



NOVEMBER 2015

# National Smarter Investor Study

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Public Opinion Research



**BC SECURITIES  
COMMISSION**



# National Smarter Investor Study

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# About this Study

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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 right now 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.

# Methodology and Approach

# Methodology and Approach

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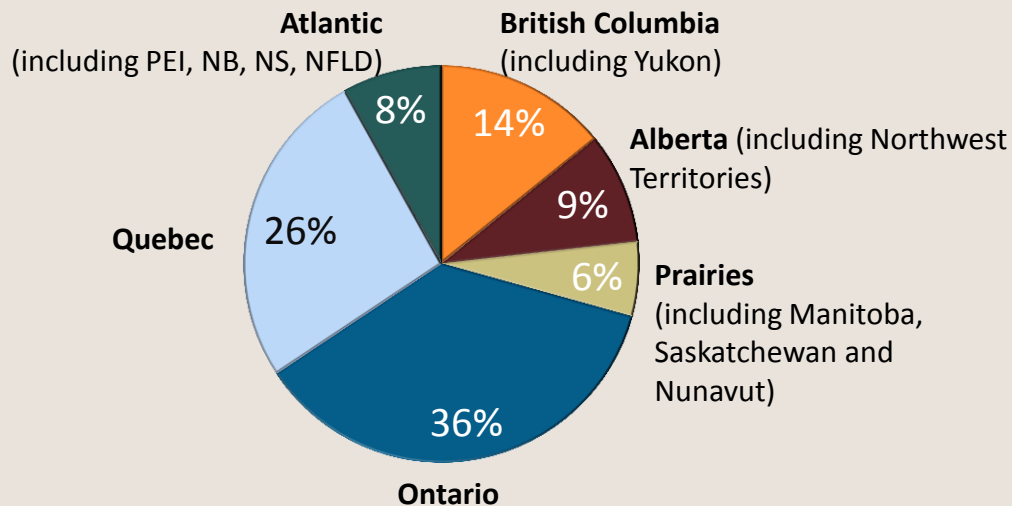
The *National Smart Investing Study* was conducted by Innovative Research Group Inc. (INNOVATIVE) using a mixed methodology that combined a random digit dialing telephone survey with an in-depth online survey.

- The online survey consisted of a representative sample of 2,407 Canadians aged 35+. 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+.
- 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.

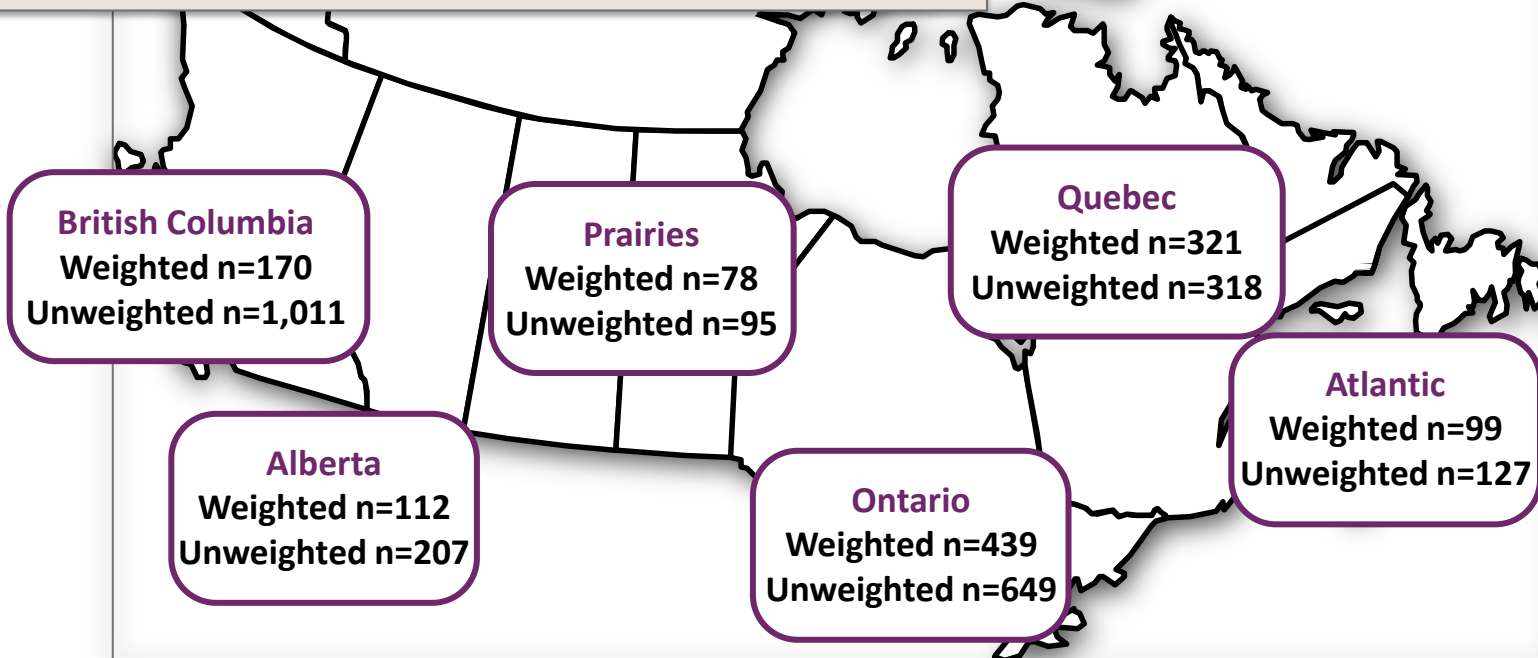
**Note:** *Graphs and tables may not always total 100% due to rounding values rather than any error in data. Sums are added before rounding numbers.*

# Regional Segmentation (National sample)

Sample Distribution of Canadians 35+:

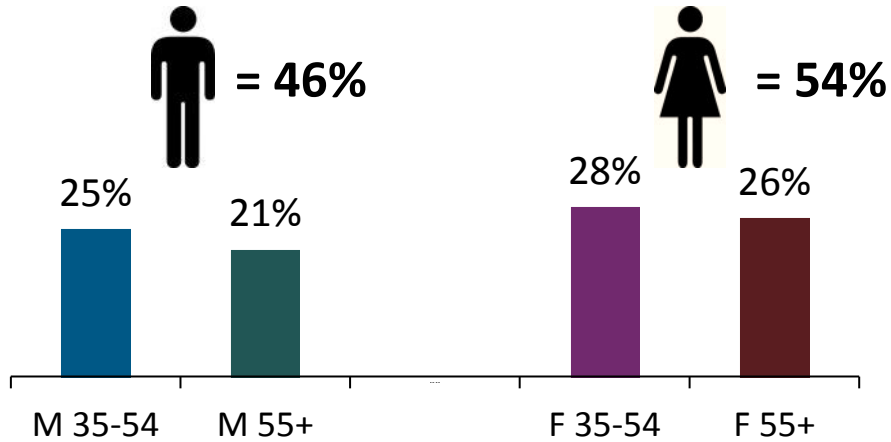


**National**  
**Weighted n = 1,219**  
**Unweighted n = 2,407**

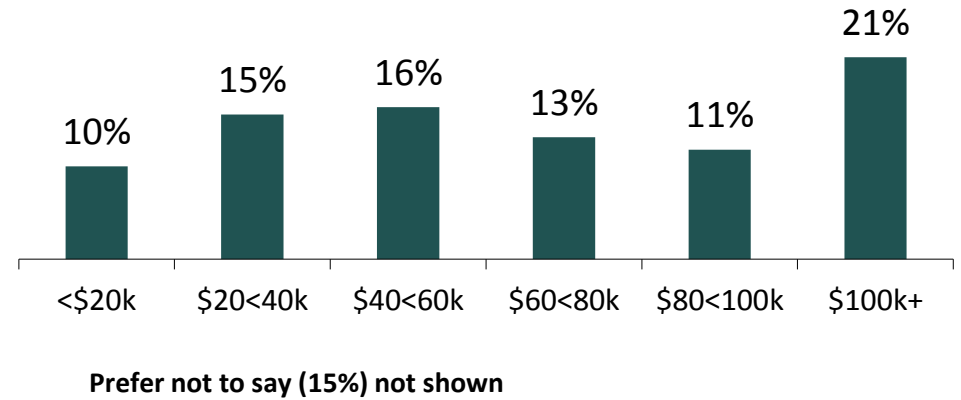


# Demographic Segmentation

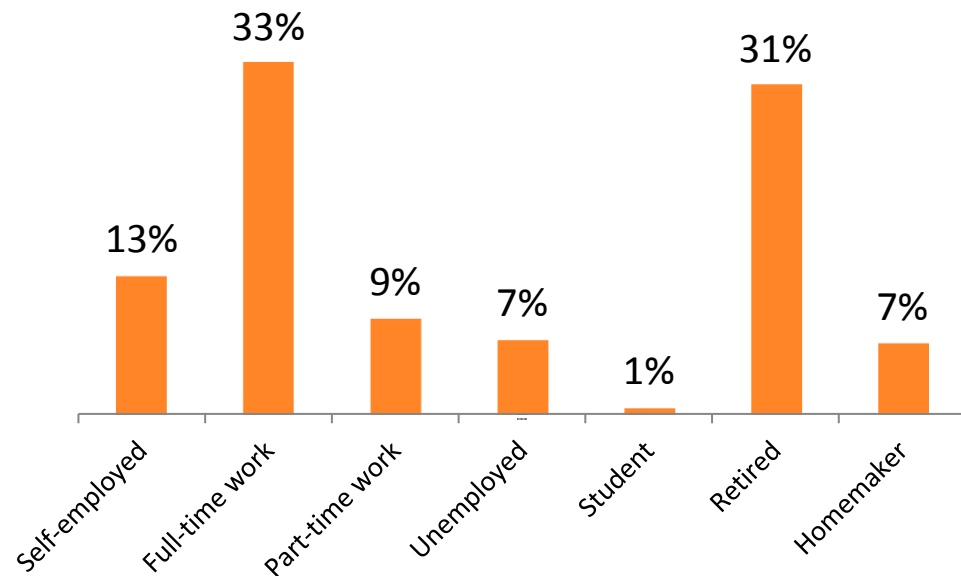
## Age-Gender



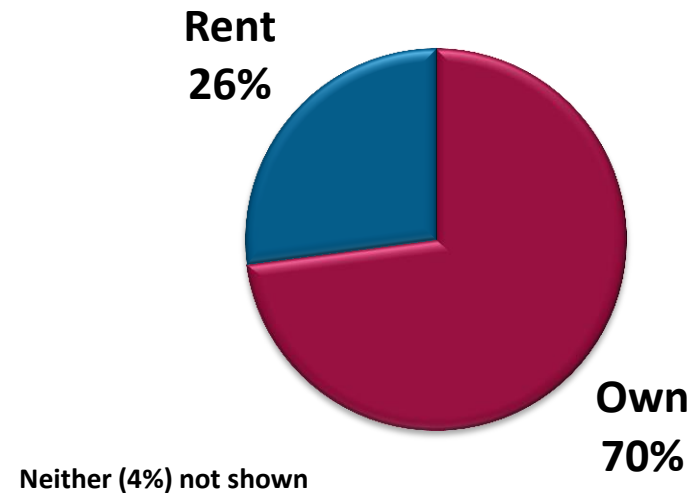
## Household Income



## Work Status

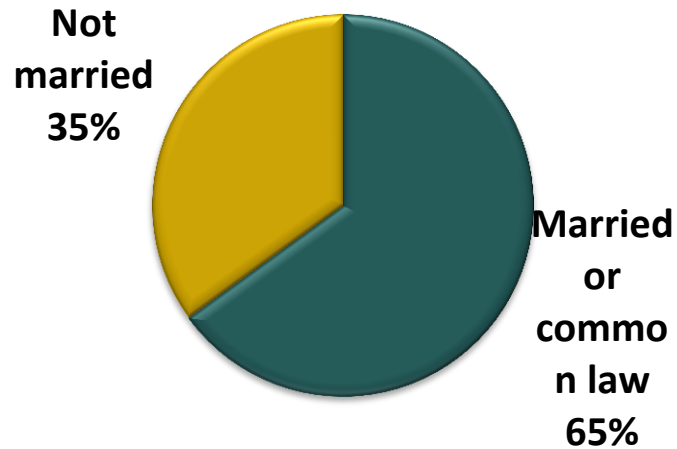


## Home Ownership

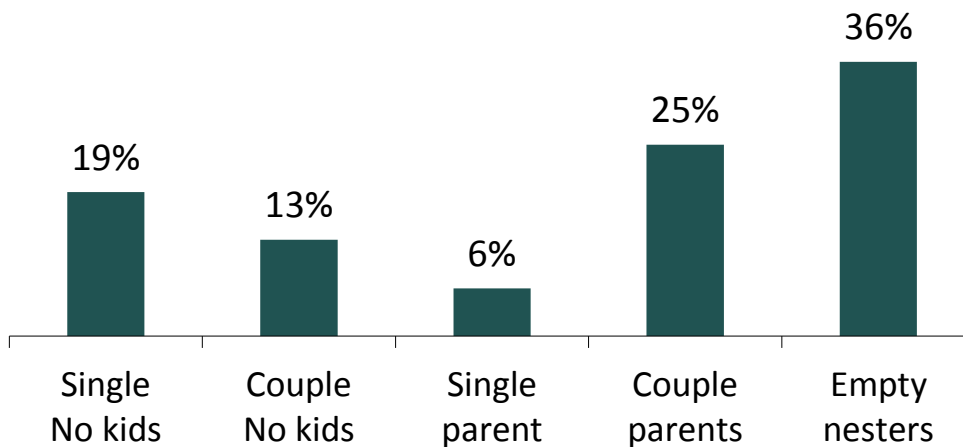


# Demographic Segmentation

## Marital Status

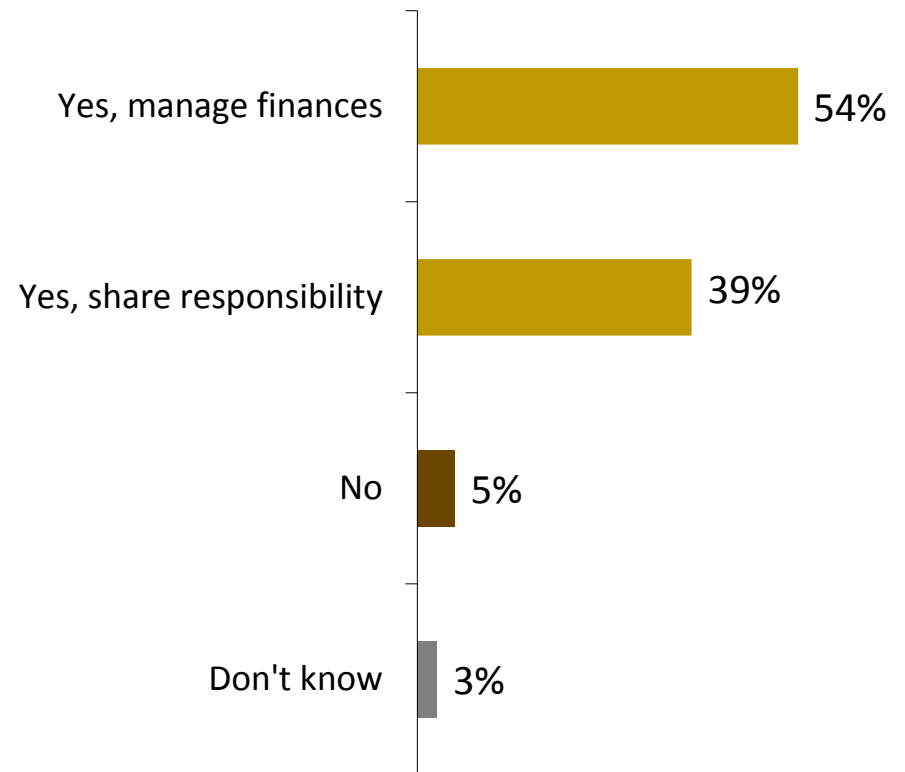


## Family status



## Financial management

**Q** Are you responsible for your household's financial management?





# Smarter Investing

# Study Objectives

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This study has the following core objectives:

- Understanding what Canadians who have investment advisors know, feel, and do in their client-advisor relationships
- Assessing good investment behaviours and knowledge about investment advisors among all Canadians, whether or not they currently work with an advisor
- Measuring four key components of *Smarter Investing*, how they differ by whether or not an investor works with an advisors, and how differences in *Smarter Investing* between Canadians with advisors can be explained by what they know, feel, do, and what they say their advisors do.

*Smarter Investing* is about being empowered and capable when it comes to your investments. In this study it is measured in four aspects: understanding your investments, feeling confident that your investments are suitable for you, knowing your investment goals, and feeling confident making investment decisions. Together these form our *Smarter Investor Index* which will be used throughout the study to understand the impact that certain behaviours, attitudes, and knowledge have on investing.

To understand the advisor-client relationship in particular, we look at what Canadians who work with investment advisors know, feel, and do in their advisor-client relationship. We also look at what they say their advisors do. These four aspects of the relationship each provide a unique lens through which we can understand how the advisor-client relationship relates to *Smarter Investing*.

# This survey tested what investors know, feel, and do

We know from previous research that what investors know, feel, and do is important. Here are some of the ways we measured these concepts in this study

## Know

### Client-Advisor Relationship

- *Know how your advisor is paid*
- *Know how much you are paying your advisor*
- *Understand statements from your advisor*
- *Know your role in the advisor-client relationship*
- *Know whether advisors can buy/sell with discretion*
- *Know if advisors need to be registered*
- *Know that investing with an advisor does not provide “insurance” against losses*

## Feel

### Client-Advisor Relationship

- *Attitude towards role of advisor*
- *Reasons for not discussing compensation*
- *Reasons for not reading statements*

### Attitude Towards Advisor

- *Trust*
- *Comfort asking questions*
- *Satisfaction with communication*

## Do

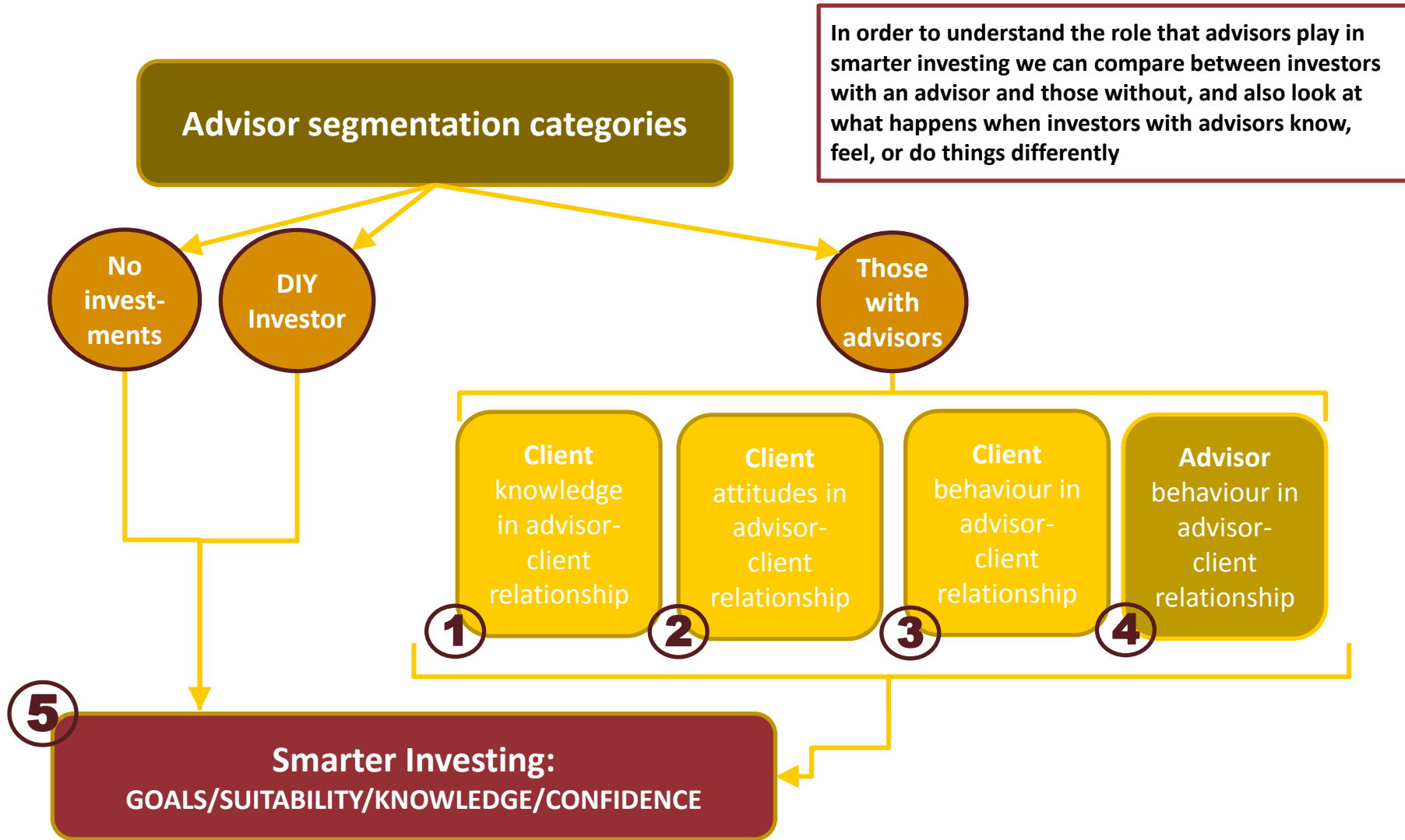
### Client-Advisor Behaviour

- *Advisor background check*
- *Discuss compensation*
- *Reading statements*

### Good Investing Behaviour (generally)

- *Conduct independent research*
- *Consult an advisor*
- *Refer to financial plan*
- *Consult a third party*
- *Wait before investing*

# How we assesses the connection between smarter investing and the client-advisor relationship



Each box labelled with a number is measured by a series of questions that can jointly be used to summarize the results for that theme. Throughout the report we will use these summaries to answer key questions like “What is the relationship between advisor behaviour and *Smarter Investing*?”

