

NOVEMBER 2015

National Smarter Investor Study

Public Opinion Research
Key Highlights



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Published by:
The British Columbia
Securities Commission
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Find the full version of the Smarter Investor Study at www.investright.org/studies_about_investors.aspx

About this Study

Understanding the knowledge, attitudes, and behaviour of BC investors is critical to the **British Columbia Securities Commission** (BCSC) mission to educate and protect financial consumers. Over the years the BCSC, on its own and in cooperation with other Canadian regulators, has commissioned leading-edge studies of investment attitudes and behaviour with a strong emphasis on good investment behaviour and fraud prevention.

In this study, the BCSC has engaged **Innovative Research Group Inc.** to generate new understanding and insight into client knowledge and perceptions about investing among Canadians aged 35 and older (“those most likely to invest”) with a particular emphasis on probing the relationship with advisors in more detail than in the past.

What is the perceived impact of investing with an advisor?

Through a series of preliminary questions, the study segmented respondents into categories based on whether or not they invest, and, when they do, whether or not they have an advisor. The new *Smarter Investor Index* sums up questions assessing whether Canadians say they know their investment goals, are confident their investments are suitable, say they understand the investments in their portfolio, and are confident when making investment decisions.

The study explored the relationship of investors and advisors through a series of new descriptive questions. The report compares Canadians who invest with advisors to other groups to measure how the perceptions and knowledge of Canadians with advisors differ from the perceptions and knowledge of other groups.

What is the current state of client-advisor relationships?

This study asks Canadians with advisors what they **Know, Feel, and Do** in their client-advisor relationships. For example, do they think they understand the fees they pay and do they ask their advisors about compensation? As it turns out, many Canadians do not.

This study shows that what Canadians with advisors **Know, Feel, and Do** appears to matter. In all cases, those who report they know, feel, and do the right things also report attitudes that give them a higher rating on the *Smarter Investor Index*.

Other findings

The BCSC's previous research has often focused on investment fraud, including its social impacts and what makes people vulnerable. Fraud is always a key concern when it comes to investor protection. While this study shifts the focus to Smarter Investing, we take a brief look at the current state of investment fraud in Canada.

This study also introduces a new lens for understanding investing behaviour: Personality. We identify five main personality types in the sample based on the Big 5 personality traits and show that your personality matters when it comes to how you invest.

