors by raising financial literacy, through financial education initiatives and through greater access to financial advice.

Australia has over 11 million investors. But this could be higher. The barriers to achieving this are not insurmountable.

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Appendix A – Methodology

Approach

There were three major components to the data collection process for this report. The first was to undertake secondary research to understand the current economic, environmental, and market forces driving investment behaviour in Australia.

This analysis of megatrends and the investment landscape informed the design of a comprehensive questionnaire focusing on investors' propensity to seek advice and type of advice sought, the way that they trade, and the types of investments they choose to hold.

Research Now was commissioned to field the survey and collect data which was then analysed by Deloitte Access Economics. Data was collected via an online portal and took respondents approximately 10-15 minutes to complete. The survey was in field over February and March 2017, with 4,000 responses collected in total.

Survey data has been supplemented by case studies. Six consultations were held with financial professionals to test the conclusions from the data, and add detail to the insights the survey revealed.

Sample population

The survey sample was nationally representative, using age, gender, and location quotas to ensure that results aligned with ABS estimates of the nation. This means that results did not need to be re-weighted to align with the population, as has been done in previous studies.

The sample included 2,391 investors and 1,609 non-investors. The table below provides a further breakdown.

	Number of responses	Percentage of sample
Investors	2,391	60%
On-Exchange Investors	1,494	37%
Other Investors	897	22%
Non-Investors	1,609	40%
Lapsed Investors	406	10%
Never Invested	1,203	30%
Total	4000	100%

Margin of error

The margin of error for any survey based on a random sample depends on both the size of the sample and the observed proportion. The table below contains the margin of error (at a 95% confidence interval) for different sample sizes and for observed proportions that range from 10% to 90%. For example, the margin of error for a survey of 4,000, where the observed proportion is 50% is $\pm 1.6\%$. This means the true proportion is between 48.4% and 51.6%.

Observed population

Sample size		10% or 90%	20% or 80%	30% or 70%	40% or 60%	50%
100	\pm	5.9%	7.8%	9.0%	9.6%	9.8%
200	\pm	4.2%	5.6%	6.4%	6.8%	6.9%
300	\pm	3.4%	4.6%	5.2%	5.6%	5.7%
400	\pm	2.9%	3.9%	4.5%	4.8%	4.9%
500	\pm	2.6%	3.5%	4.0%	4.3%	4.4%
700	\pm	2.2%	3.0%	3.4%	3.6%	3.7%
1000	\pm	1.9%	2.5%	2.8%	3.0%	3.1%
1500	\pm	1.5%	2.0%	2.3%	2.5%	2.5%
2000	\pm	1.3%	1.8%	2.0%	2.2%	2.2%
2500	\pm	1.2%	1.6%	1.8%	2.0%	2.0%
3000	\pm	1.1%	1.4%	1.6%	1.8%	1.8%
3500	\pm	1.0%	1.3%	1.5%	1.6%	1.7%
4000	\pm	0.9%	1.2%	1.4%	1.5%	1.6%

Age brackets

The age breakdown for the investor personas is as follows:

- Next generation – 18-24 year old investors (207 respondents)
- Wealth accumulators – 25-59 year old investors (1,622 respondents)
- Retirees – 60 year old and older investors (562 respondents)
- Non-investors (1,609 respondents).

Appendix B – Definitions

Adult population refers to all Australians aged 18 years and older.

Bonds are a type of debt security. They are effectively an IOU between a borrower or the issuer of the bond, usually a government or company, and the investor. Investors receive interest payments at certain intervals and also have their principal returned on a stated future date.

Exchange Traded Funds (ETFs) are a type of managed fund which can be traded on ASX. They hold a portfolio of securities, which may include Australian or international shares, fixed income, commodities, property trusts, or a combination of asset classes.

Financial advice is advice provided by a financial adviser/planner or full-service/advice stockbroker. This is a subset of Professional Advice.

Futures are contracts to buy or sell a particular asset (or cash equivalent) on a specified future date. The most popular in Australia is the S&P/ASX 200 or ASX SPI 200® Index Futures contract.

Hybrid securities blend some of the features of debt (fixed interest) and equity (shares). They make interest payments until a certain date. Some hybrids convert into shares after a period of time.

Infrastructure funds provide the opportunity to invest in essential public assets, such as toll roads, airports and rail facilities. They are managed by specialist fund managers and their returns usually combine capital growth and dividend income in varying proportions.

Instalments warrants let you buy an investment over a period of time. Instalments allow you make a part payment on the shares and pay the balance in one or more payments over time. You get all the benefits of owning the shares from day one, such as receiving full dividends.

Lapsed investors are people who have held investments in the past, but do not currently do so.

Listed Investment Companies (LICs) provide exposure to a diversified portfolio of investments on behalf of their investors. These investments may include Australian shares, international shares, private equity and specialist sectors, such as resources.

mFunds are unlisted managed funds available to investors through the mFund Settlement Service which allows investors to buy and sell the unlisted funds via their broker in a similar way to shares.

Never invested are people who have never owned investments.

Non-investors comprise both Lapsed Investors and people that have Never Invested.

On-exchange investments is a term used in this report to refer to listed investments and other financial products available on a financial exchange or held through unlisted managed funds. This includes shares, derivatives, and other products such as bonds and ETFs.

On-exchange investors are people who own some form of on-exchange investment product.

Options are contracts between two parties, giving the buyer the right – but not an obligation – to buy or sell an underlying security at a predetermined price at a particular time in the future. The underlying securities may be companies or indices.

Ordinary warrants are issued by a bank or other financial institution and are traded on ASX. It is similar to an option. It gives you the right to buy an asset such as a share at a set price until a date in the future. Used for speculation. Underlying securities may be shares, indices, ETFs, commodities, currencies.

Other investors are people who invest, but not in on-exchange investments. Instead they at least one of the following: commercial or residential investment property, cash or term deposits, or other investments that are not on-exchange investments.

Professional advice is advice provided by a financial adviser/planner, a full-service/advice stockbroker, a lawyer, or an accountant.

Real Estate Investment Trusts (REITs) use the pooled capital of many investors to purchase and manage property assets. They can specialise in particular types of property like offices, industrial buildings, hotels, retail shopping centres, or include a combination of property types.

Share owners are investors who hold shares, either domestically or internationally.

Appendix C – International comparisons

ASX has completed an international comparison of share ownership as part of the Australian Investor Study 2017.

The best available figures have been used. However, it should be noted that the 2017 study does not provide an absolute comparison due to differences in methodology, sampling, timing, and definitions with the available international studies.

The incidence of ownership of on-exchange investment products in Australia remains high by international standards.

%	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Australia – on-exchange investments	46		41		43		38		36			37
New Zealand	26	28		22	22	23	23	26	26		23	
Hong Kong – shares		36		35		36			36		41	
Germany – shares	7	6	6	6	6	6	7	7	6		7	
Germany – shares/funds	16	16	14	14	13	13	15	14	13		14	
Sweden – shares	20	19	18	17	17	16	15	14	14		14	
UK – stocks/funds	20	20	18	18		17	17	15			18	
USA – shares		18			15			14				

Notes: Studies are not directly comparable. US and UK data are based on households, not individuals.

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