# The four aspects of the Smarter Investor Index

**Q** Do you agree or disagree with the following statements?  
How confident are you when it comes to making investment decisions?  
[asked of all respondents]

## Agree or disagree:

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



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



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



## Confidence:

How confident are you when it comes to making investment decisions



■ Strongly Agree  
 ■ Somewhat agree  
 ■ Neither agree nor disagree  
 ■ Somewhat disagree  
 ■ Strongly disagree  
 ■ Not Applicable  
 ■ DK  
■ Very confident  
 ■ Somewhat confident  
 ■ Not very confident  
 ■ Not confident at all  
 ■ DK

**These four items show how the 2,407 Canadians in our sample rate themselves on goals, suitability, understanding, and confidence. To summarize these results, everyone is also given an score from 0 to 100 on our *Smarter Investor Index* that reflects their total responses to all 4 questions.**

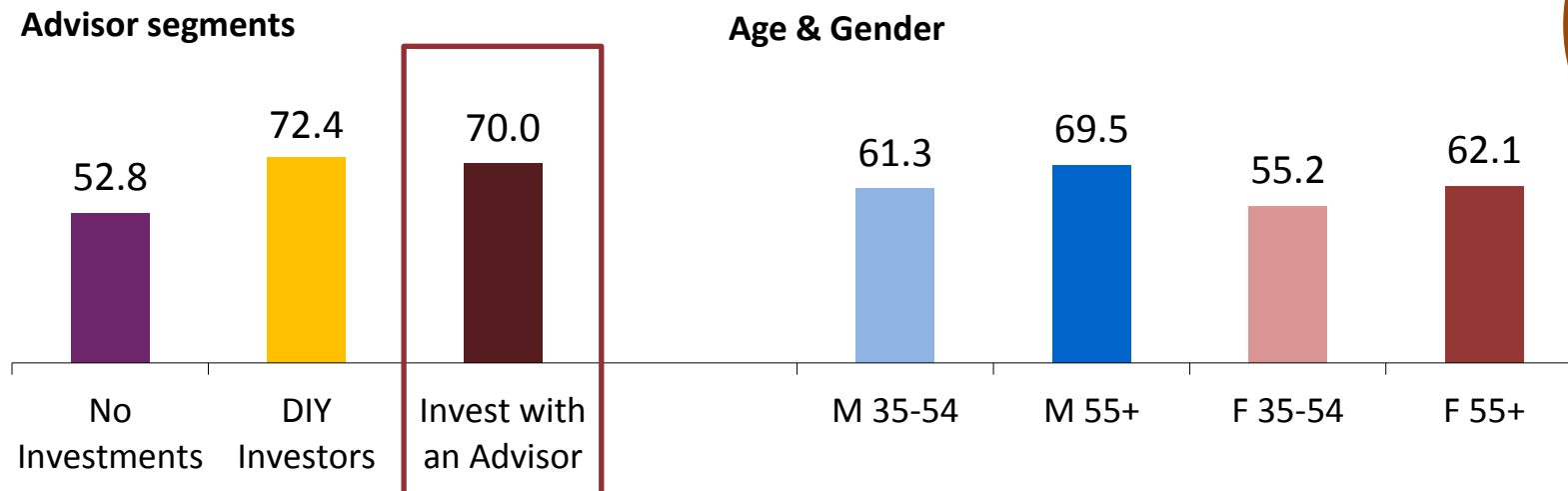
# Smarter Investor Index: Among Canadians who invest with an advisor, the average index score is 70/100

Respondents were asked a series of questions that assessed their satisfaction and confidence with their current investments and with investments in general.

The *Smarter Investor Index* was compiled from the following 4 questions:

- GOALS/PLANNING:** Do you agree or disagree with the following statements – I know what my investment goals are and I am on track to meet them
- SUITABILITY:** Do you agree or disagree with the following statements – I am confident that my investments are well matched to my risk tolerance
- UNDERSTANDING:** Do you agree or disagree with the following statements – I understand all of my current investments and what risks and benefits they entail
- CONFIDENCE:** How confident are you when it comes to making investment decisions?

The index is scaled from 0-100. The overall average score is 61.5.



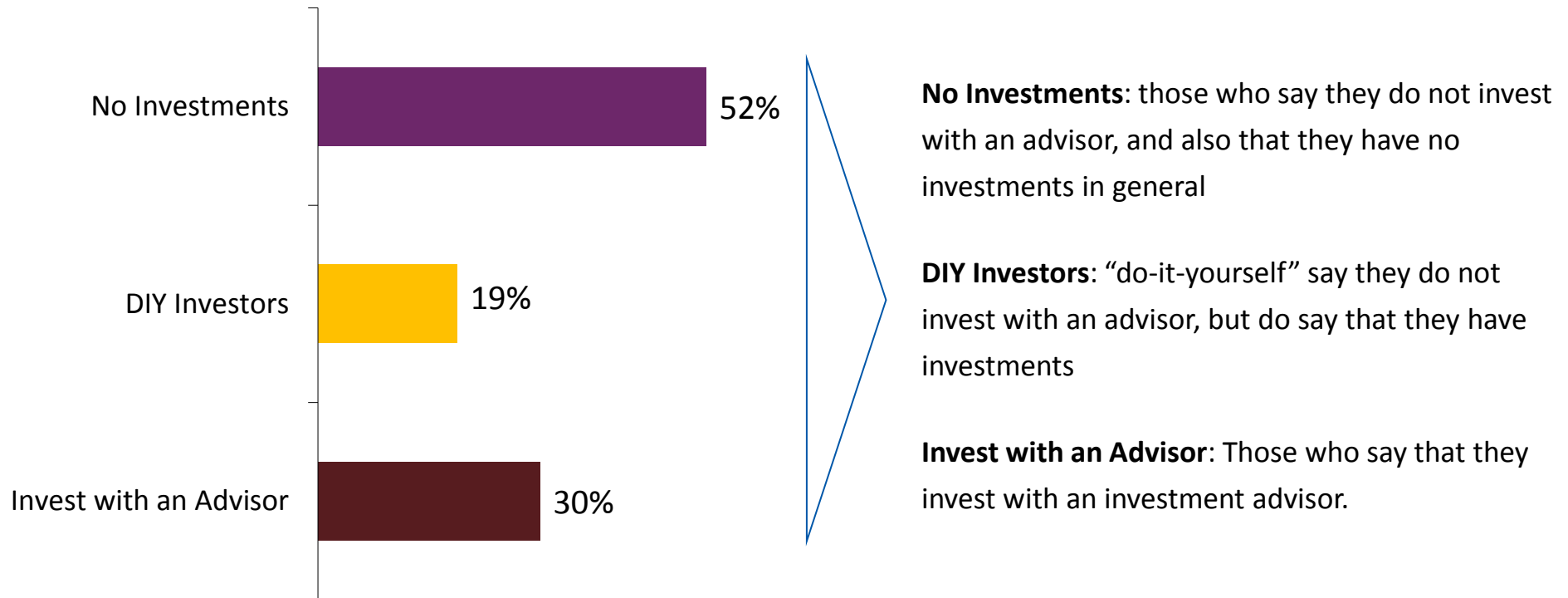
Canadian  
Average  
61.5

**Note:** while it is important for investors to feel positive and confident about their investing, this is not a guarantee of better returns or an objectively more suitable portfolio.

# Client-Advisor Relationship

# Advisor Segmentation

**30% of Canadians 35+ invest through an advisor.**



Throughout the *Smart Investor Study*, these three segments will be referenced to better understand how Canadians with various investment behaviours' differ from one another.



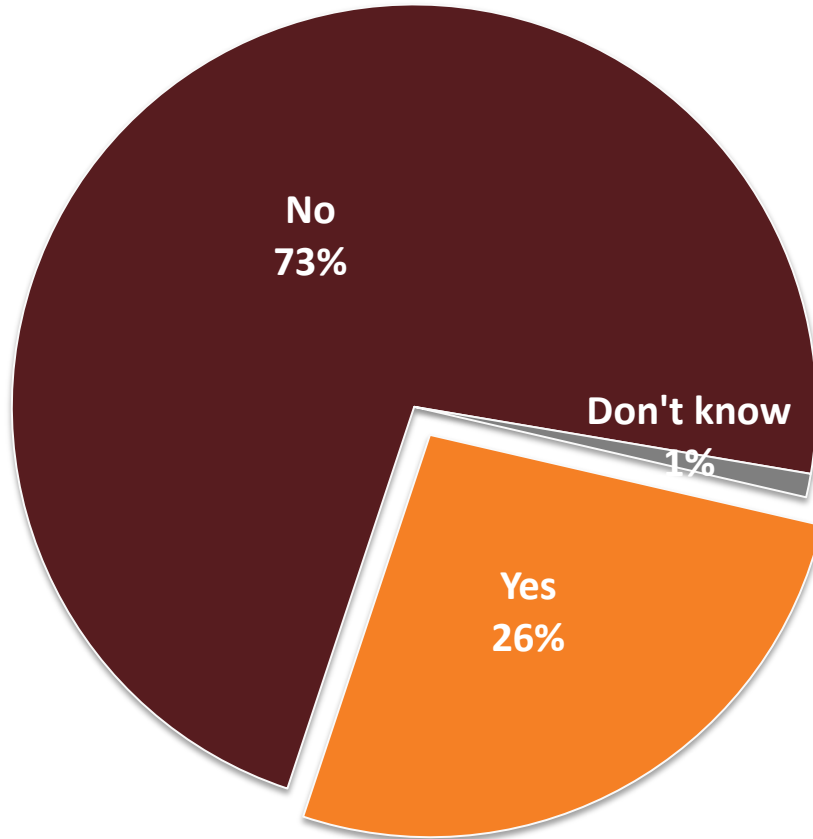
# Past Advisors: among those who do not currently work with an advisor, only a quarter (26%) have worked with one in the past<sup>17</sup>



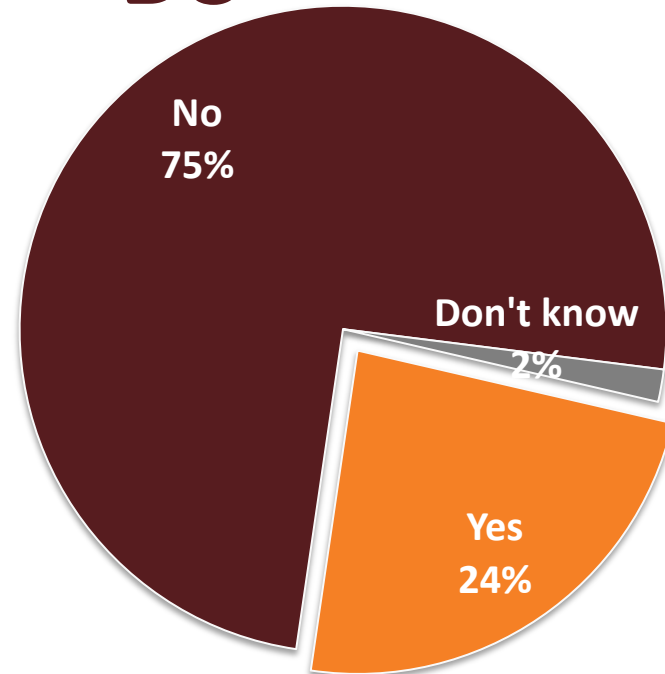
Have you ever worked with an investment advisor in the past?

[asked of those who do not currently work with an investment advisor]

**National**



**BC**

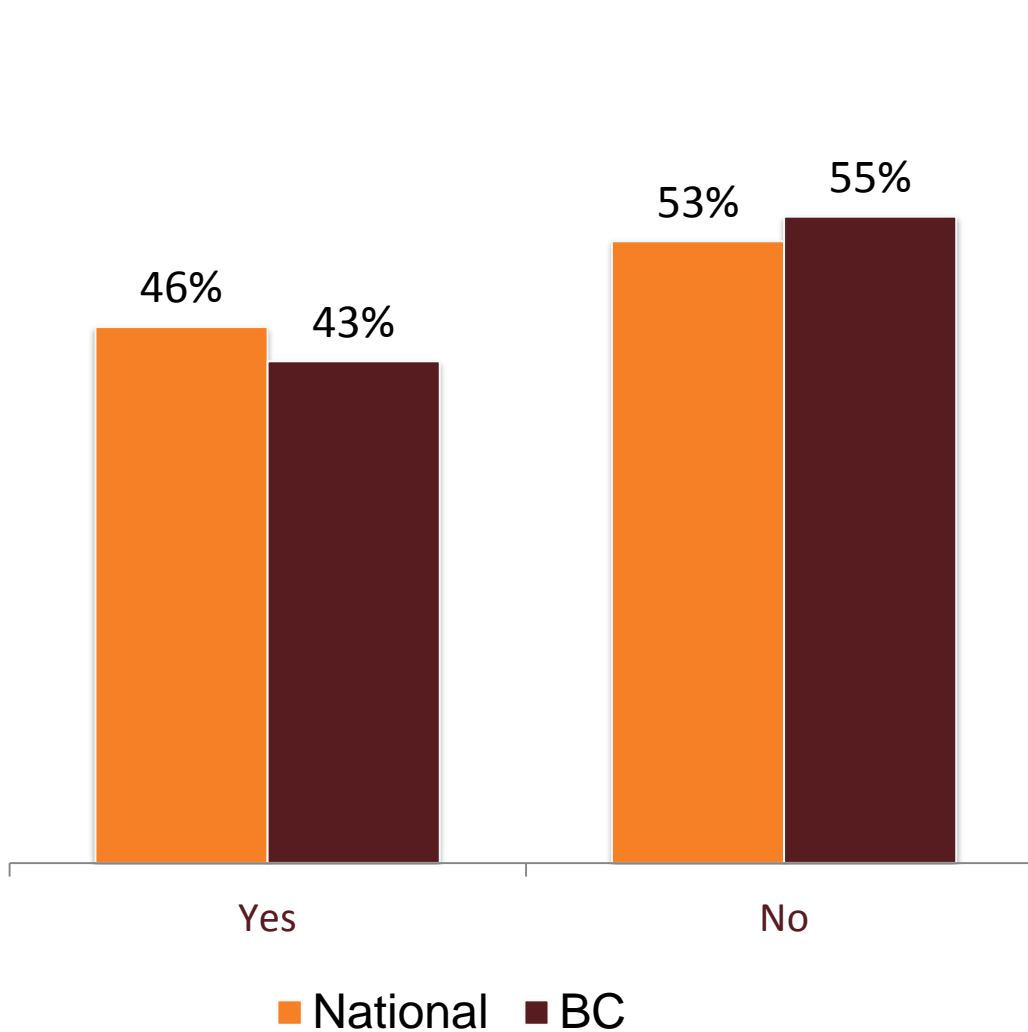


# Advisor Background: majority report not checking into the background of their advisor



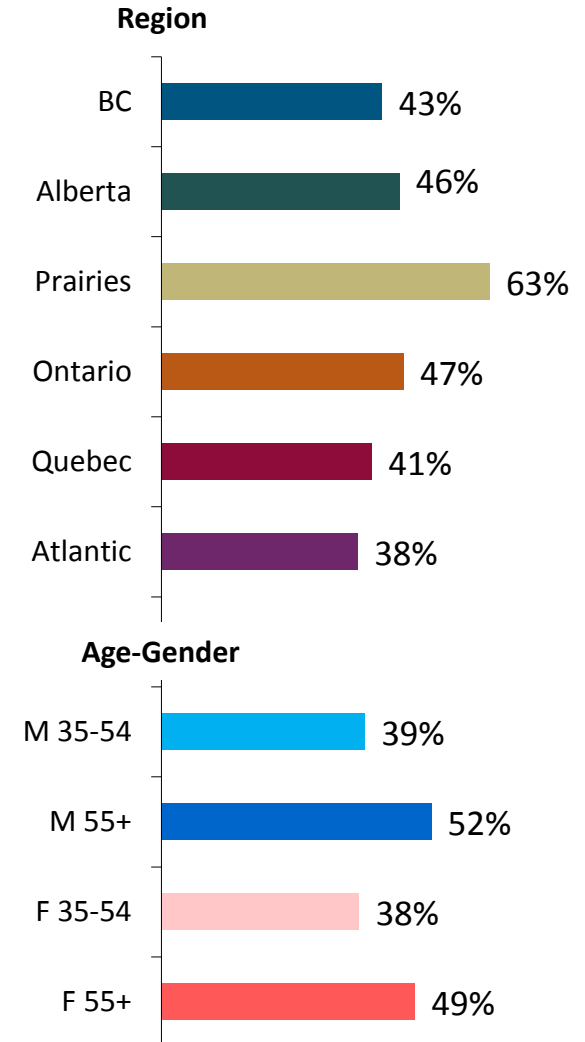
Have you ever checked into the background of your investment advisor in any way?

[asked only of those who currently or usually work with an advisor]



## National Segmentation

(those who say "Yes")

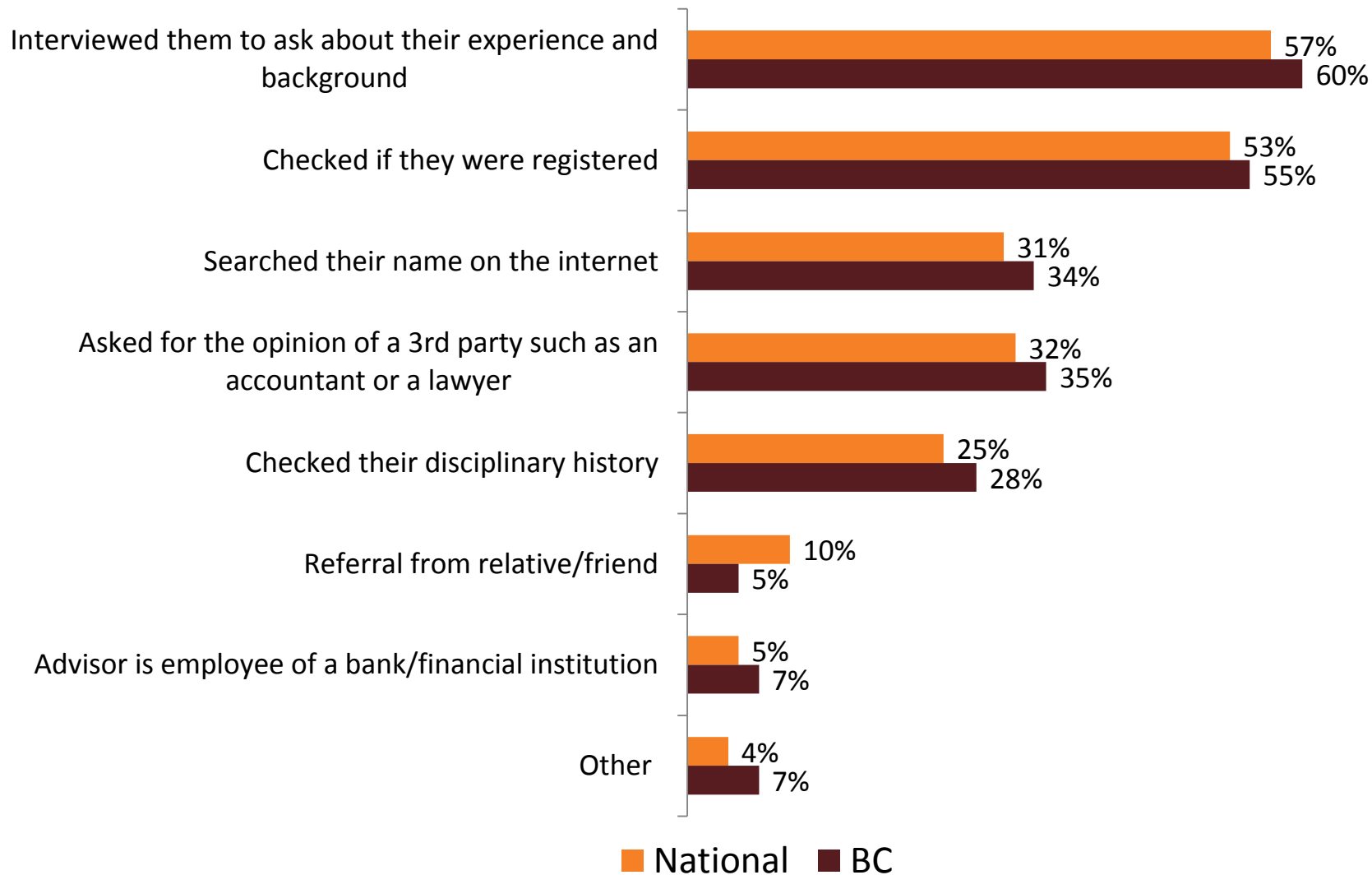


Note: Don't know (2%) not shown

# Advisor Background Check: only 1 in 2 who checked into their advisor's background checked if they were registered



In which of the following ways did you check the background of your investment advisor? Check all that apply  
[asked only of those who have checked into their advisor's background]