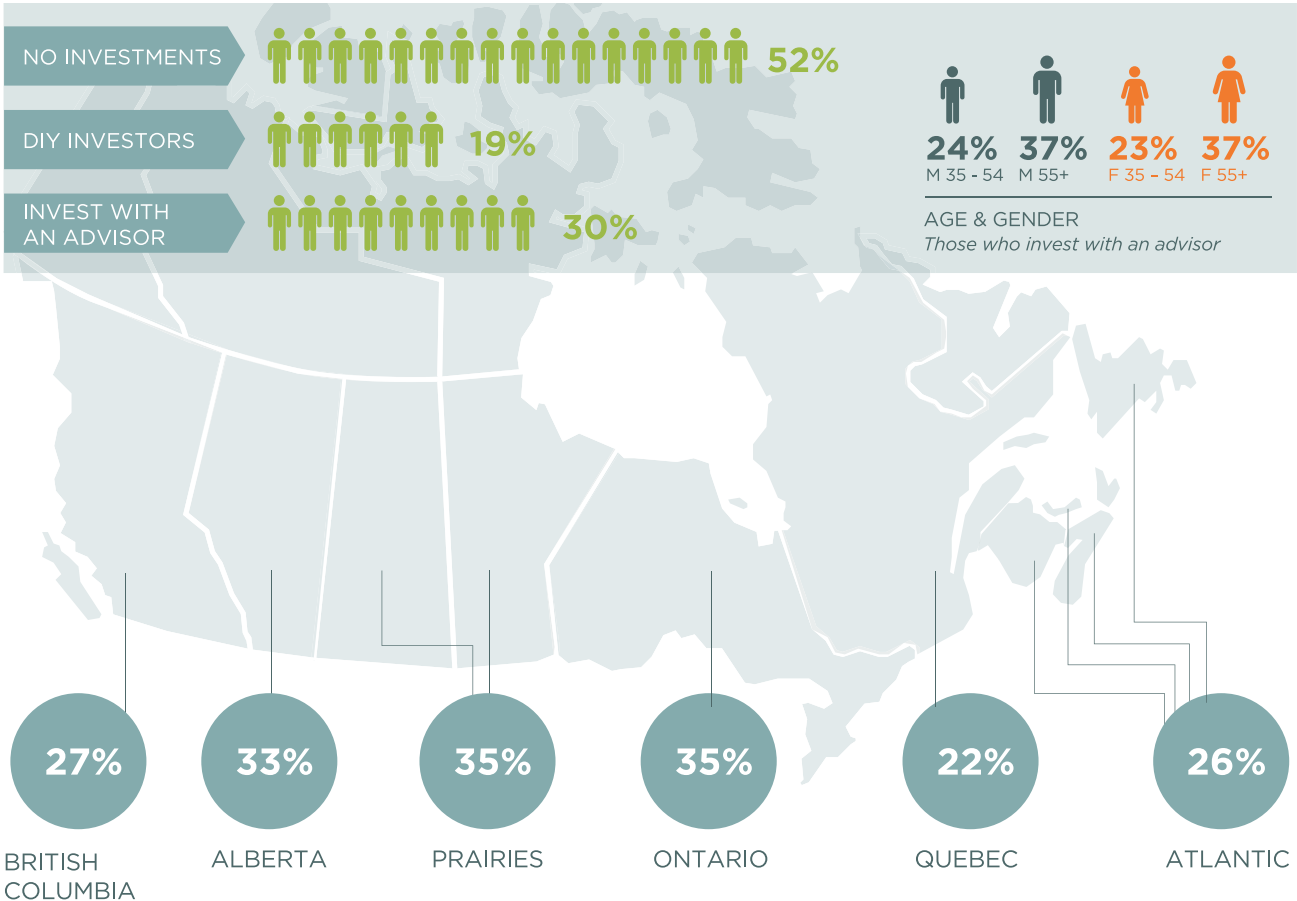
30% of Canadians 35+ invest with an advisor

When we asked Canadians if they invest with an advisor, we found that 30% do.¹ Of the 70% who do not, 19% are “do-it-yourself” (DIY) investors, those who invest but do not work with an advisor. A further 52% do not have investments under their direct control.

The highest rates of working with an advisor are in the Prairies and Ontario. In each case, 35% of Canadians in these regions work with advisors. In Quebec, just 22% of respondents say they work with an advisor.

There is a significant age gap when it comes to investing with an advisor: 37% of men and women 55+ work with investment advisors, whereas among men and women aged 35-54, only about one-in-four say they invest with an advisor.

NATIONAL SEGMENTATION



1. A follow-up question clarified whether respondents work with an advisor specifically or a financial planner. Respondents who say they work with a financial planner and not an advisor are not counted in the total.

The Smarter Investor Index

Investors should be empowered and capable of engaging with their investments. New regulatory requirements in the coming years, requiring greater disclosure of fees and performance reporting, will mean investors should feel more confident and knowledgeable about their own portfolios. The Smarter Investor Index measures the current state of how investors feel about these issues today. The index comprises four questions.