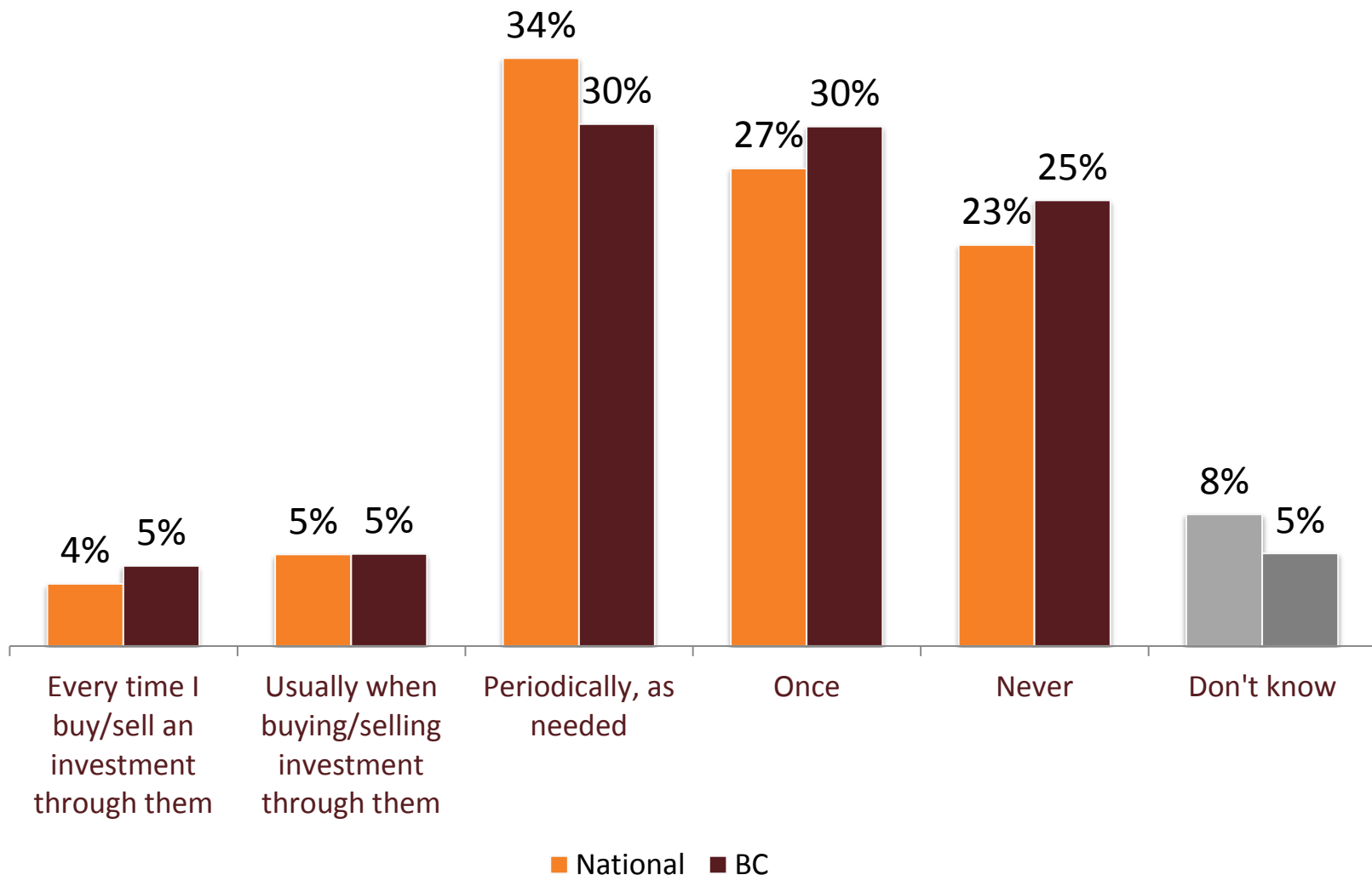


# Discussing Compensation: 1 in 4 report that they have never discussed compensation with their advisor



How often do you have discussions with your investment advisor about how they are compensated for investments that they buy or sell on your behalf?

[asked only of those who currently or usually work with an advisor]



# Trust is the main reason that respondents don't ask about compensation more often

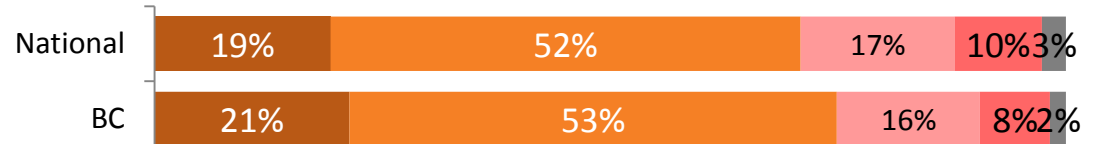


Below are some reasons people give for not asking their advisor about their compensation. For each please indicate if you personally agree or disagree.

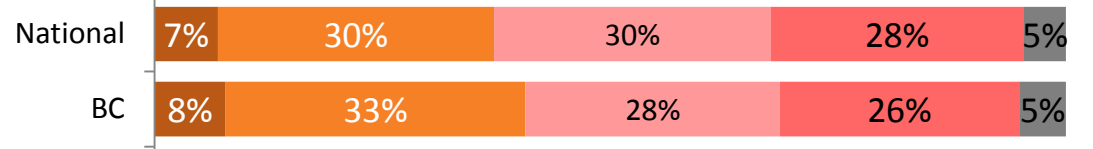
[asked only of those with an advisor who don't discuss compensation every time they make an investment]

**The less often investors discuss compensation, the more they agree with that trust plays a role:** Overall, 71% agree trust is a factor. Of those who have discussed compensation *never or only once*, 78% agree, whereas among those who discuss it only *periodically or usually*, just 56% agree.

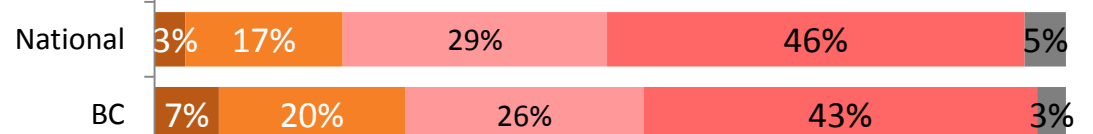
*I don't need to ask my advisor about their compensation more often because I **trust** that it is fair and reasonable*



I would ask my advisor about their compensation more often if I had a better understanding of how investment fees and commissions worked



It would be rude to ask my advisor about their compensation more often than I already do



If I asked my advisor about their compensation more often than I do, I think I would get worse service from them



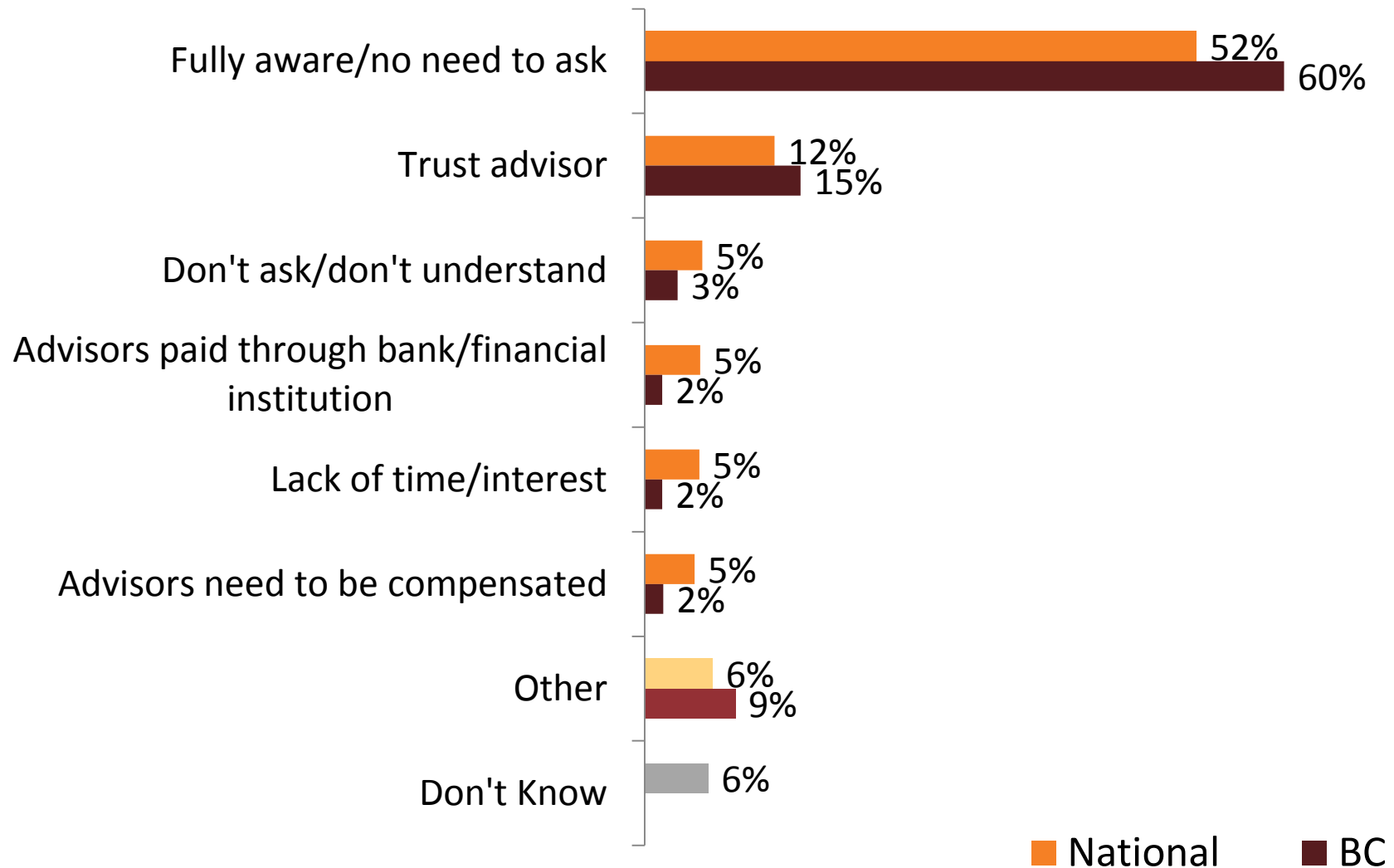
■ Strongly Agree   
 ■ Somewhat agree   
 ■ Somewhat disagree   
 ■ Strongly disagree   
 ■ DK

# Advisor Compensation Discussion: most common alternative reason is that respondents simply already know



Other than those above, is there any other reason that you do not ask your advisor about their compensation more often? **“Yes”**

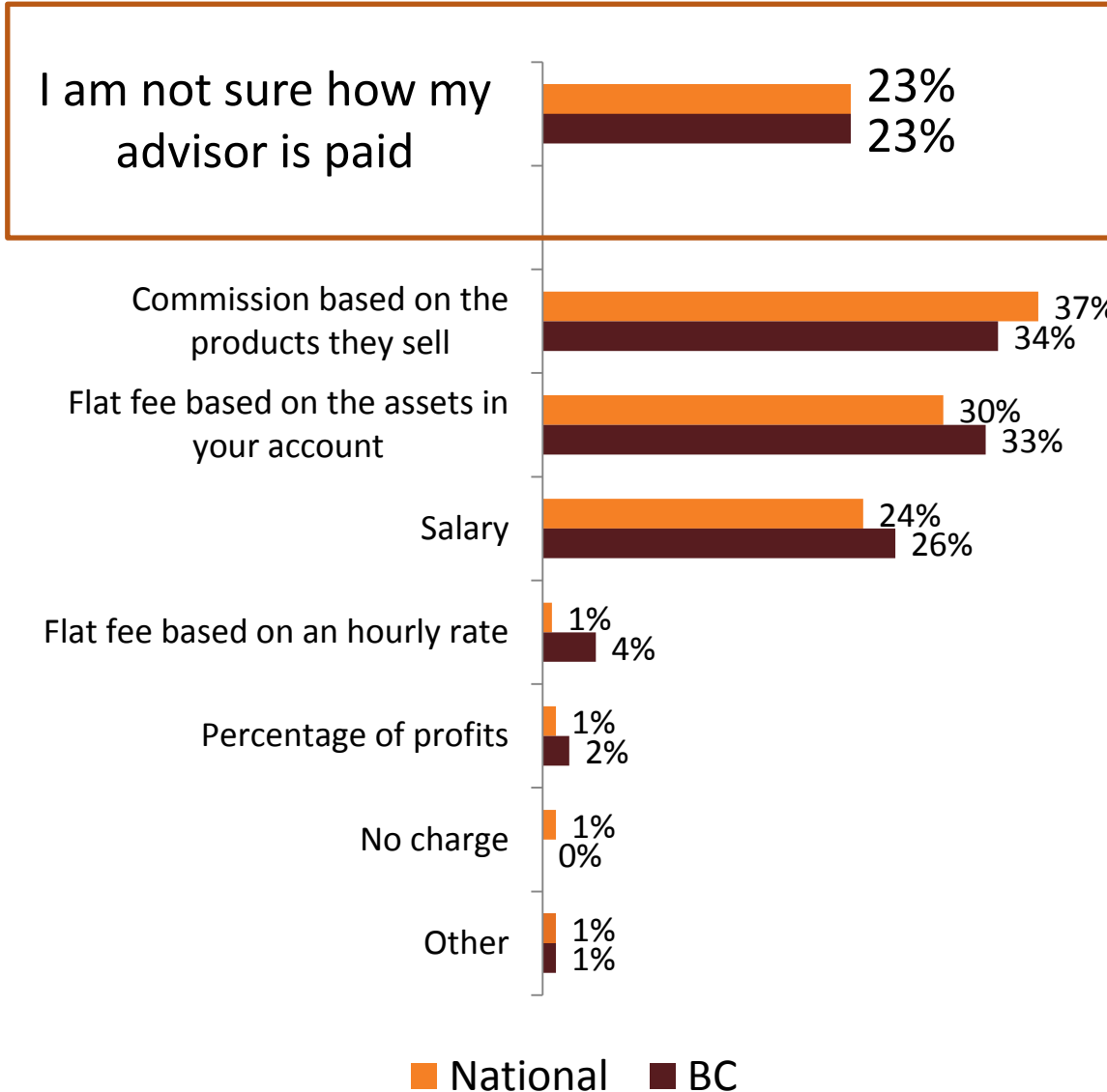
[asked only of those who currently or usually work with an advisor]



# Payment Methods: nearly 1 in 4 say they are not sure how their advisor is paid, as high as 3 in 10 among men under 55

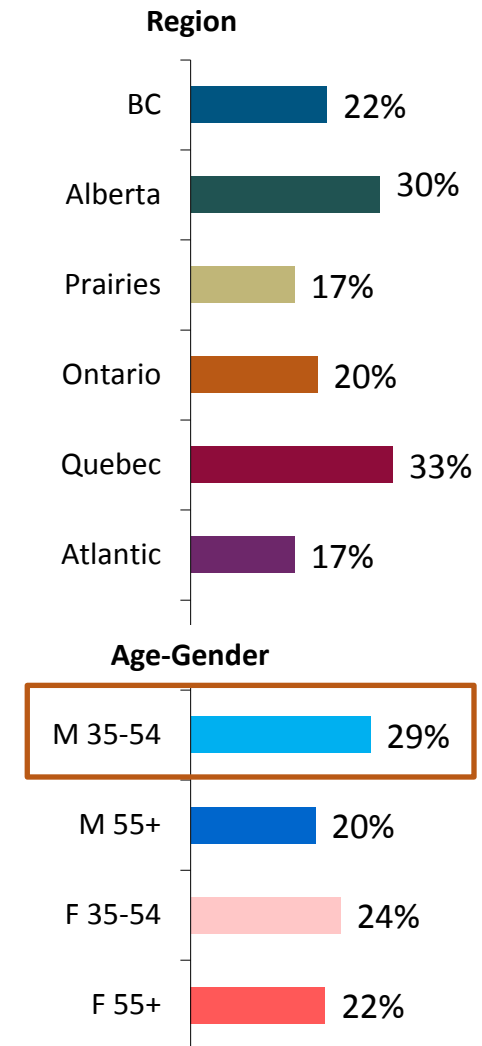


Is your investment advisor being paid by any of the following methods? Check all that apply.  
 [asked only of those who currently or usually work with an advisor]



## National Segmentation

(those who say "Not Sure")



# Half of Canadians with advisors are not sure how much they paid their advisors in the last 12 months

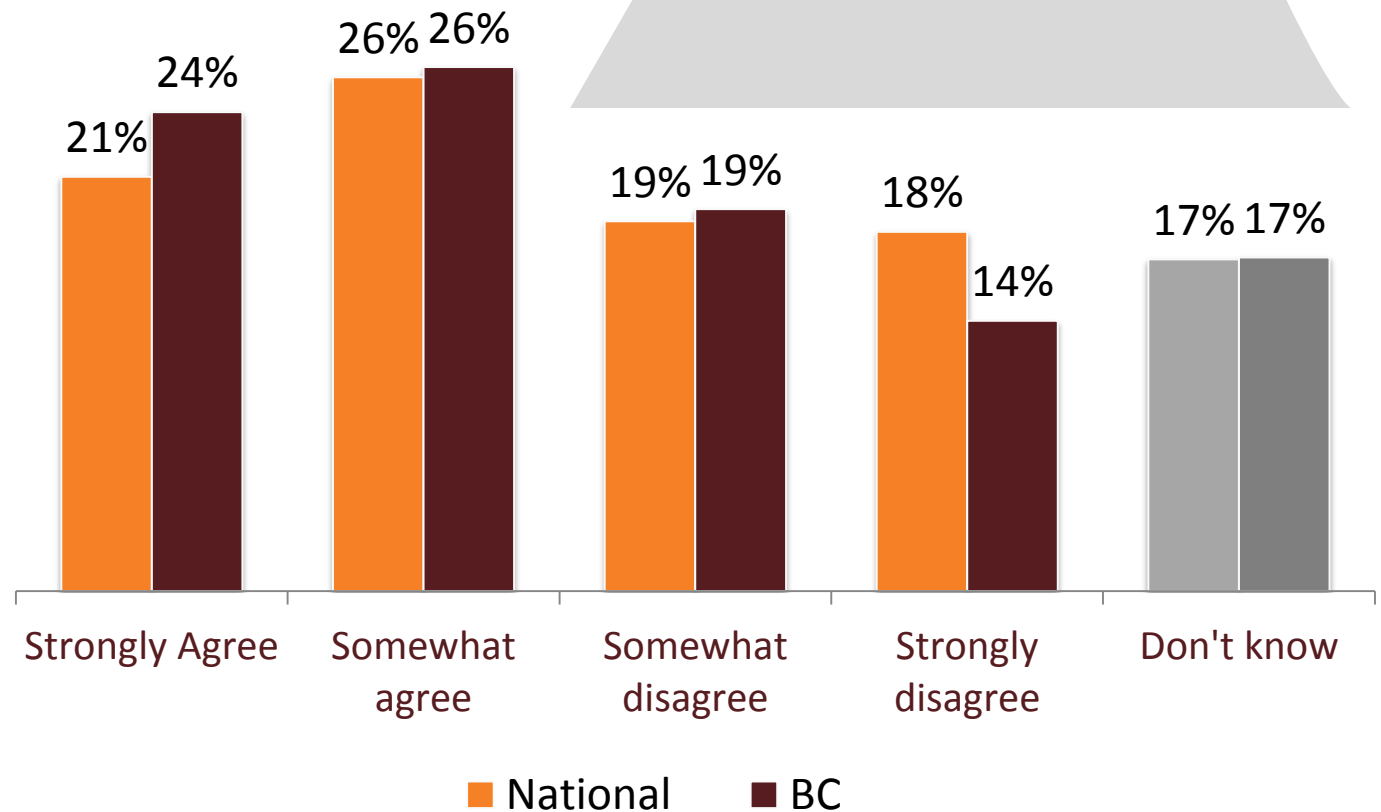
Q

Do you agree or disagree with the following statement: *I know exactly how much I have paid my investment advisor in the past 12 months.*

[asked only of those who currently or usually work with an advisor]

**Across Canada 53% of investors with advisors aren't sure how much they paid them in the last year**

Despite the fact that fee disclosure is only mandatory for portfolio managers, those who say they work with this kind of advisor are no more likely to agree than those who do not (47% agree in both groups)





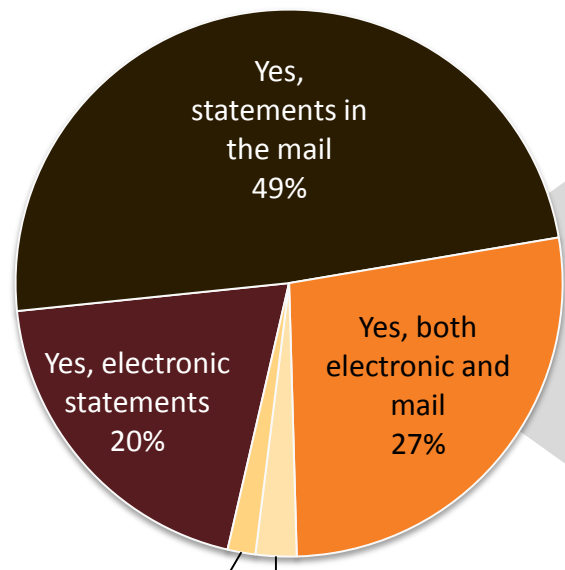
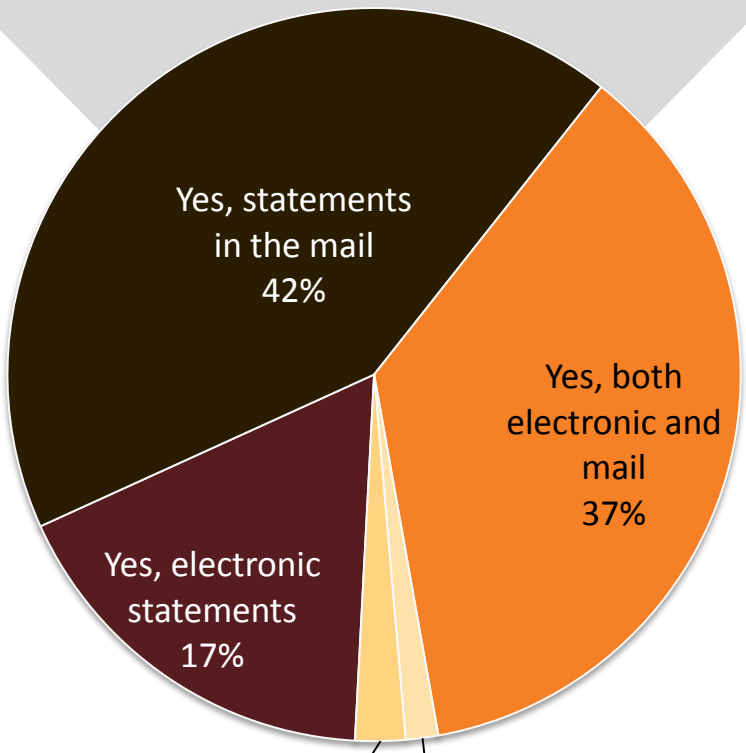
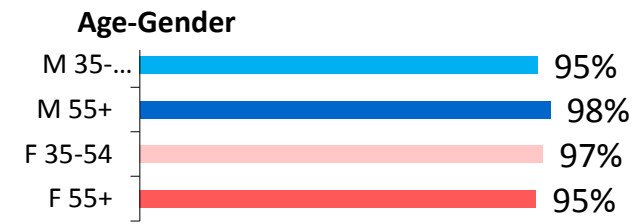
# Investment Statements: nearly everyone with an advisor says that they receive a statement of some sort

**Q** As far as you know, does your investment advisor provide you periodic statements about your investments and their performance?  
[asked only of those who currently or usually work with an advisor]



## National Segmentation

(those who say "Yes")

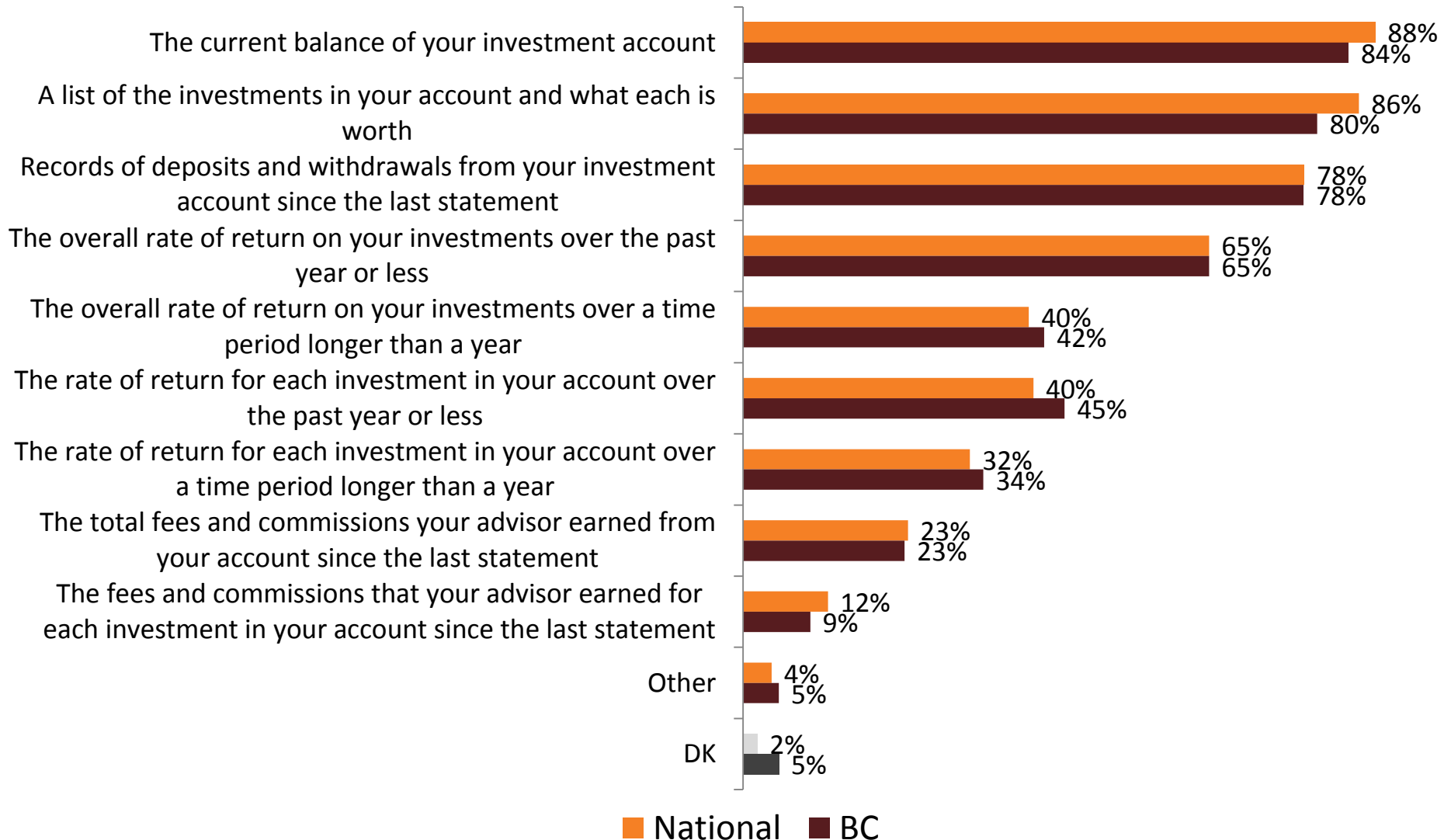


[CATEGORY NAME] [VALUE] [CATEGORY NAME] [VALUE]

[CATEGORY NAME] [VALUE] [CATEGORY NAME] [VALUE]

# Investment Statements: Currently, only 1 in 5 say their statements show the fees and commissions they pay

**Q** What information is included in these statements? Please select all that apply  
[asked of those who receive statements]

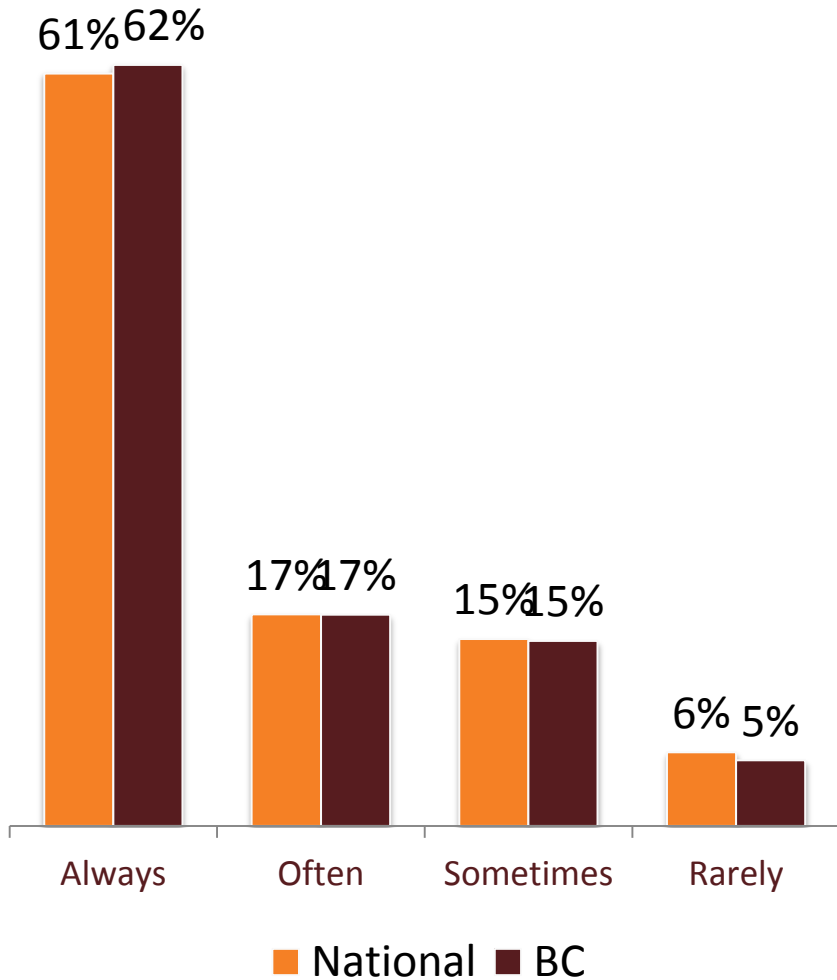


# Investment Statements: 6 in 10 report always reading their statements



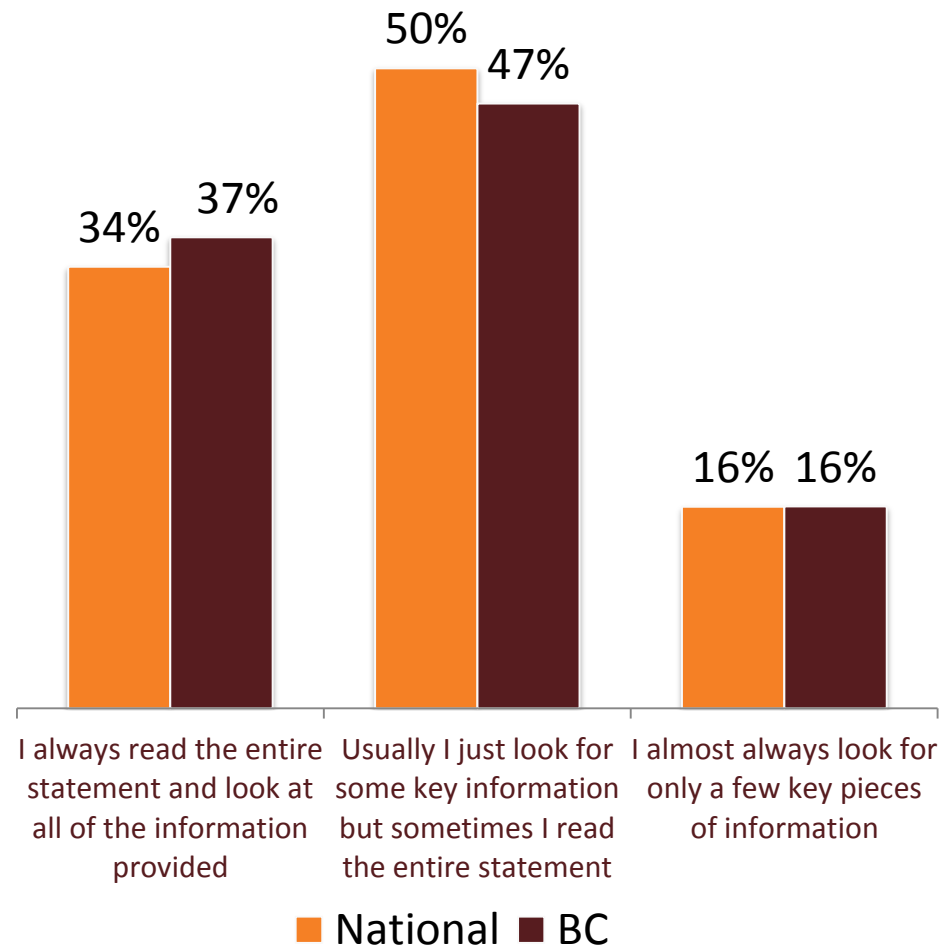
When you receive these statements, how often do you read them? This includes reading the whole thing or only looking at certain parts of them.

[asked only of those who receive a statement]



When you read your statements, which of the following best describes how you read them?

[asked only of those who receive a statement]



Note: Never/Don't know (<1%) not shown

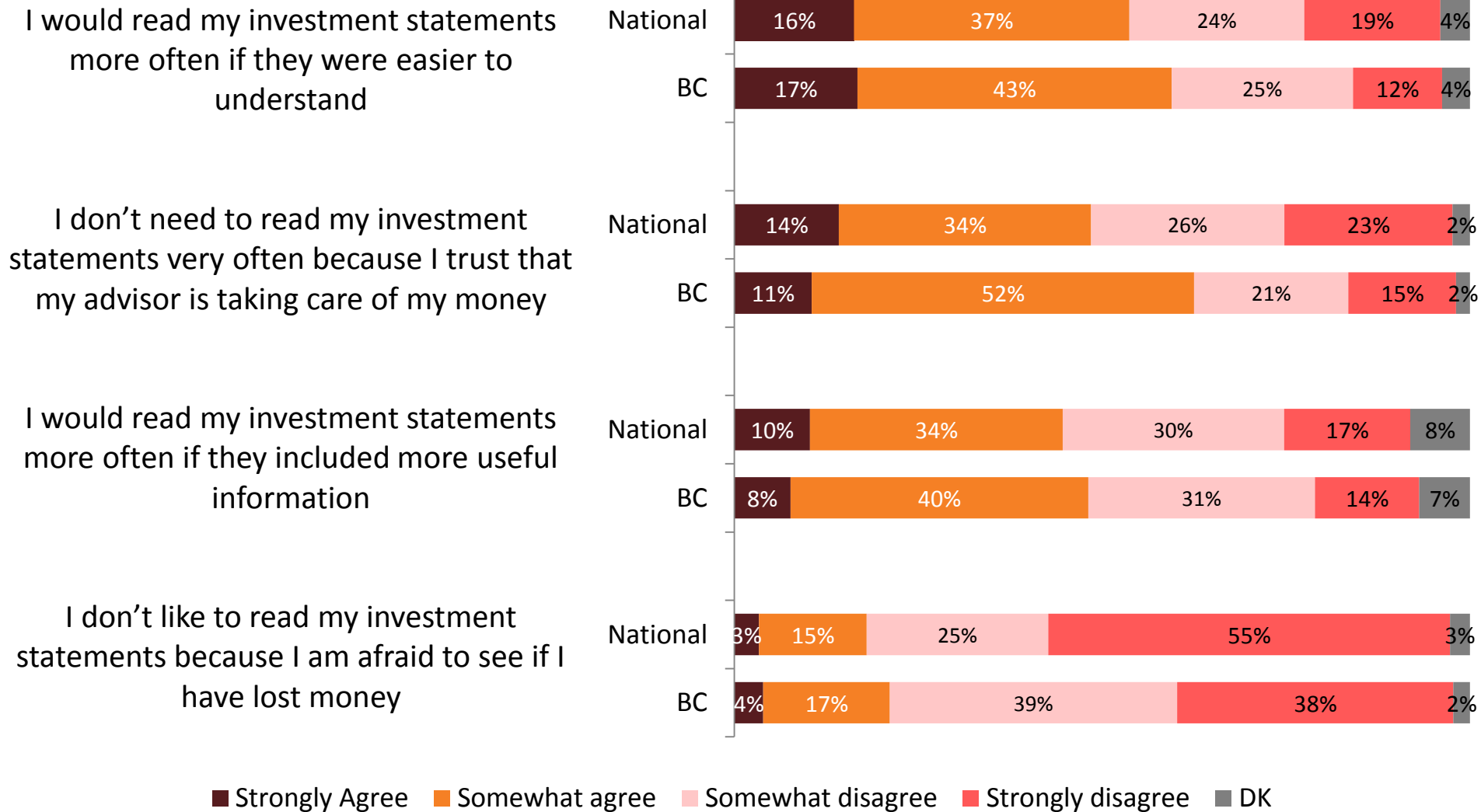
Note: Don't know (<1%) not shown

# Ease of understanding is the biggest barrier to people in reading their statements, trust is also important



Below are some reasons people give for not reading statements from their investment advisors. For each please indicate if you personally agree or disagree.

[asked of those who don't always read their statements]

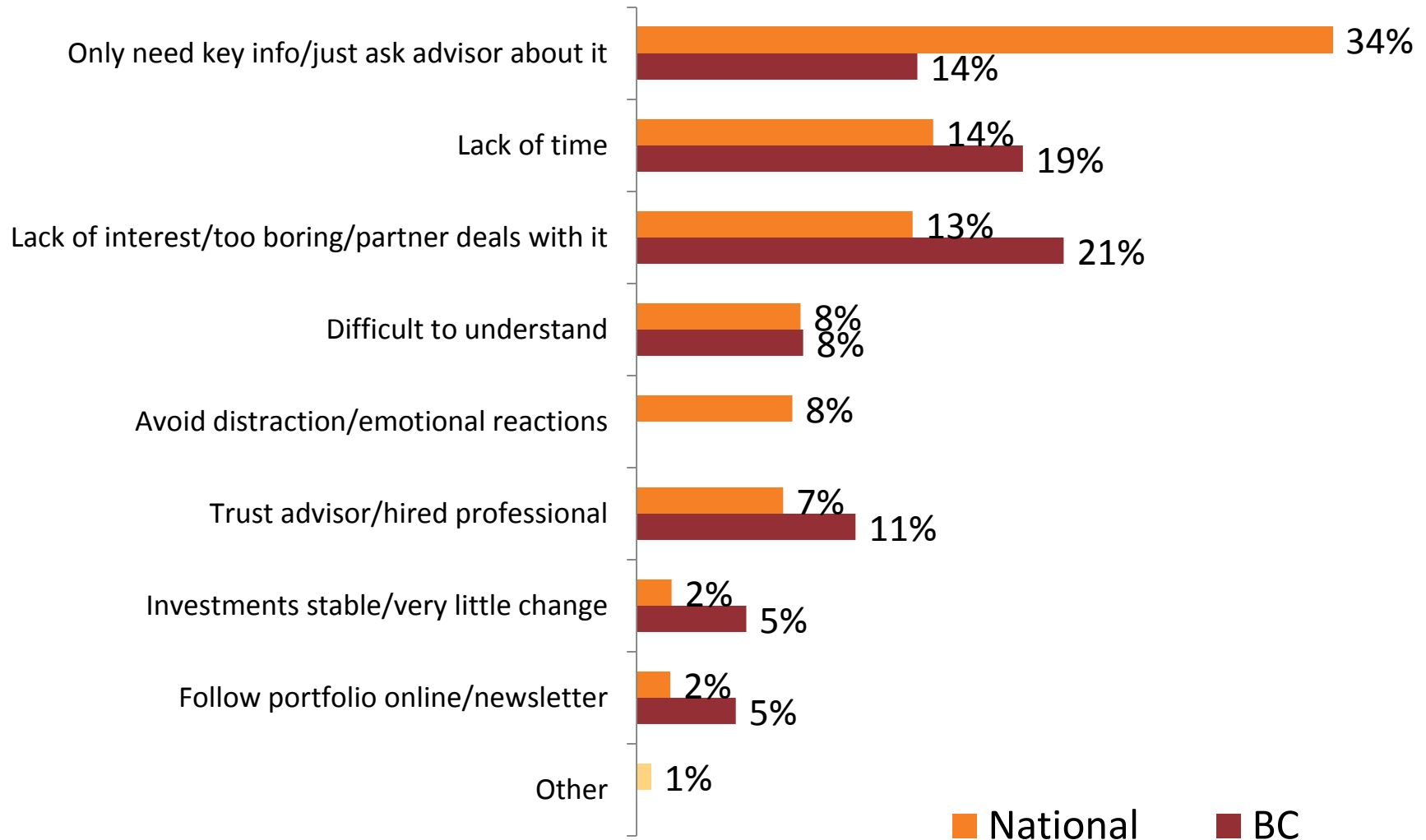


# Investment Statements: many say they just need key info, after that lack of time and interest most common <sup>29</sup>



Other than the reasons above, is there any other reason that you do not read statements from your investment advisor more often? “Yes”

[asked of those who don't always read their statements]