1 GOALS

I know what my investment goals are and I am on track to meet them

2 SUITABILITY

I am confident that my investments are well matched to my risk tolerance

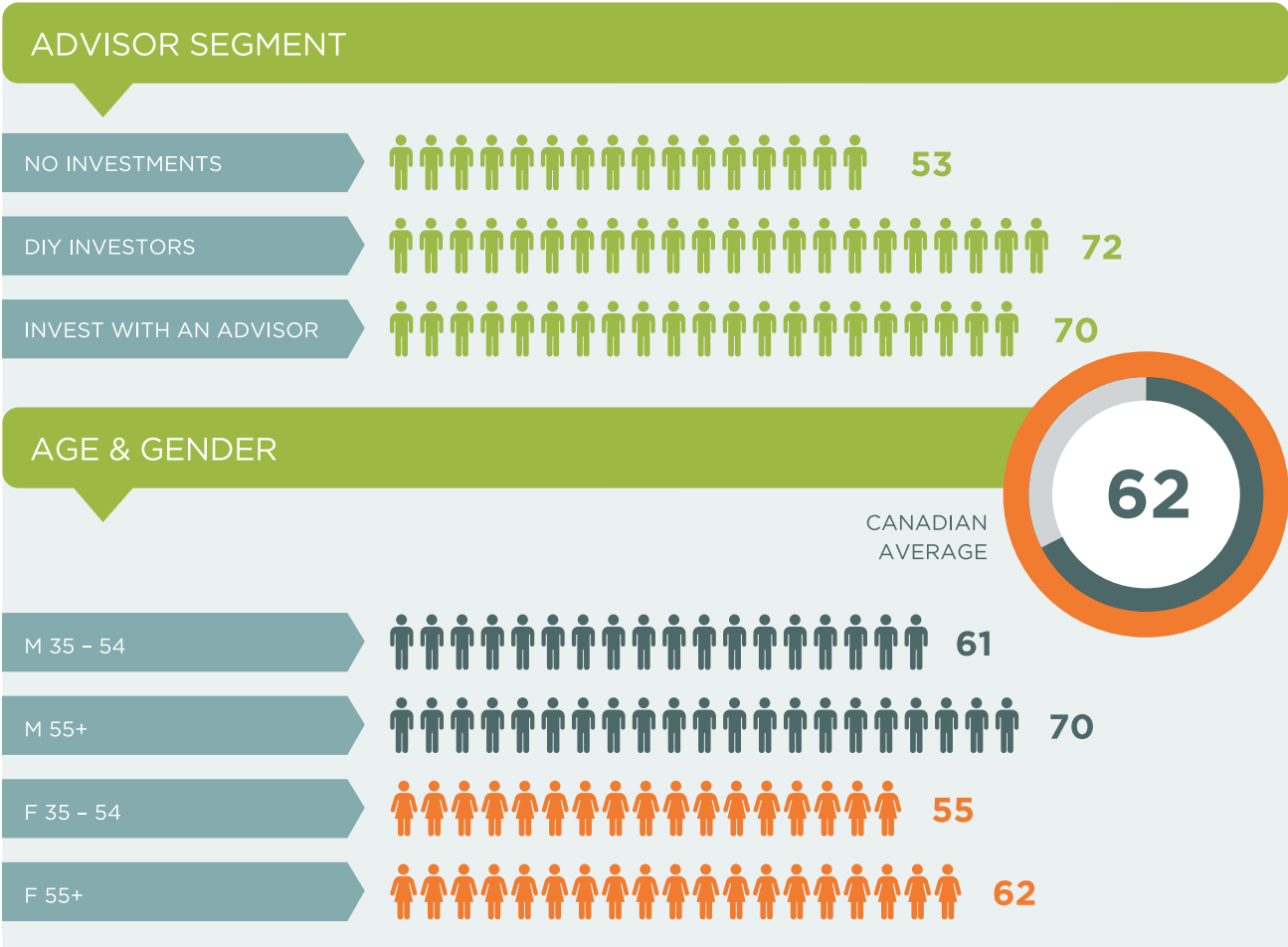
3 KNOWLEDGE

I understand all of my current investments and what risks and benefits they entail

4 CONFIDENCE

How confident are you when it comes to making investment decisions?

The index goes from **0 to 100**. The Smarter Investor Study shows that Canadians generally, both investors and those who currently have no investments, are at **62/100**. Investors who work with an advisor score **70/100**, while DIY investors currently sit at a **72/100** on the *Smarter Investor Index*.



Are Canadians doing the right things in their client-advisor relationships?

When we asked Canadians about key things that all investors should do when they work with an advisor, some surprising findings emerged.



What do Canadians know about their advisors?

Canadians who work with an advisor need to be fully informed to make the most of their key investing relationship. Do they know what their role is in the client-advisor relationship? Do investors know what fees they are paying and how?

Compensation

When it comes to fees, 23% of Canadians say that they are just not sure how their advisor is paid. Over half (53%) do not know how much they paid to their advisor in the last 12 months. This number is slightly lower in BC where 49% do not know how much they paid in the last 12 months.

Understanding fees and statements

Of Canadians who said that they didn't always read their statements, 53% agreed that they would do so more often if the statements were easier to understand. This was the highest agreement for any of the reasons offered. Of Canadians who didn't always ask about compensation, 37% agreed that they would do so more often if they had a better understanding of how fees and commissions for advisors worked. This underscores the challenges faced by advisors who are seeking to keep clients involved in their investing.

Client role and responsibilities

Canadians who work with advisors were asked whether a number of important responsibilities were included in their role as a client. Each of these was something that is definitely part of the role of a responsible client. For example, "Asking questions about my investments until I fully understand them", which 76% agreed was a part of their role as a client. By comparison, just 40% of Canadians believed that, "Doing my own research on new investments that my advisor recommends" was one of their responsibilities, the lowest of any responsibility on the list. The second lowest was, "Understanding what I am paying my advisor" at 58%.

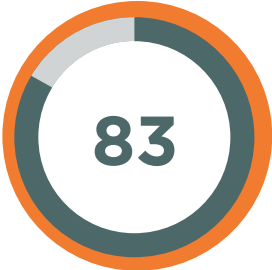


What investors know, feel, and do matters

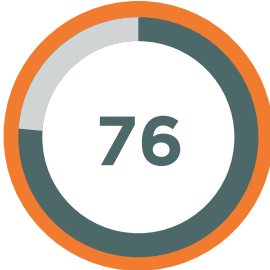
Looking at the client-advisor relationship as a whole, we find that what clients know, feel, and do matters to how they view their investing outcomes. We also look at what clients say about what their advisors do. Looking at each of these core themes in the client-advisor relationship, it is clear that each has an important impact on the outcomes measured in the Smarter Investor Index.



Overall, Canadians who invest with an advisor score **70/100** on the *Smarter Investor Index*. However, when we look at what Canadians with advisors know, feel, and do, those who know the most, have the right attitudes,² do the right things, and whose advisors do the right things all score well above average.



KNOW
Those with the highest level of knowledge



FEEL
Those with the best attitudes



DO
Those with the most good behaviours



ADVISOR BEHAVIOURS
Those whose advisors do the right things

² In this context, the “right” attitudes mean those attitudes the BCSC believes can best prepare an investor to be an active participant in making and monitoring investment decisions.

Trust plays a key role in client-advisor relationships

One theme that emerged throughout the study was that trust is very important to Canadians who work with an advisor. However, trust is a double edged sword. It's important to trust, but that trust should not take the form of delegating your responsibilities as an investor to your advisor.

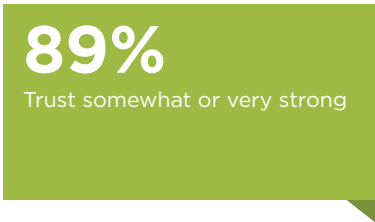
For Canadians who invest with an advisor but say they don't always ask about compensation, trust was the key reason they don't ask more often. **72%** agreed with the statement:



This was much higher agreement than any other reason given. Similarly, **48%** of Canadians with advisors who don't always read their statements agreed that:



Finally, when asked what the level of trust was in their relationship with their advisor, **89%** said that it was somewhat or very strong.