# 1 in 3 agree that they do not need to understand risks so long as their advisor does

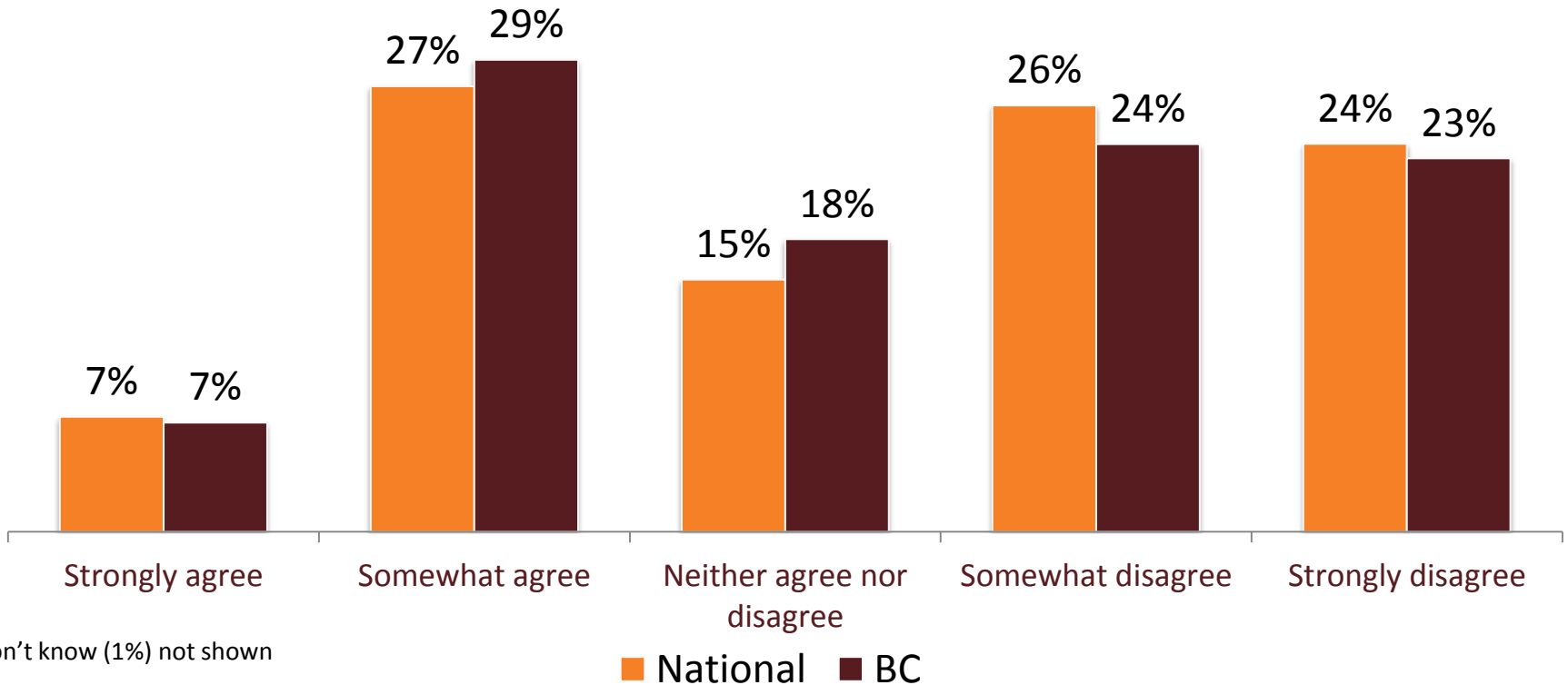


Do you agree or disagree with the following statement: *I do not need to understand all of the risks and benefits of my investments as long as my advisor knows all of the details.*

[asked only of those who currently or usually work with an advisor]

**Agree**  
 National: 34%  
 BC: 36%

**Disagree**  
 National: 50%  
 BC: 47%



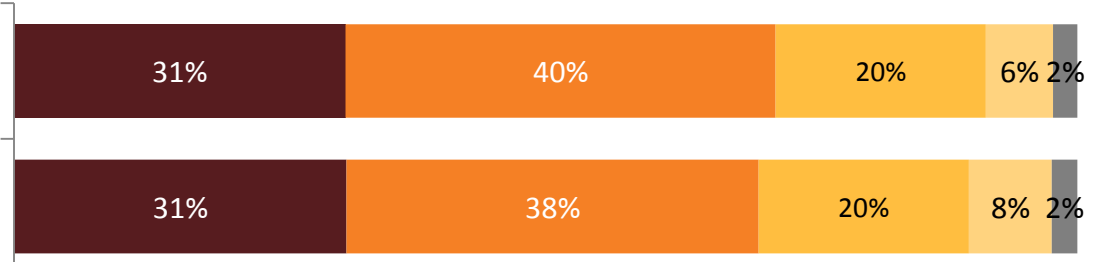
# Majority with an advisor agree their role was made clear and they are encouraged to stay involved



Do you agree or disagree with the following statements.  
 [asked only of those who currently or usually work with an advisor]

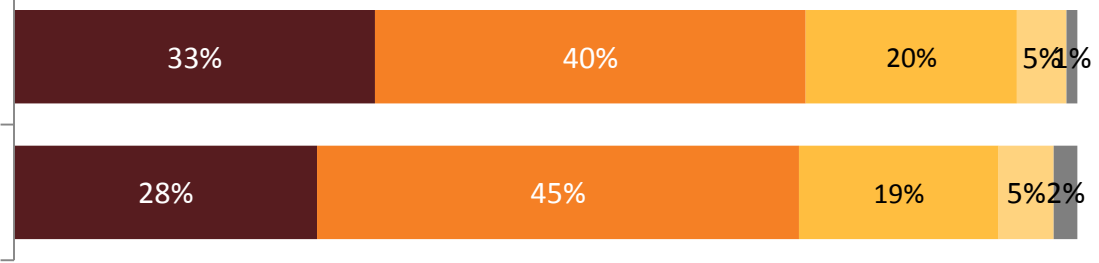
My investment advisor has made it clear to me what my role and responsibilities are when it comes to my investments with them

National  
 BC



My investment advisor helps and encourages me to stay involved with my investments

National  
 BC



■ Strongly Agree ■ Somewhat agree ■ Somewhat disagree ■ Strongly disagree ■ DK

**These two measures together assess to what extent the advisor is holding up their end of the relationship. A good advisor makes the client's roles and responsibilities clear and encourages them to stay involved with their investments.**

Know | Feel | Do Impacts

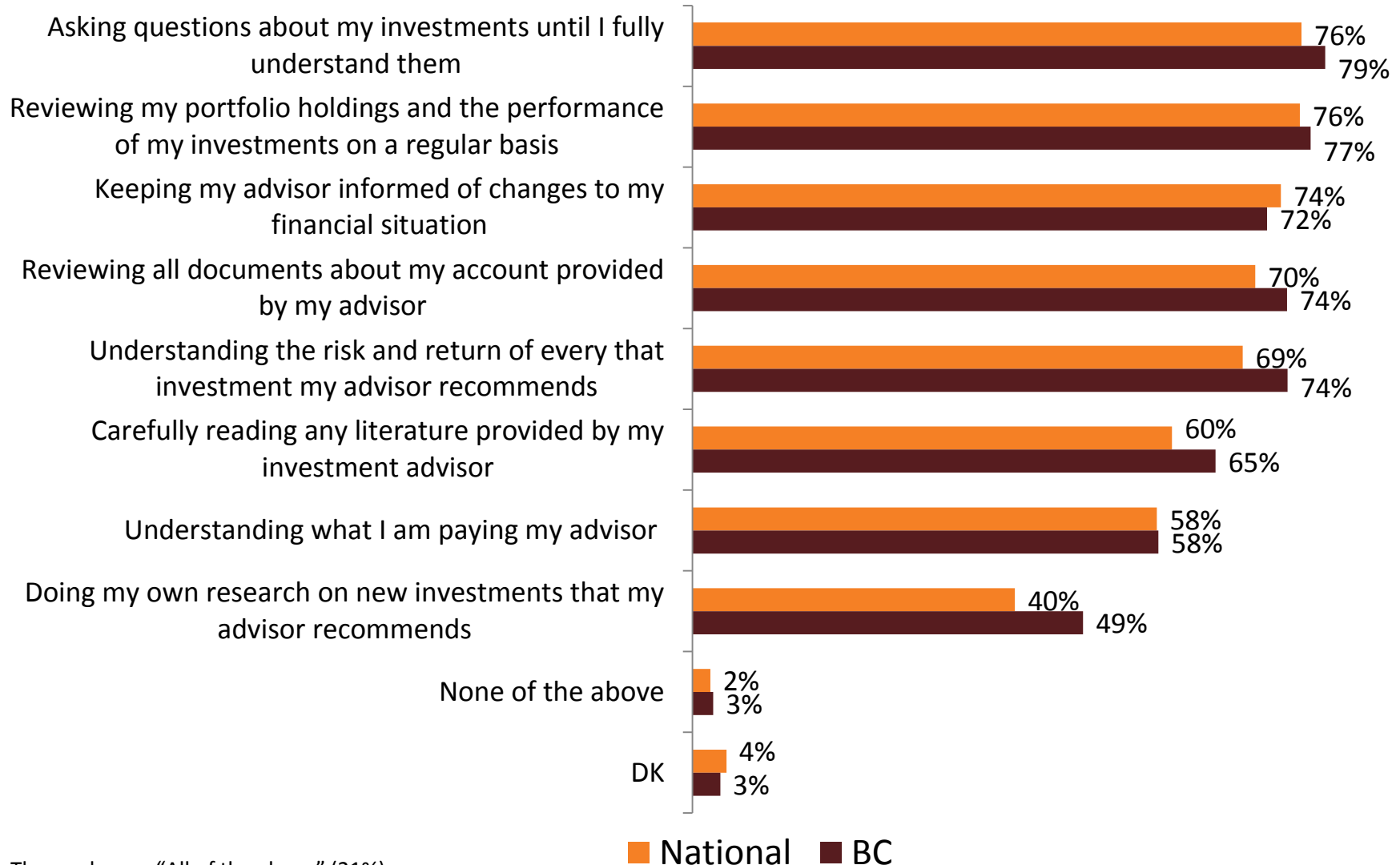


# Most clients feel asking questions about their investments, reviewing their portfolio holdings their own responsibility



As a client, which of the following things do you believe are either wholly or partially your responsibility when working with an advisor? Select all that apply.

[asked only of those who currently or usually work with an advisor]



**Note:** Those who say “All of the above” (21%) are counted as selecting each possible response

# How does the client-advisor relationship impact *Smarter Investing*?

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This section of the report summarizes what we have learned so far about each of the key aspects of the client-advisor relationship:

- **Know:** How much do clients say they know in their advisor client relationship?
- **Feel:** What attitudes do clients have towards their relationship with their advisor?
- **Do:** Do clients do the right things when working with an advisor?
- **Advisor behaviour:** clients say that their advisors are doing the right thing when working with them? Do

We then look at what people Know, Feel and Do and their reports on Advisor Behaviour to see how those things impact *Smarter Investing*. We find that there are strong relationships between knowing more, doing the right things more, and having an advisor who does the right thing more with higher scores on the *Smarter Investor Index*.

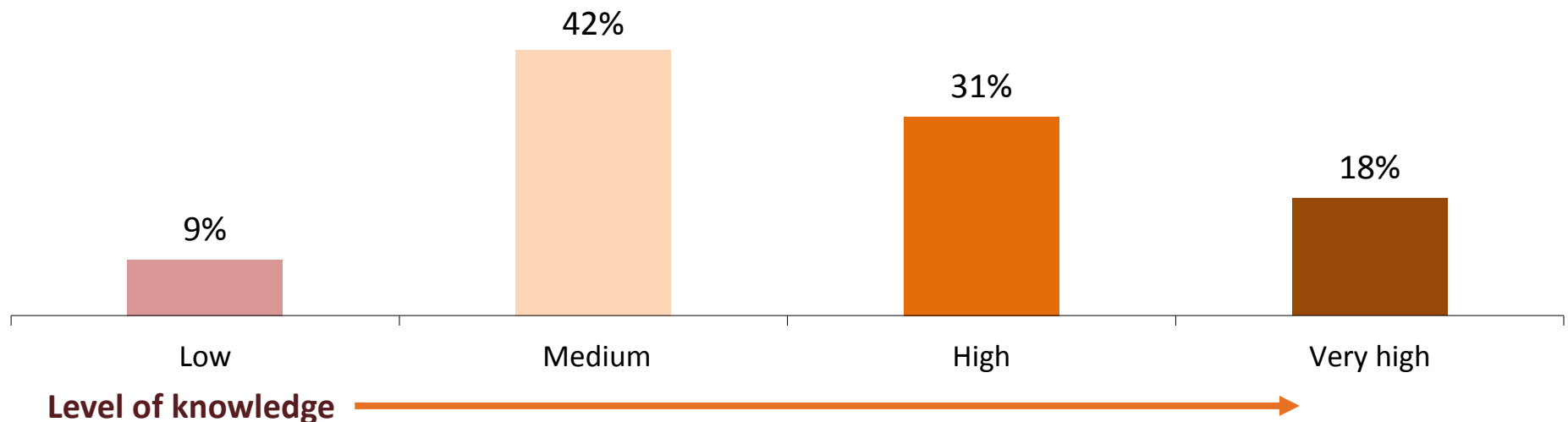
When it comes to attitudes the relationship is less clear. However those with the “best” attitudes towards their advisor relationship once again have far and away the highest score on the *Smarter Investor Index*.

**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 their investment decisions.**

# Client Knowledge: How much do clients say they know in their relationship with an advisor?

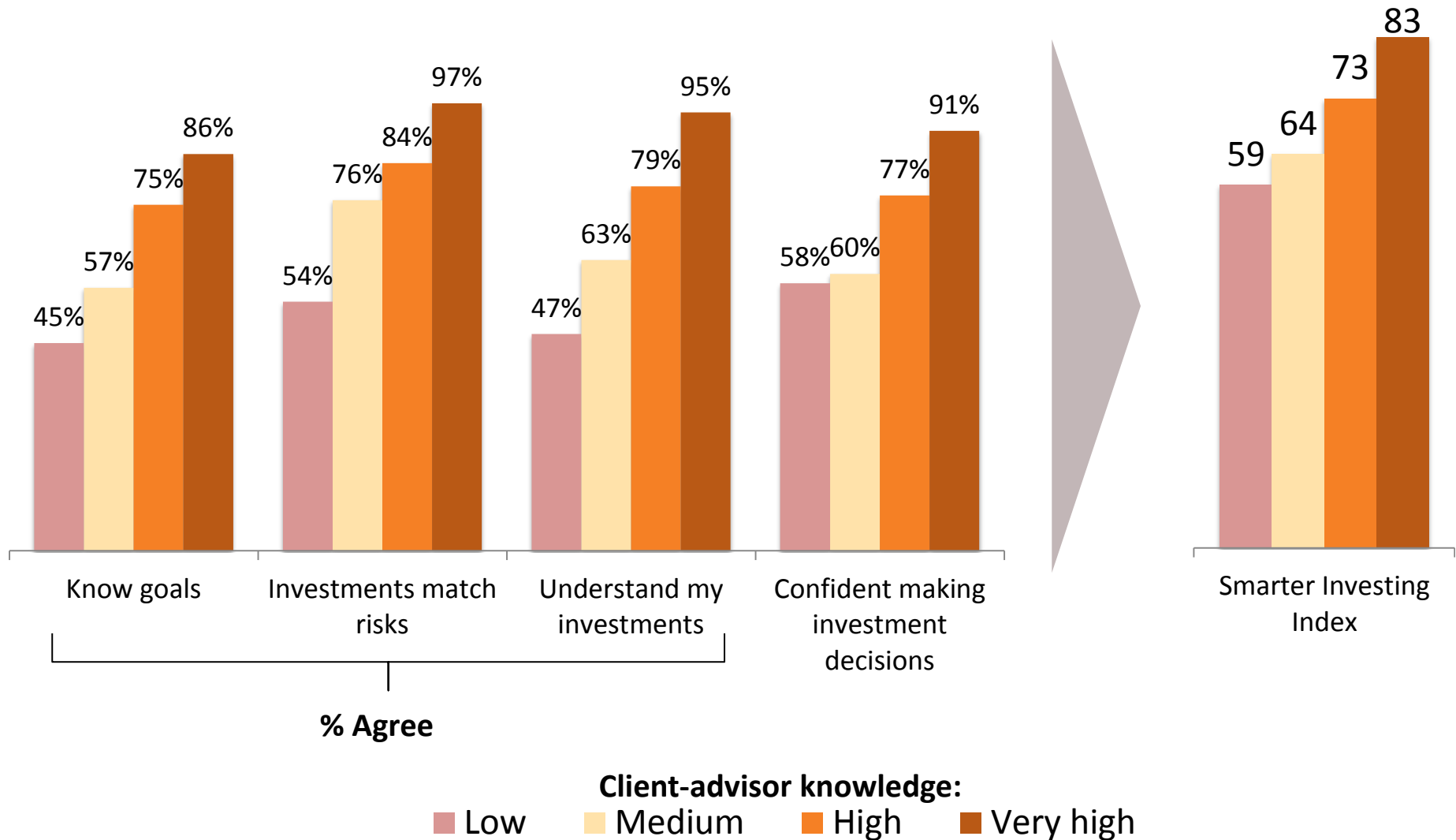
Respondents' levels of knowledge in their relationships with their advisors can be measured by a number of questions. We add up each respondent's answers to these questions to rank individual respondents as Low, Medium, High, or Very High on their reported level of knowledge. Respondents who are "Very High" are those who say they are knowledgeable across almost every question asked. Respondents who are "Low" say they are knowledgeable on almost none of the questions asked.

- 1. HOW MUCH COMPENSATION:** Do you agree or disagree with the following statements – I know exactly how much I have paid my investment advisor in the past 12 months.
- 2. WHAT KIND OF COMPENSATION:** Is your investment advisor being paid by any of the following methods? Check all that apply. – Those who say: "I am not sure how my advisor is paid".
- 3. UNDERSTANDING COMPENSATION:** [Of those who do not always discuss compensation]: Do you agree or disagree with the following statements - I would ask my advisor about their compensation more often if I had a better understanding of how investment fees and commissions worked
- 4. UNDERSTANDING STATEMENTS:** [Of those who do not always discuss compensation]: Do you agree or disagree with the following statements - I would read my investment statements more often if they were easier to understand
- 5. INFO ON STATEMENTS:** [Of those who receive statements]: What information is included in these statements? Please select all that apply. Those who say "Don't Know"
- 6. KNOW YOUR ROLE:** As a client, which of the following things do you believe are either wholly or partially your responsibility when working with an advisor? Select all that apply. (We measure the total number of correct answers selected).



# What clients know matters: those with very high levels of knowledge have high scores on all 4 smarter investing measures

For investors working with an advisor, we identified four groups based on the level of knowledge they have about their advisor. By comparing *smarter investing* across the four groups we see that knowledge has a large impact. When comparing index scores, bear in mind the overall average for all Canadians with advisors is 70/100



# Client Attitudes: Do Canadians have the right attitudes when it comes to working with their advisor?

Respondents' attitudes towards their client-client relationships were measured by the following questions and then summed up into an overall measure of client attitudes.