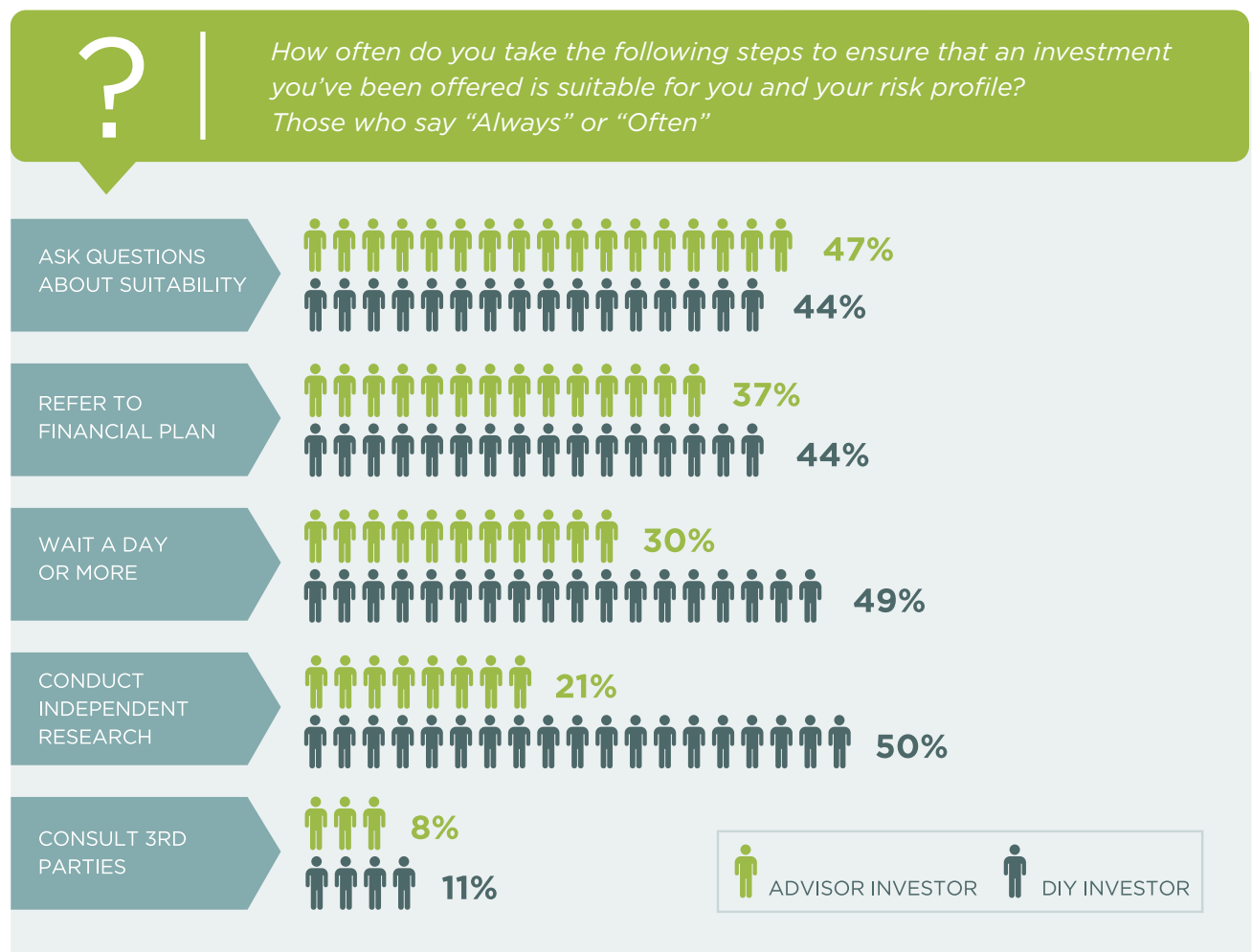
? | *In general, how would you describe the level of trust you have in your investment advisor?*



DIY Investors more likely to wait and do own research

When looking at investing behaviour more generally, we found that on three of the five good investing behaviours that we asked about, DIY investors and those with advisors are about equal.

However when it comes to how often Canadians “Wait a day or more before deciding to invest” and “Conduct independent research”³, DIY investors report doing both more often.



While just under a third of investors with advisors always or often say they wait a day or more before deciding to invest, DIY investors say they do so half the time. DIY investors also conduct independent research on investment opportunities 50% of the time, while those with advisors only do so 21% of the time.

All investors need to be cautious and thorough about making investment decisions. Canadians who work with advisors could become smarter investors by taking a page from the DIY investor playbook when it comes to conducting research and waiting a day or more before investing.

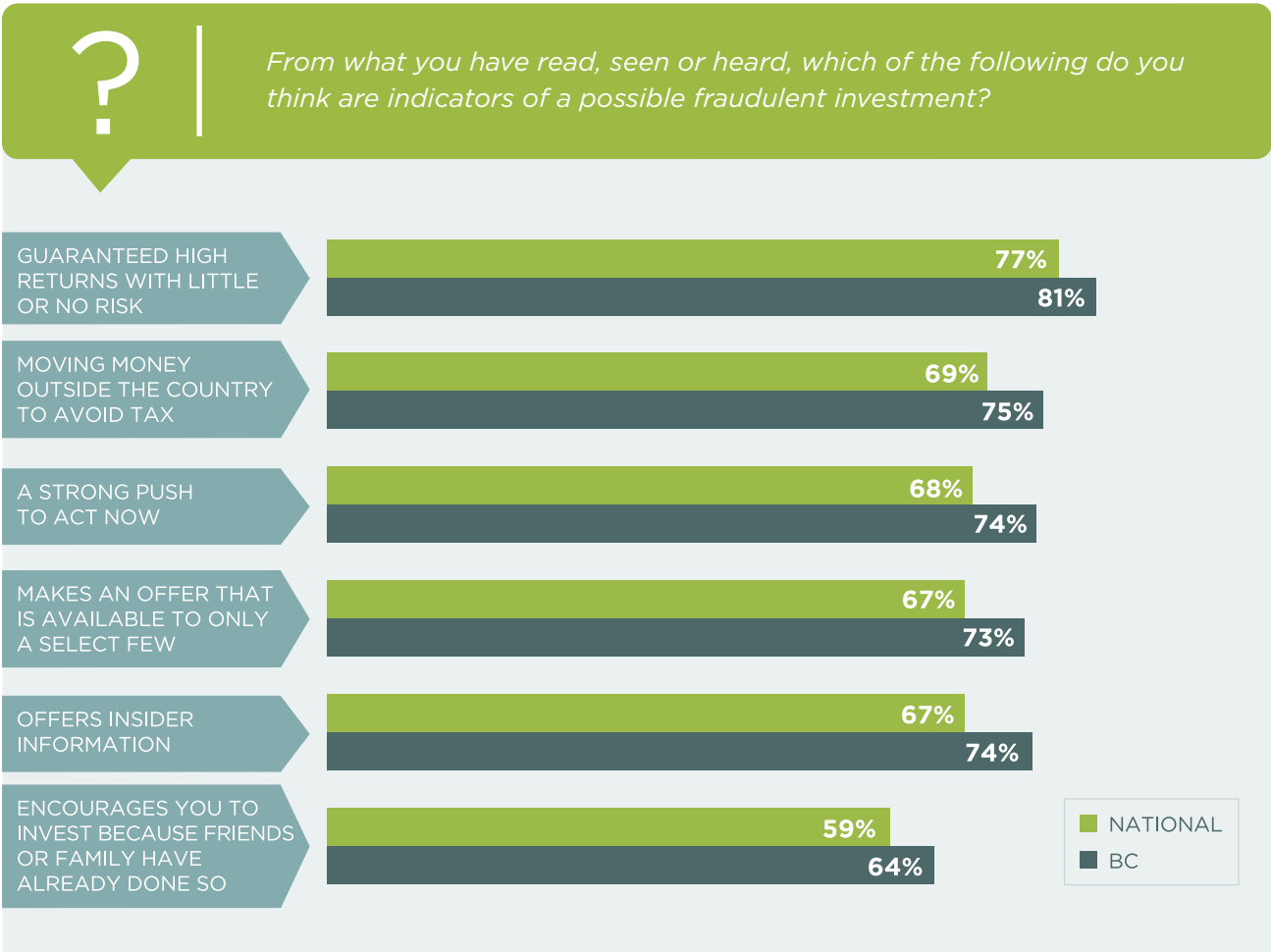
3. See the full report for the entire wording of each behaviour reported on the chart.

British Columbians better at recognizing fraud signs

This study found that nearly one in 10 Canadians (8%) have been victims of investment fraud. The median amount of money that Canadians who were victims of fraud invested in a scam was \$5,000 to \$10,000; however 20% of victims invested over \$25,000.

Before asking whether Canadians had been a victim of investment fraud, we asked them to identify the warning signs of investment fraud. In every case, British Columbians were better able to recognize fraud warning signs. The most readily recognized warning sign was the classic hallmark of a fraudulent investment: *“Guaranteed high returns with little or no risk”*. The least well recognized was the exploitation of trust: *“Encourages you to invest because friends and family have already done so”*.

The BCSC has been raising awareness of fraud warning signs in BC for many years, and it seems these efforts may be paying off.



Personality matters when it comes to investing

There is an increasing consensus in the academic literature of personality that there is a “Big 5” set of personality traits that define individuals’ personalities.