## 1. REASONS NOT TO ASK MORE ABOUT COMPENSATION:

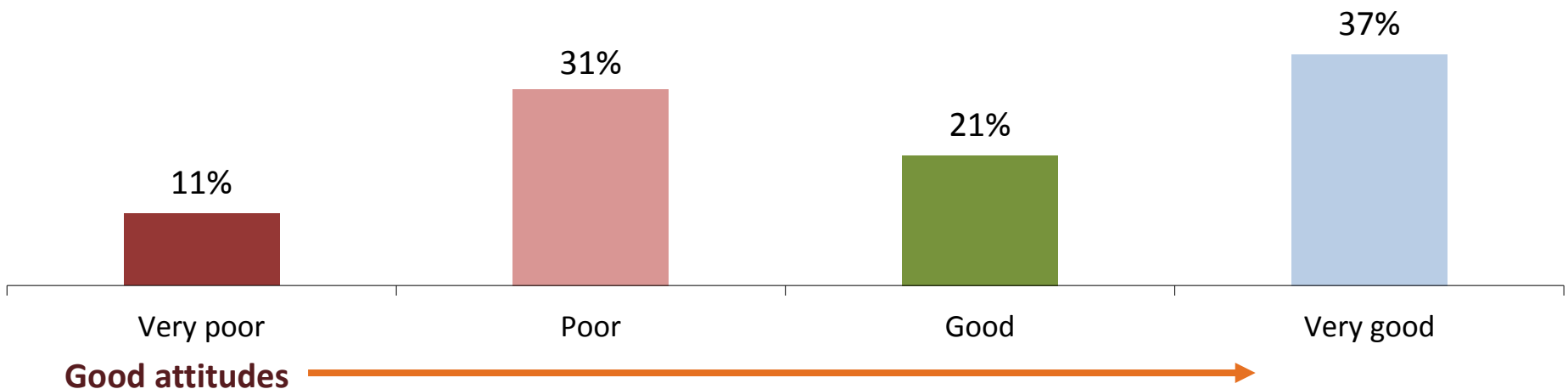
1. **RUDE:** It would be rude to ask my advisor about their compensation more often than I already do
2. **WORRIED ABOUT SERVICE:** If I asked my advisor about their compensation more often than I do I think I would get worse service
3. **TRUST COMPENSATION IS FAIR:** I don't need to ask my advisor about their compensation more often because I trust that it is fair and reasonable

## 2. REASONS NOT TO READ STATEMENT MORE:

1. **AFRAID I'VE LOST MONEY:** I don't like to read my investment statements because I am afraid to see if I have lost money
2. **TRUST ADVISOR, DON'T NEED STATEMENT:** I don't need to read my investment statements very often because I trust that my advisor is taking care of my money
3. **STATEMENTS NOT USEFUL:** I would read my investment statements more often if they included more useful information

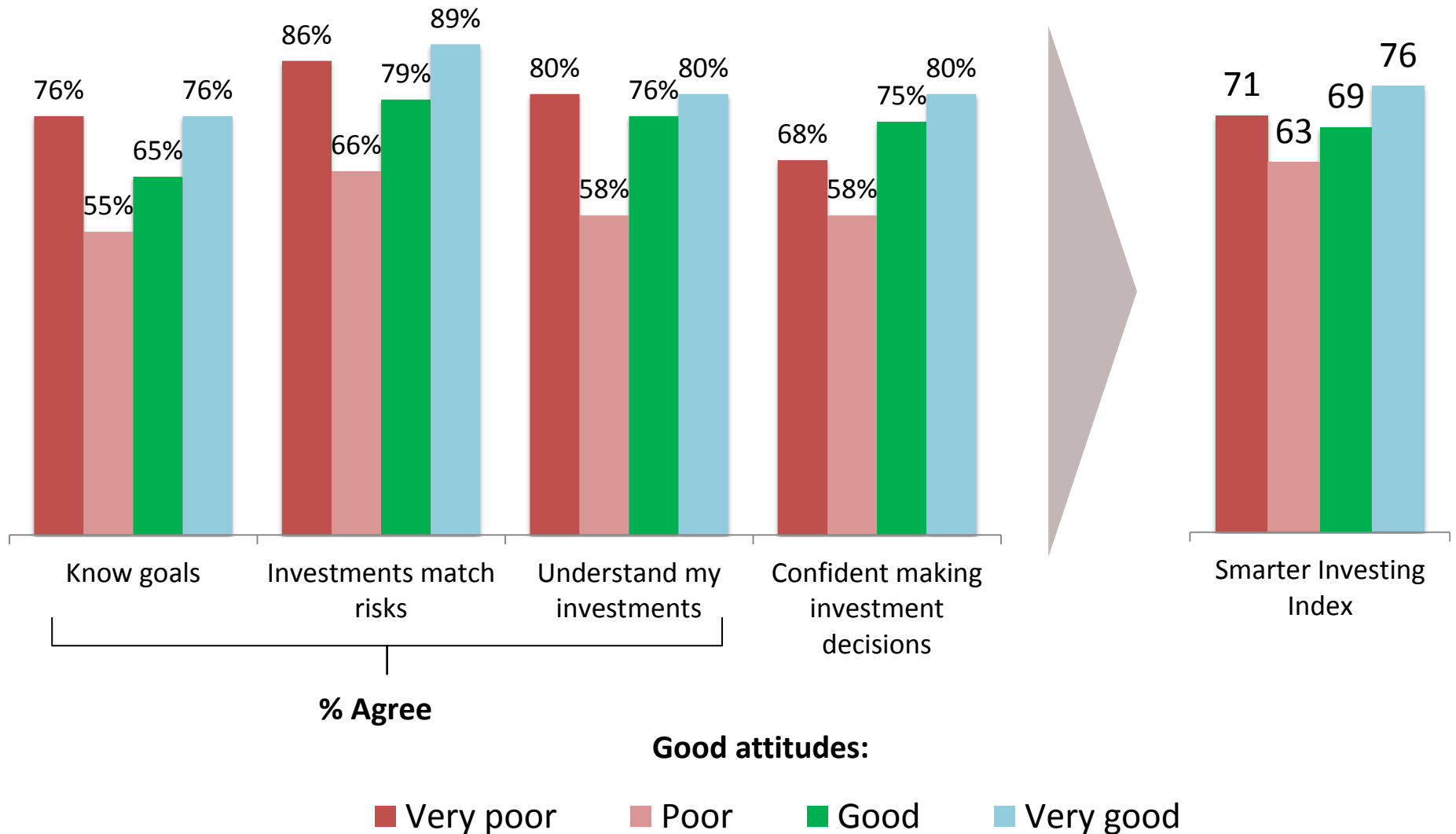
## 3. ADVISOR'S JOB TO UNDERSTAND RISKS: I do not need to understand all of the risks and benefits of my investments as long as my advisor knows all of the details

The attitudes above are all ***the wrong attitudes*** to have. Being in a higher group below indicates a greater level of ***disagreement***. Respondents who on average agree with all of the statements are "poor" or "very poor" while respondents who on average disagree are "good" or "very good".



# Those with the best attitudes have higher Smarter Investor Index scores than other investors

For investors working with an advisor, we identified five groups based on attitudes towards their client-advisor relationship. By comparing the index across the four groups, we see what impact these attitudes have. When comparing index scores, bear in mind the overall average for all Canadians with advisors is 70/100

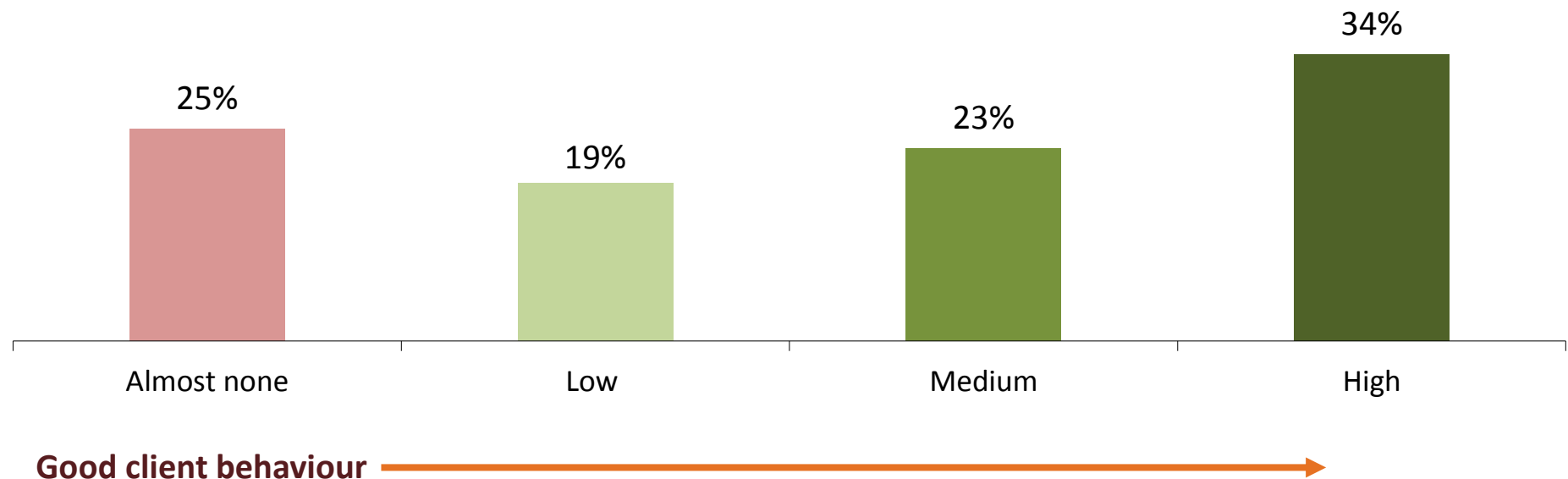


# Client Behaviour Segmentation: 25% of Canadians with advisors usually take none of these key steps

We used three key behaviours in the client-advisor relationship to build an index of good client behaviour:

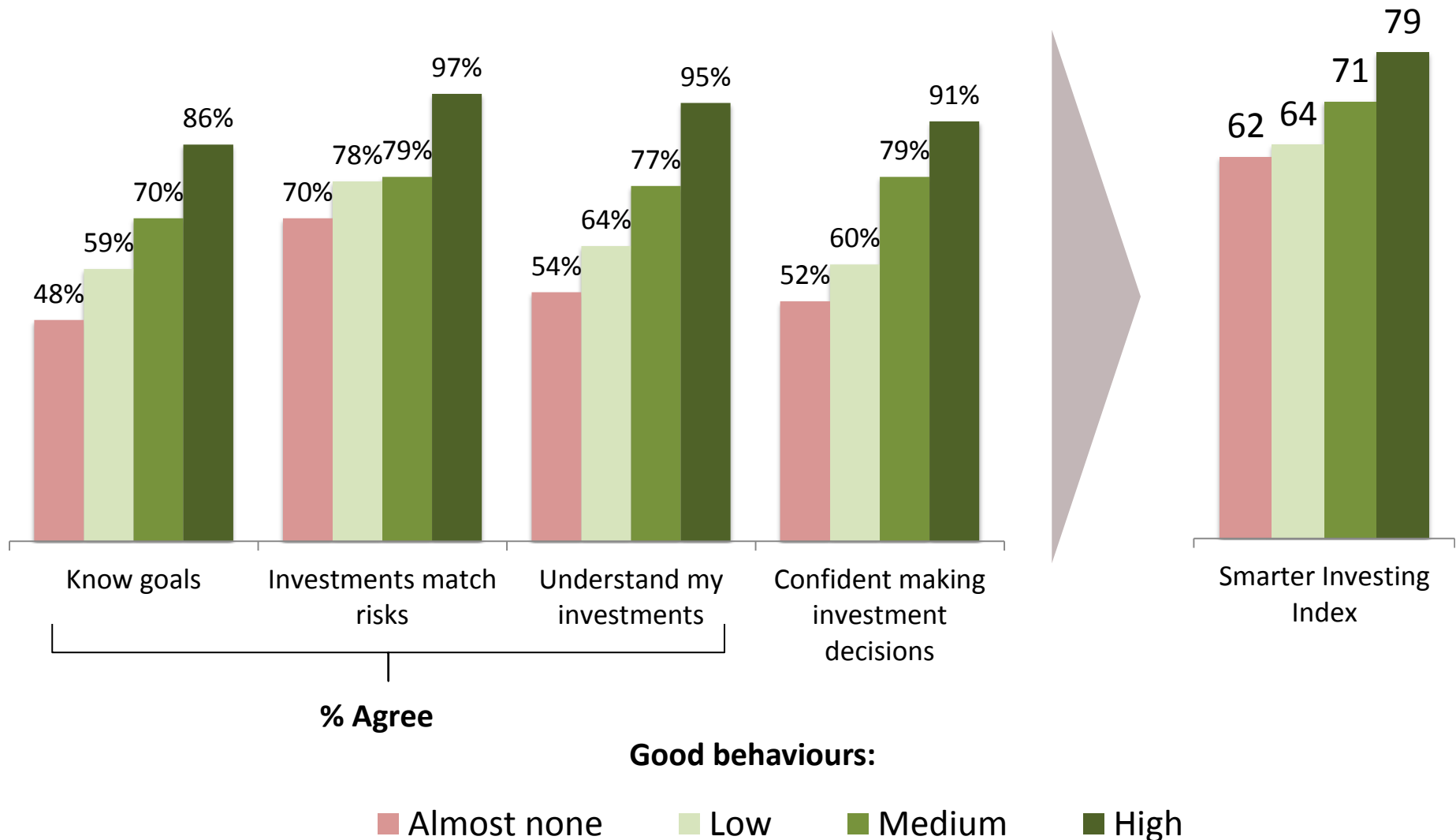
1. **BACKGROUND CHECK:** Have you ever checked into the background of your investment advisor in any way?
2. **DISCUSSING COMPENSATION:** How often do you have discussions with your investment advisor about how they are compensated for investments that they buy or sell on your behalf?
3. **READING STATEMENTS:** [Of those who say they receive statements]: When you receive these statements, how often do you read them?

The range of responses is categorized below, with “Almost none” being the equivalent of rarely, if ever, doing any of the 3 behaviours and “High” being always or almost always doing all 3. with “Low” and “Medium” in between.



# What clients do matters: the more clients do the right thing, the higher their index scores

For investors working with an advisor, we identified four groups based on their behaviour in their client-advisor relationship. By comparing *Smarter Investing* across the four groups we see that this behaviour has a large impact. When comparing index scores, bear in mind the overall average for all Canadians with an advisor is 70/100



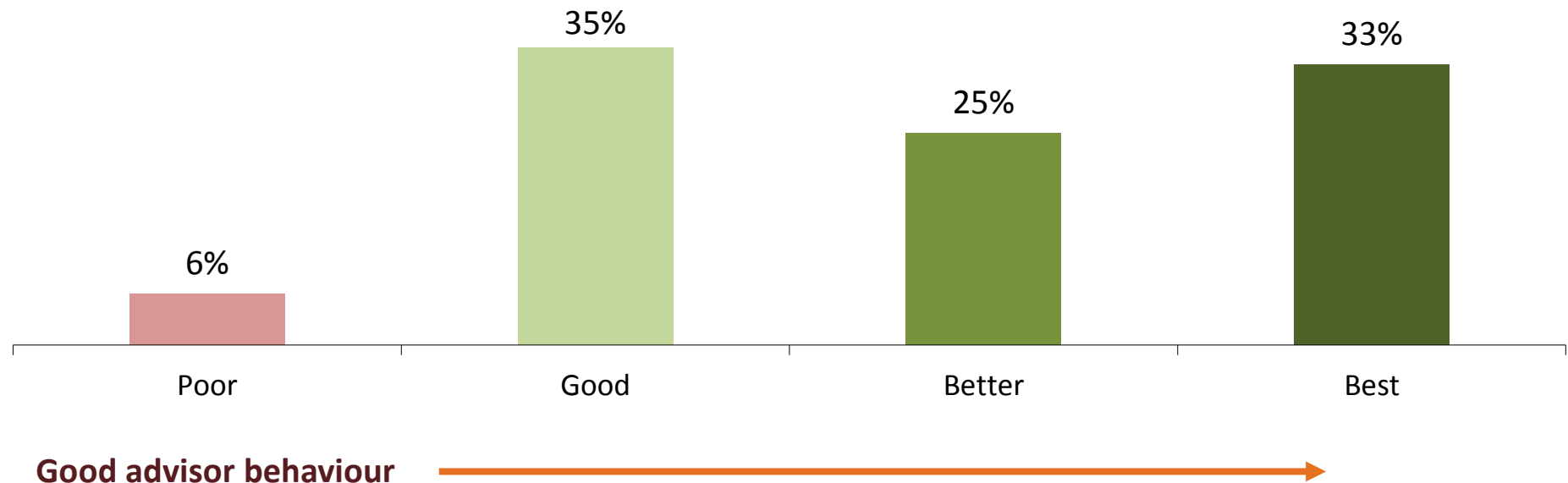


# Advisor Behaviour: how do clients report that their advisor's manage the relationship?

Respondents were asked two questions to assess whether their advisor was doing the right things to manage the advisor-client relationship:

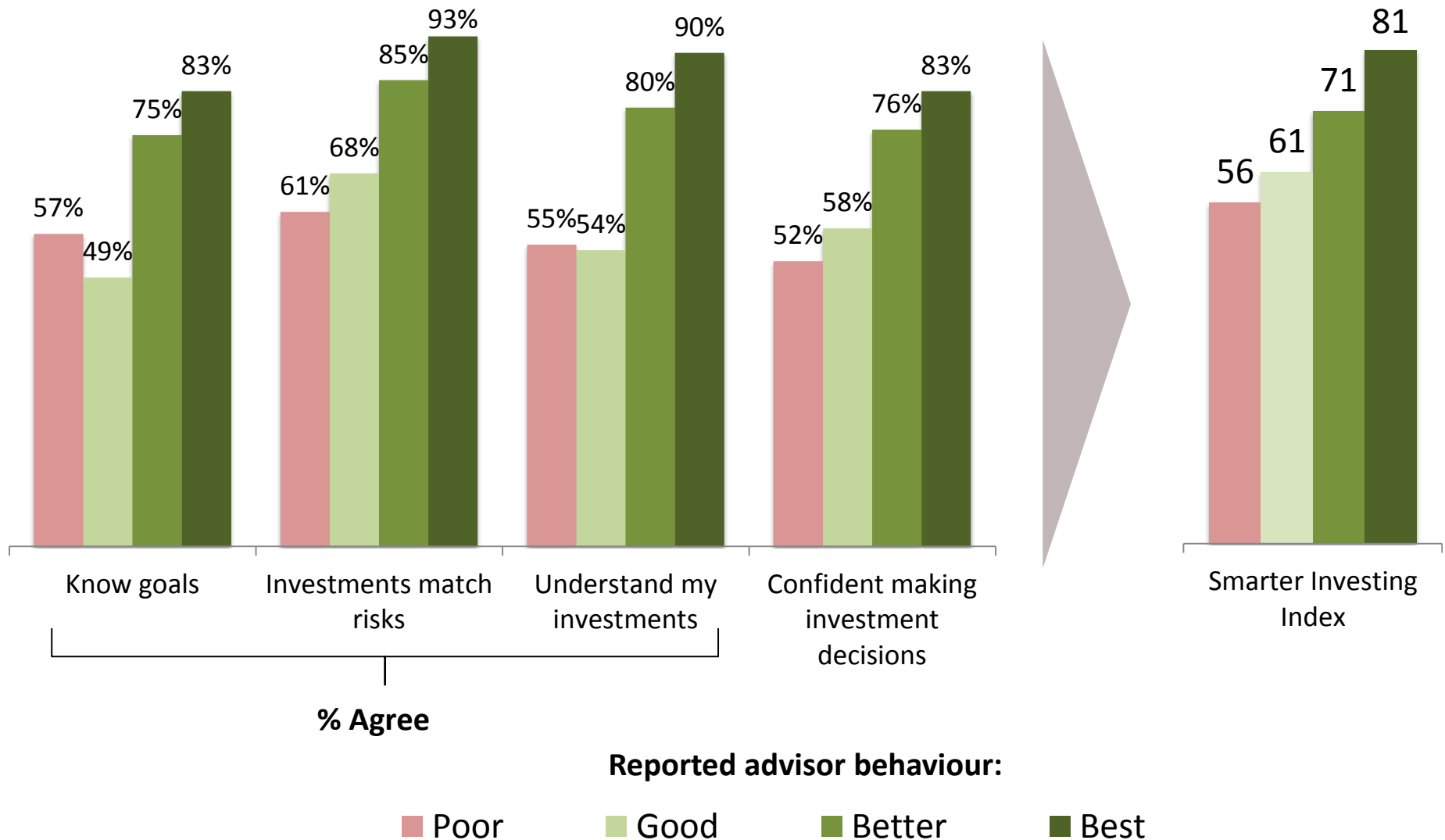
1. **EXPLAIN CLIENT ROLE:** Do you agree or disagree with the following statements—*My investment advisor has made it clear to me what my role and responsibilities are when it comes to my investments with them*
2. **KEEP CLIENT INVOLVED:** Do you agree or disagree with the following statements—*My investment advisor helps and encourages me to stay involved with my investments*

Those who disagreed on average with both statements are classified as having “Poor” advisors, from this particular point of view. As respondents exhibit more and more agreement, advisors can be classified as “Good” (neutral to just below somewhat agree on average), “Better” (somewhat agree on average), or “Best” (better than somewhat agree on average).



# A good advisor makes a difference: a better advisor puts their client in a better position

We grouped investors with advisors into 4 groups based on the advisor behaviour that they described in their own relationship. Advisors who do the right thing are correlated with clients who assess themselves higher on the *Smarter Investor Index*. The overall average for all Canadians with advisors was 70/100.