THE FIVE TRAITS ARE

1

EXTROVERSION

2

AGREEABLENESS

3

CONSCIENTIOUSNESS

4

EMOTIONAL
STABILITY

5

OPENNESS TO
EXPERIENCE

In this study, we measured the Big 5 traits using the Ten-Item Personality Index or TIPI.⁴ We then used cluster analysis to group Canadians into five core personality types

THE FIVE PERSONALITY TYPES ARE



CONFIDENT

Score above the average on all five Big 5 personality traits



RESERVED

Introverted and not open to experience, but very conscientious



DILIGENT

Introverted, but score above the average on the four other traits



TUMULTUOUS

Less agreeable, conscientious, and emotionally stable than average



IMPULSIVE

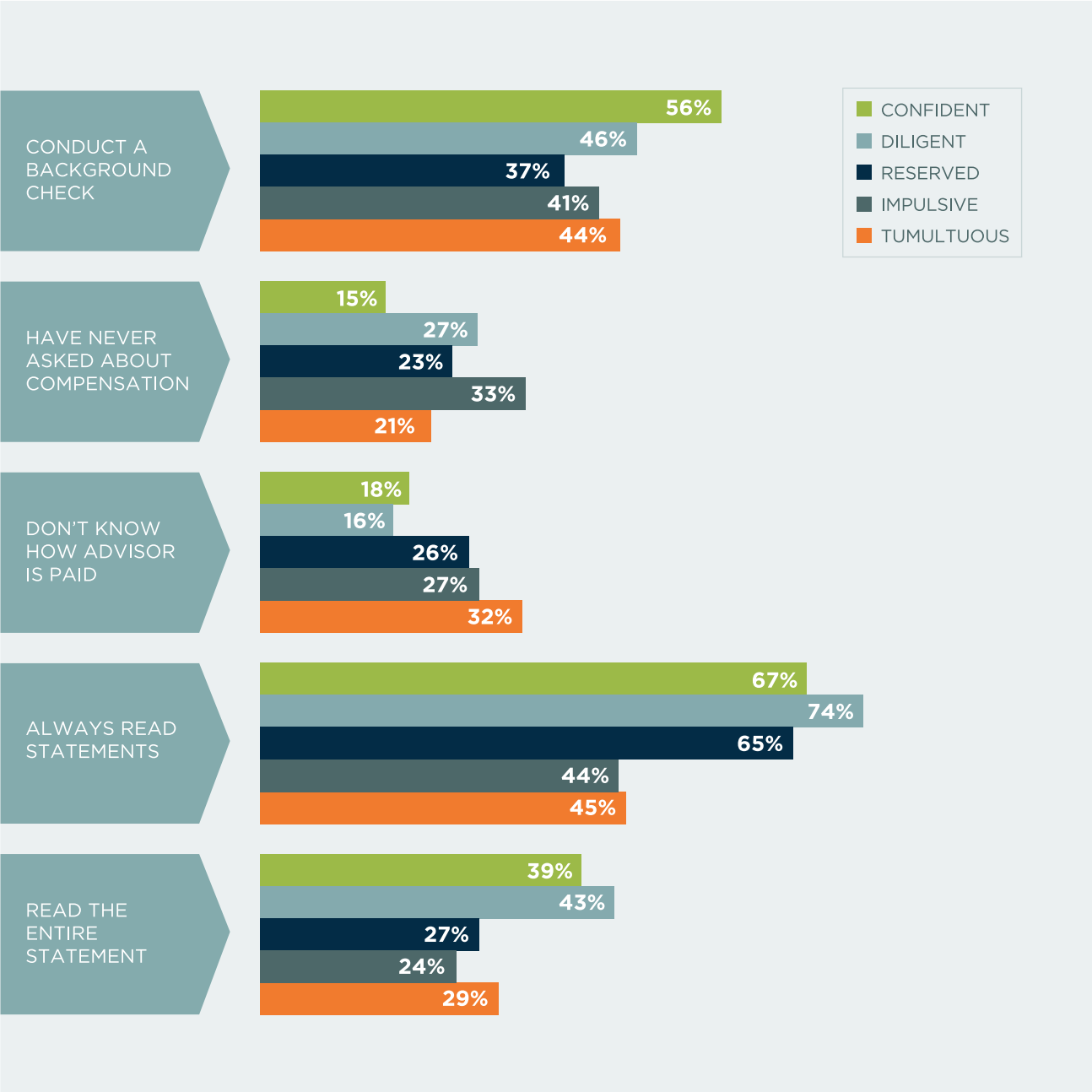
Not conscientious or emotionally stable, but more agreeable than average

The BCSC is conducting a public awareness campaign to share these findings with investors in British Columbia through the Smarter Investor Quiz at quiz.ivestright.org

4. Gosling, S. D., Rentfrow, P. J., & Swann, W. B., Jr. (2003). A Very Brief Measure of the Big Five Personality Domains. *Journal of Research in Personality, 37*, 504-528

BEHAVIOUR IN A CLIENT-ADVISOR RELATIONSHIP

When Canadians are grouped into these five personality types, important differences emerge in how they behave in a client-advisor relationship



Putting it all together

The Smarter Investor Study reveals that, among investors who work with advisors, there are important gaps in both what they understand and what they do, which need to be addressed.