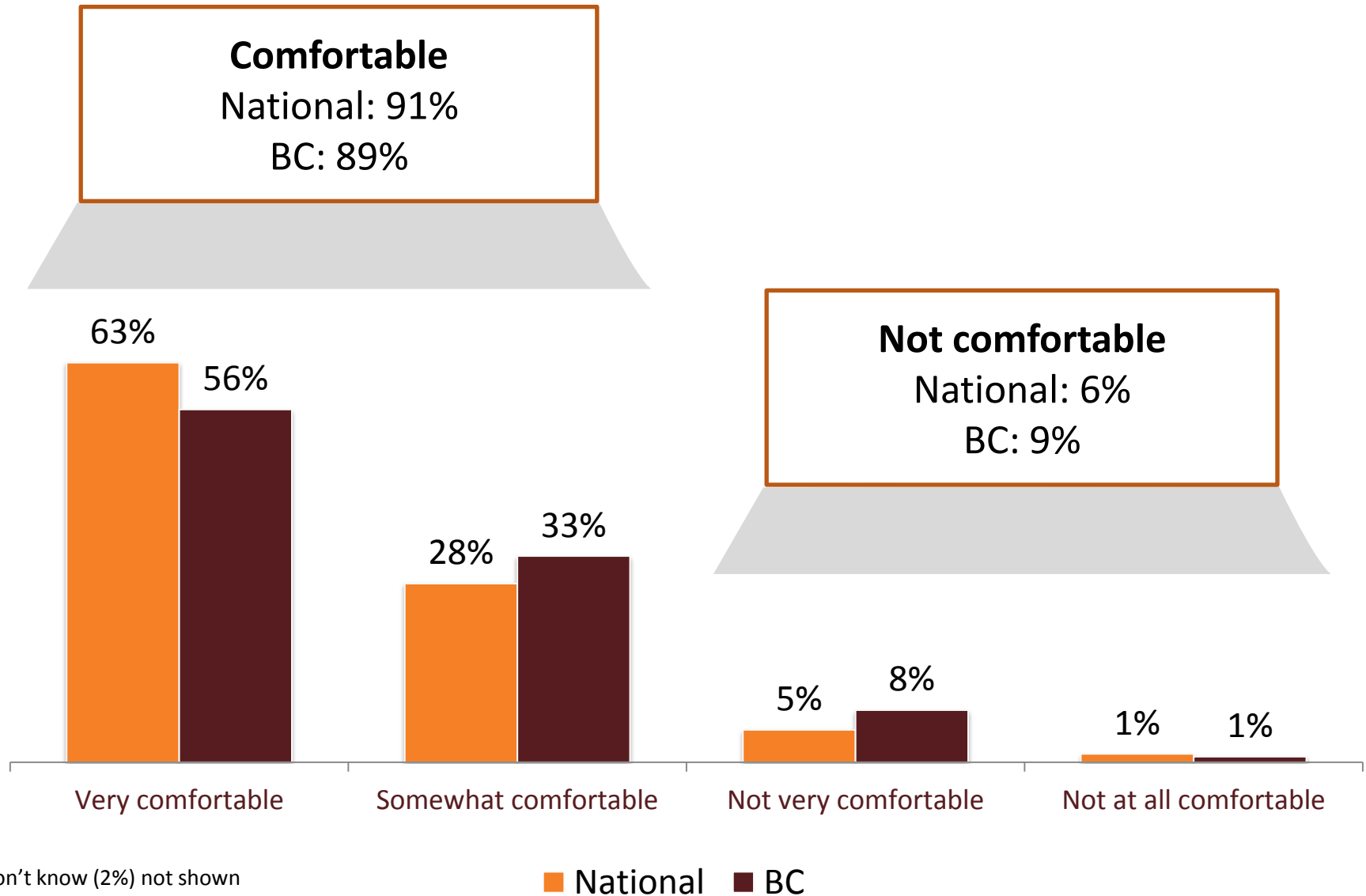
# Health of Relationship

# Client Comfort: 63% are very comfortable bringing concerns and questions to their investment advisor



In general, how **comfortable** do you feel bringing forth concerns and questions when speaking with your investment advisor?

[asked only of those who currently or usually work with an advisor]



Note: Don't know (2%) not shown

# Client Trust: half of Canadians have a very strong level of trust in their investment advisor

Q

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

## Strong level of trust

National: 89%

BC: 90%

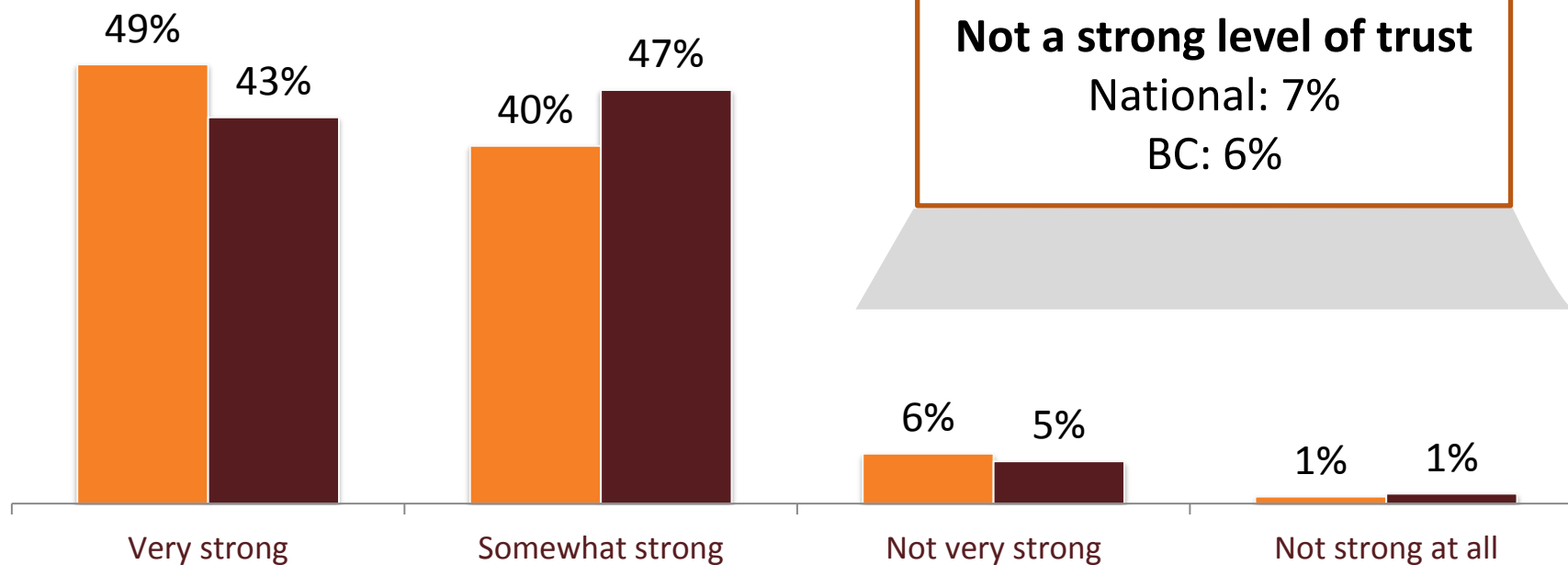
**Trust is a double edged sword:** It's important to trust.

But that trust should not take the form of delegating your responsibilities as an investor to your advisor.

## Not a strong level of trust

National: 7%

BC: 6%



Note: Don't know (4%) not shown

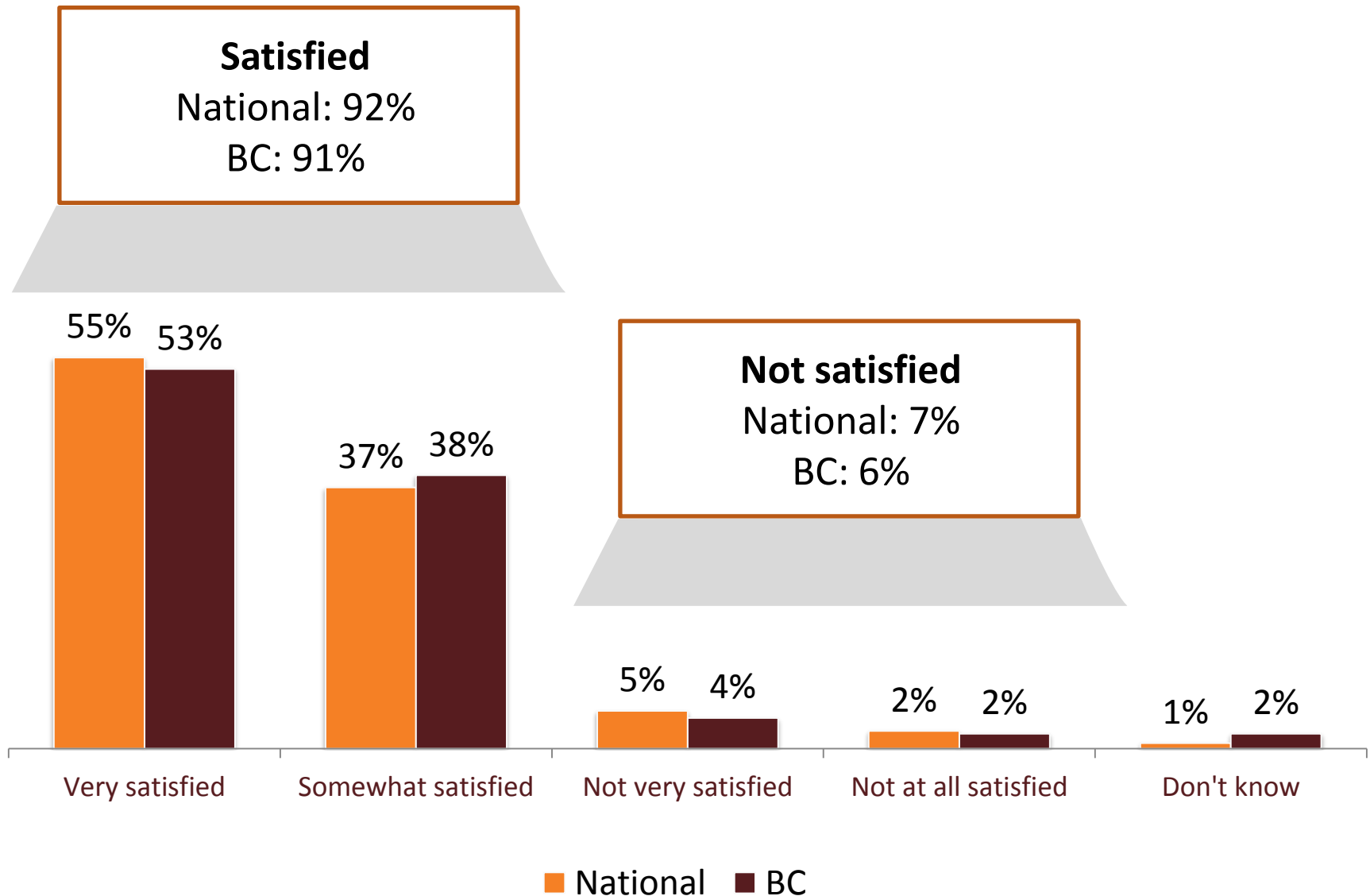
■ National ■ BC

# Advisor Communication: one in two investors with advisors reports being “Very Satisfied” with the level of communication



How satisfied are you with the level of **communication** you have with your investment advisor?

[asked only of those who currently or usually work with an advisor]

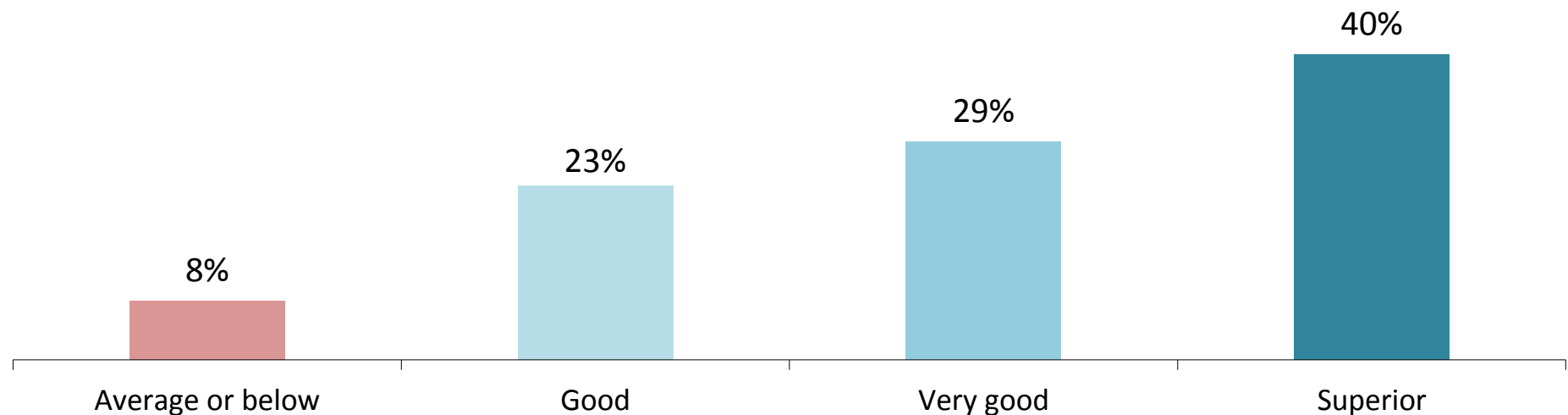


# Relationship health: most Canadians with advisors are happy with the relationship

The three questions in this section jointly measure the overall health of the client-advisor relationship from the client's perspective:

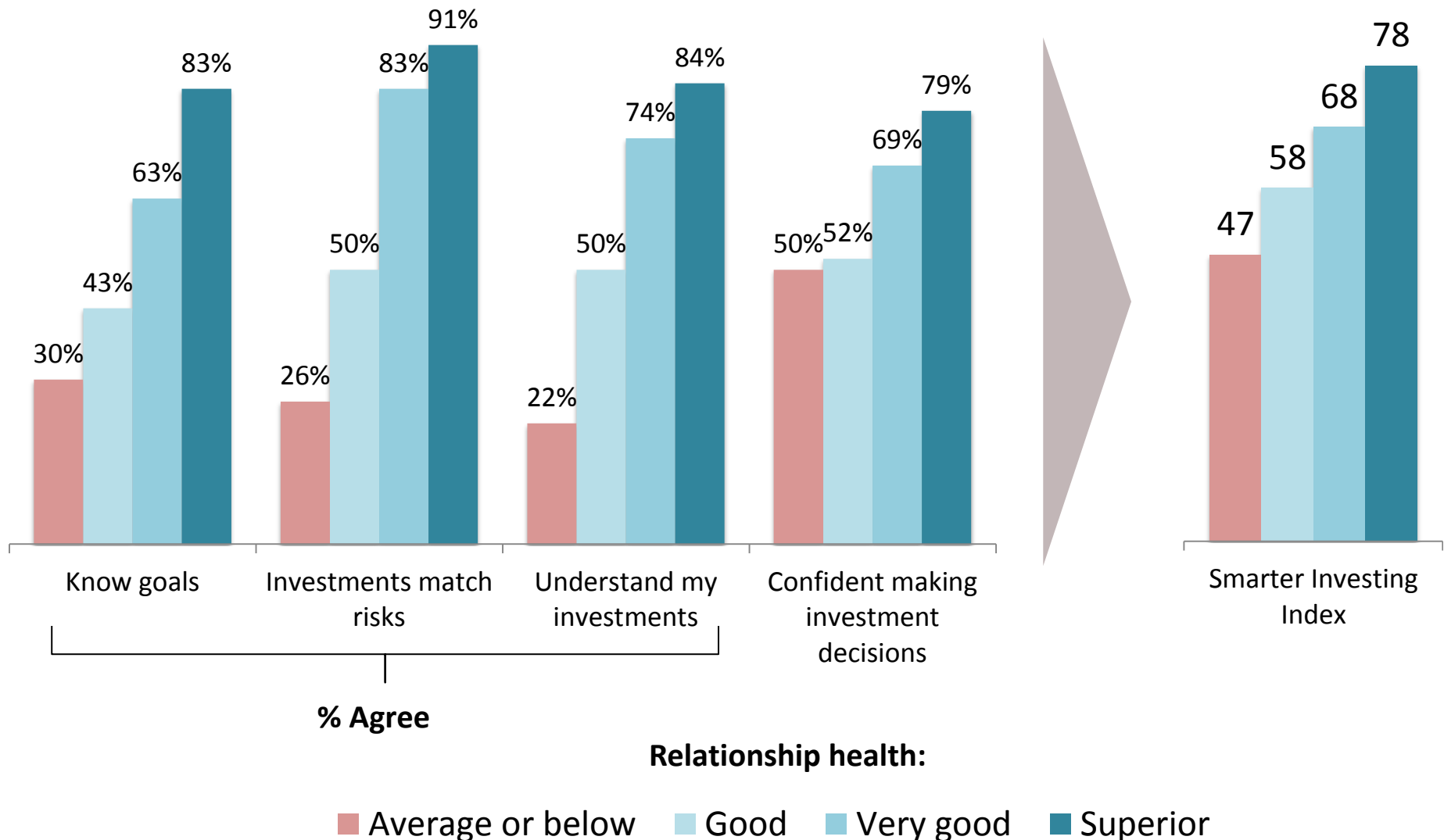
1. **COMFORT ASKING QUESTIONS:** In general, how comfortable do you feel bringing forth concerns and questions when speaking with your investment advisor?
2. **LEVEL OF TRUST:** In general, how would you describe the level of trust you have in your investment advisor?
3. **SATISFIED WITH COMMUNICATION:** How satisfied are you with the level of communication you have with your investment advisor?

Responses to the three questions are summed into an overall measure of relationship health. Because the overall responses to these questions were very positive, on average, we have grouped together everyone neutral or below as the bottom category, and separated out "perfect" responses as their own group at the high end, referred to as "Superior".



# There is a 31 point difference between those with the worst advisor relationships (47) and the best (78)

For investors working with an advisor, we identified four groups based on their assessment of their advisor-client relationship. By comparing *Smarter Investing* across the four groups, we see that the health of this relationship matters. When comparing index scores, bear in mind the overall average for all Canadians with advisors is 70/100





# All Canadians: Investment Behaviour

# Among those who say each behaviour is applicable to them, nearly 1 in 2 say they never consult a 3<sup>rd</sup> party



How often do you take the following steps to ensure that an investment you've been offered is suitable for you and your risk profile?

[asked of all respondents]

Respondents could also indicate that each behaviour was "Not applicable to me", in which case their answers are excluded from the results.

Ask your investment advisor questions about the investment's suitability for your risk tolerance and portfolio mix



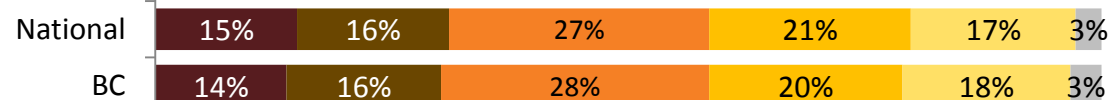
Refer to your financial plan



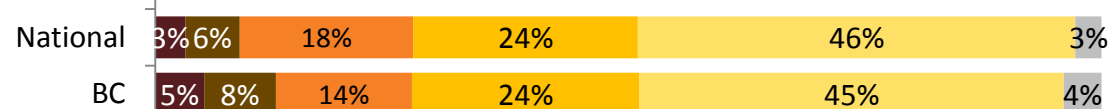
Wait a day or more before deciding to invest



Conduct independent research



Consult with third parties such as an accountant or lawyer not related to the investment.



■ Always ■ Often ■ Sometimes ■ Rarely ■ Never ■ Don't know

Regression analysis shows that, all else being equal, conducting independent research and referring to a financial plan are the **top two drivers of *Smarter Investing*** among Canadians in general.

# DIY Investors are more likely to report waiting before investing or conducting research than those with advisors

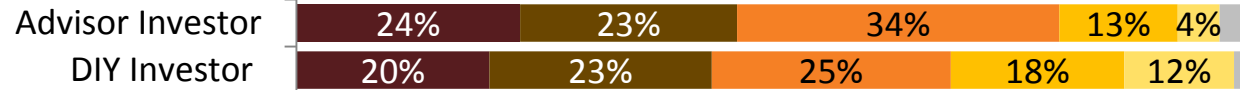
Q

How often do you take the following steps to ensure that an investment you've been offered is suitable for you and your risk profile?\*

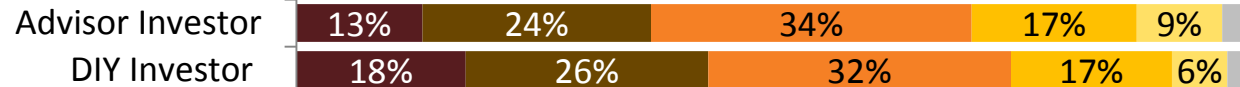
[asked of all respondents]

Respondents could also indicate that each behaviour was "Not applicable to me", in which case their answers are excluded from the results.