- **Many investors with advisors do not know what fees they are paying:**

53% are not sure what they paid their advisor in the last 12 months and 23% don't know how their advisor is paid. This is likely, in part, because 23% have never asked what fees they pay.

- **Canadians are not checking into their advisors' backgrounds:**

only 46% of those surveyed conducted a background check when they started working with their advisor, and only 53% of those checked if their current advisor was registered.

- **Investors with advisors are not sure what is, and is not, their responsibility:**

when offered a list of responsibilities for investors working with an advisor, and asked which items they believed were in fact their responsibilities, we saw the highest agreement (76%) for *asking questions until I fully understand* while only 40% agreed that *conducting independent research* was a part of their responsibility.

New regulatory requirements relating to cost and performance reporting will have a role to play in addressing some of these problems. The study shows that when clients and advisors both do the right things, those clients have better perceptions of their investing. What you know, feel, and do as an investor really matters and it shows in the Smarter Investor Index.

When we look at all survey respondents in our study, we see that Canadians generally, both investors and those with no investments, score 62/100 on the *Smarter Investor Index*. Those who work with an advisor scored higher at 70/100. And there are important differences among those who work with advisors, too. We see that Canadians who work with advisors and who have the right knowledge, attitudes, and behaviours also have the highest Index scores.

- **What you know matters:**

those who know the most about their client-advisor relationship scored **79/100**

- **How you feel matters:**

those with the right attitudes towards their client-advisor relationship scored **76/100**

- **What you do matters:**

those who did the right things when they were working with an advisor scored **83/100**

- **What your advisor does matters:**

those who reported that their advisors are doing the right things, by explaining their responsibilities and keeping them involved, scored **81/100**

Methodology

The National Smarter Investor Study was conducted by Innovative Research Group Inc. (INNOVATIVE) using a mixed methodology that combined a random digit dialing telephone survey with an in-depth online survey.

The online survey consisted of a representative sample of 2,407 Canadians age 35 and above. This included an oversample of 1,011 residents in BC.

The online survey was conducted using INNOVATIVE's national research panel, Canada 20/20™, between August 4 and 12, 2015 in both English and French.

The Canada 20/20 Panel is recruited from a wide variety of sources to reflect the age, gender, region, and language characteristics of the country as a whole. Each survey is administered to a series of randomly selected samples from the panel and weighted to ensure that the overall sample's composition reflects that of the actual target population according to Census data to provide results that are intended to approximate a probability sample. INNOVATIVE provides each panellist with a unique URL via an email invitation so that only invited panel members are able to complete the survey. Panel members can only complete a particular survey once.

The online sample has been weighted by age, gender, and region using the latest available Statistics Canada Census data to reflect the actual demographic composition of Canadians 35 years of age or older.

The online sample was also weighted by the results of a June 2015 national telephone survey of 1,000 Canadians, which provided the incidence rates for particular investment behaviours.

The final data is weighted to a representative sample of 1,219 at the national level, while the BC oversample is weighted to a representative sample of 1,000. Probability samples of this size would have an estimated margin of error of +/- 2.8 percentage points for the national sample and +/-3.1 percentage points for the BC sample, 19 times out of 20. The estimated margin of error will be larger within each sub-grouping of the sample.

**BC SECURITIES
COMMISSION**



British Columbia Securities Commission & InvestRight

The BC Securities Commission's mission is to protect and promote the public interest. We do this by fostering a securities market that is fair and warrants public confidence and also by fostering a dynamic, competitive securities industry that provides investment opportunities and access to capital.

A key goal of the BC Securities Commission is to help investors protect their financial interests. Our investor education website, InvestRight.org, provides investors with the tools to research and assess potential investments in order to protect people from investments that are unsuitable or fraudulent.



Innovative Research Group

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