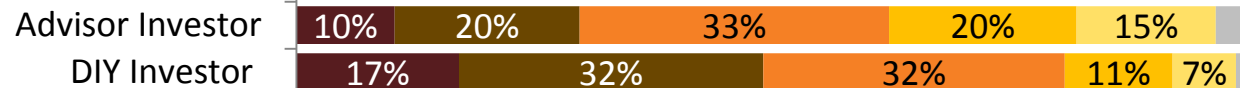
Ask your investment advisor questions about the investment's suitability for your risk tolerance and portfolio mix



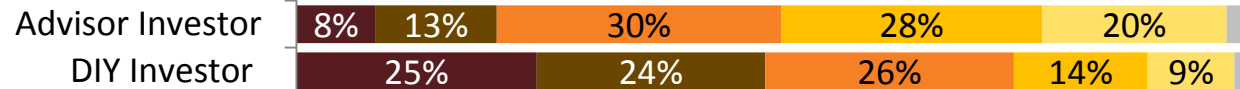
Refer to your financial plan



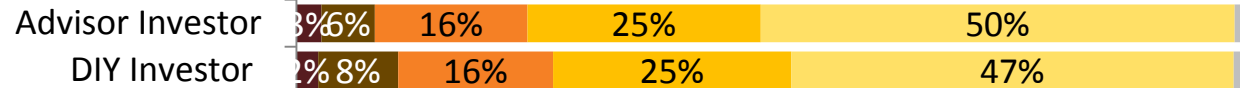
Wait a day or more before deciding to invest



Conduct independent research



Consult with third parties such as an accountant or lawyer not related to the investment



Always Often Sometimes Rarely Never DK

When it comes to waiting before investing and conducting independent research, DIY investors say they do both things much more often than do those with advisors

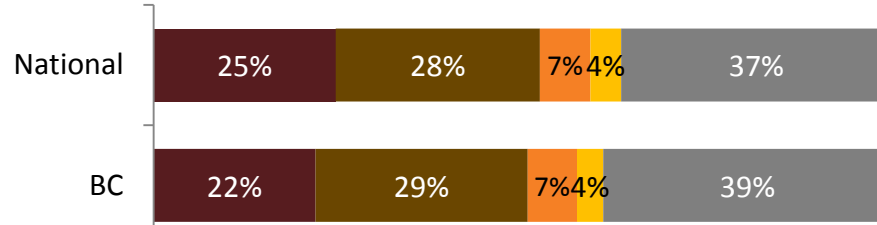
# All Canadians: Advisor Knowledge

# No more than 1 in 2 Canadians know the correct answers to important questions about working with an advisor



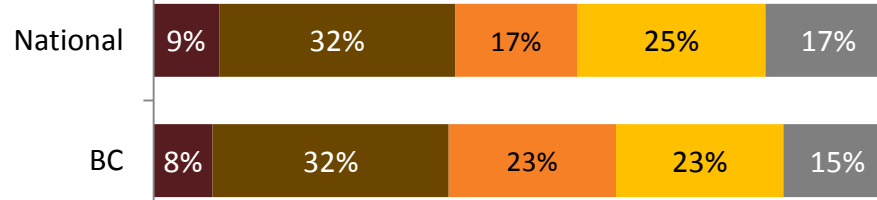
For each of the following statements, please indicate if you think the statement is definitely true, probably true, probably false, or definitely false:  
 [asked of all respondents]

Investment advisors can only buy and sell investments for me if they are registered by a provincial securities regulator



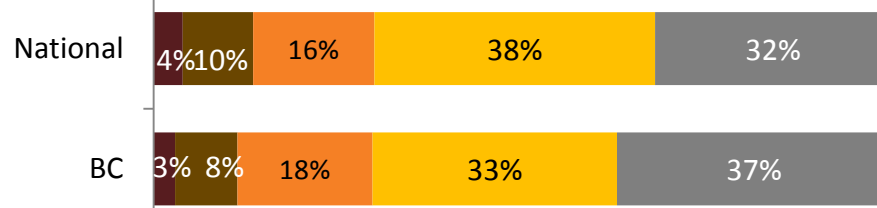
T	F
<b>52%</b>	11%
<b>51%</b>	10%

Once I have explained my investment goals to an advisor, I can leave it up to them to buy and sell investments on my behalf to meet these goals\*



T	F
41%	<b>42%</b>
40%	<b>45%</b>

If an investment advisor recommends an investment to me but the market goes down, I have insurance to cover my losses



T	F
13%	<b>54%</b>
11%	<b>51%</b>

Definitely true
  Probably true
  Probably false
  Definitely false
  Don't know

\*Note: Results for the second question exclude respondents who say they work with Portfolio Managers, as the correct answer is generally “true” for this group

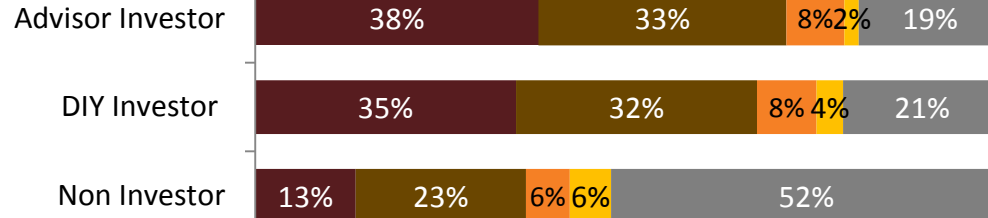
# Those with advisors are more likely to believe an advisor provides “insurance” against their losses



For each of the following statements, please indicate if you think the statement is definitely true, probably true, probably false, or definitely false.

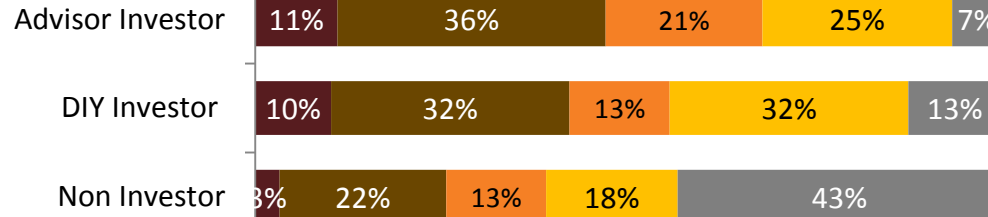
[asked of all respondents]

Investment advisors can only buy and sell investments for me if they are registered by a provincial securities regulator



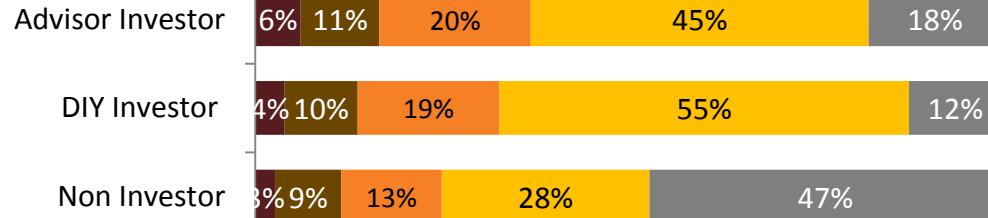
T	F
<b>71%</b>	10%
<b>67%</b>	12%
<b>36%</b>	12%

Once I have explained my investment goals to an advisor, I can leave it up to them to buy and sell investments on my behalf to meet these goals\*



T	F
<b>47%</b>	<b>46%</b>
<b>42%</b>	<b>45%</b>
<b>26%</b>	<b>31%</b>

If an investment advisor recommends an investment to me but the market goes down, I have insurance to cover my losses



T	F
<b>17%</b>	<b>65%</b>
<b>14%</b>	<b>74%</b>
<b>12%</b>	<b>41%</b>

Definitely true
  Probably true
  Probably false
  Definitely false
  Don't know

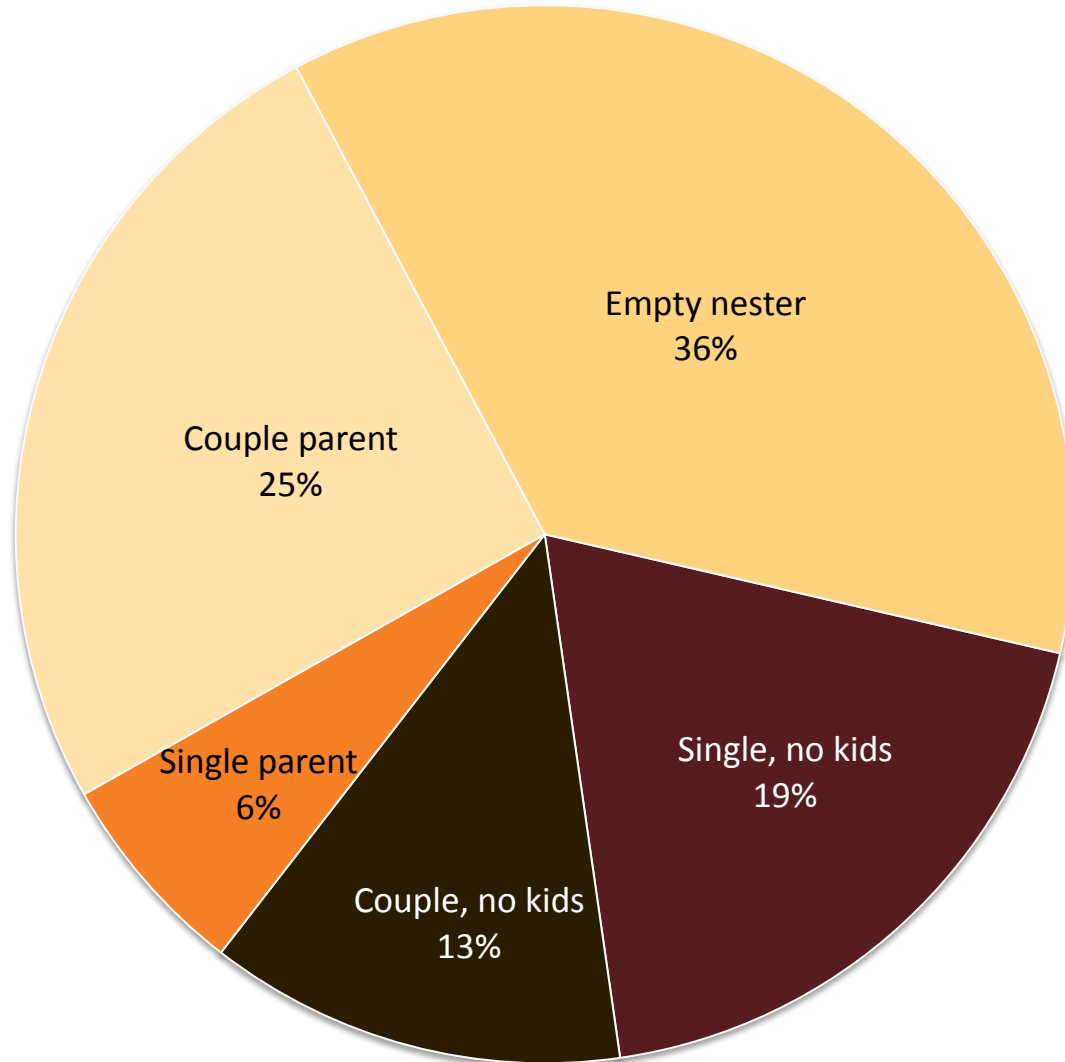
\*Note: Results for the second question exclude respondents who say they work with Portfolio Managers, as the correct answer is generally “true” for this group

# Focus on family status

# Family status segmentation



All respondents were grouped into a lifecycle segment based on marital status and children in or out of the home.  
[asked of all respondents]



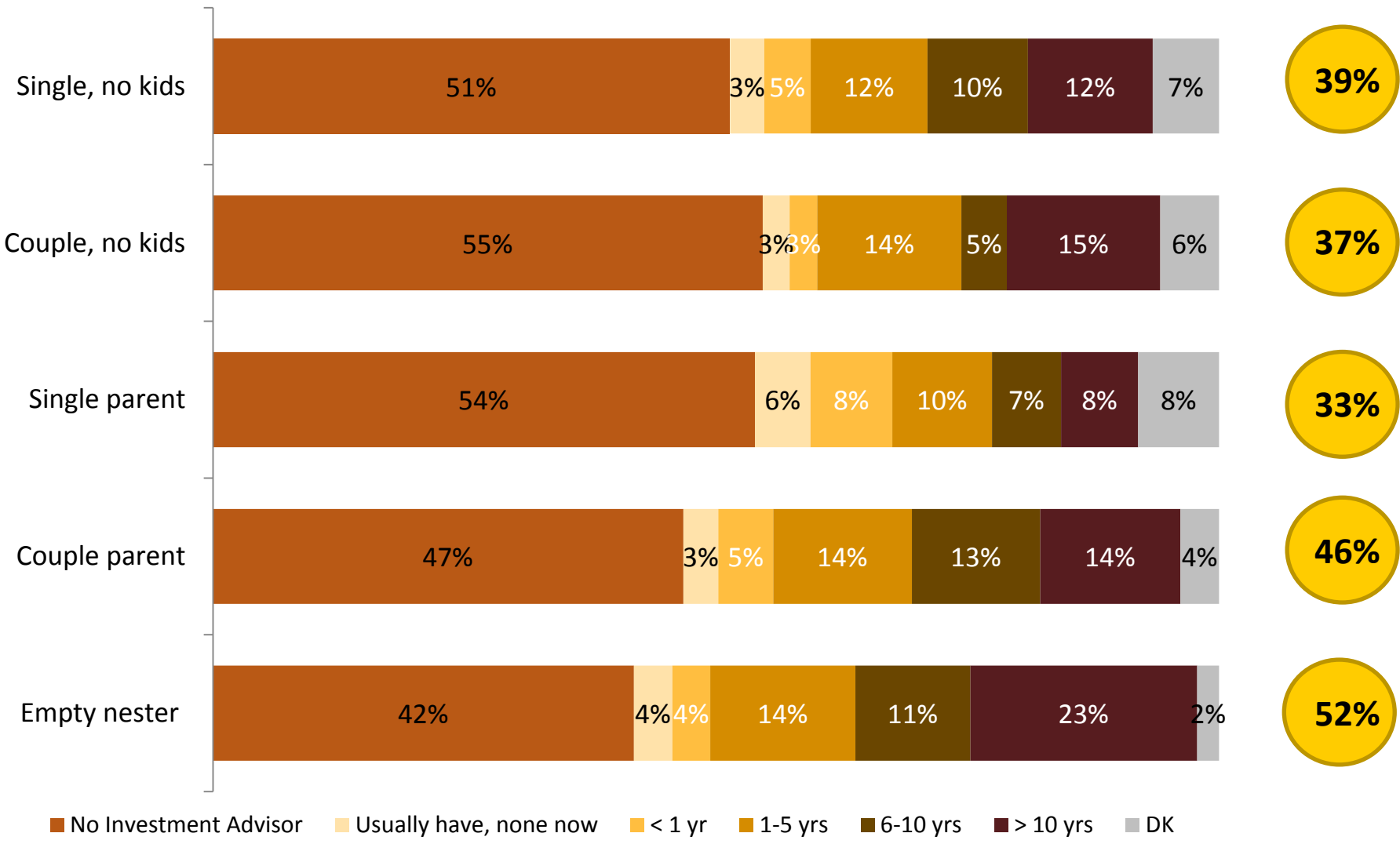


# Empty-nesters most likely to have advisor, nearly a quarter have same advisor for 10 years or more



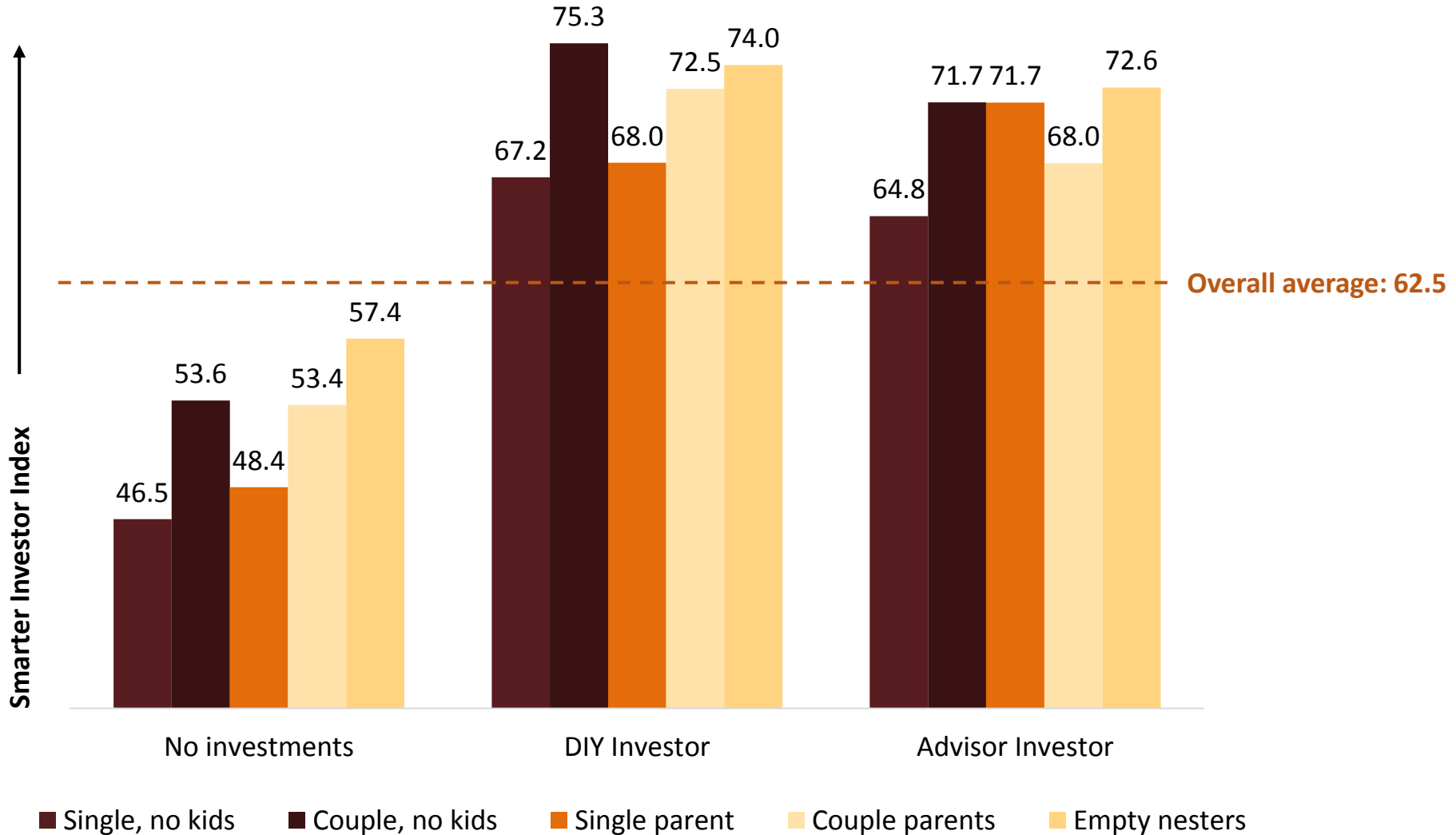
Do you have an investment advisor and, if so, how long have you had your current advisor?  
[asked of all respondents]

“Yes”



# Accounting for advisor status, couples with no kids and empty nesters score highest on the *Smarter Investor Index*

When we compare *Smarter Investing* by family status we see that single people score lower than couples, and empty nesters rate their *Smarter Investing* as above average compared to the rest of the population.

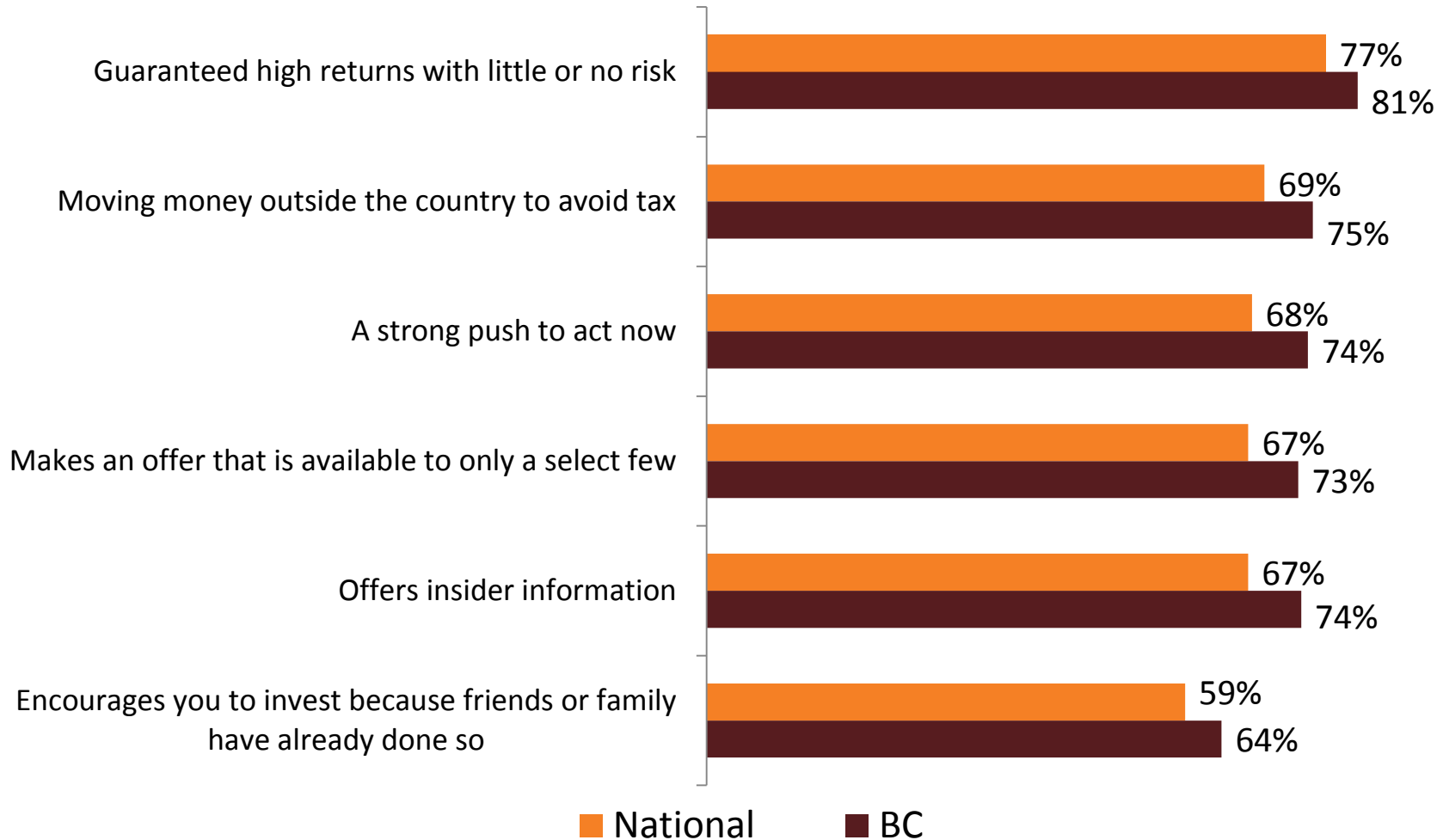


# Understanding investment fraud

# Fraud Warning Signs: BC residents better informed on all



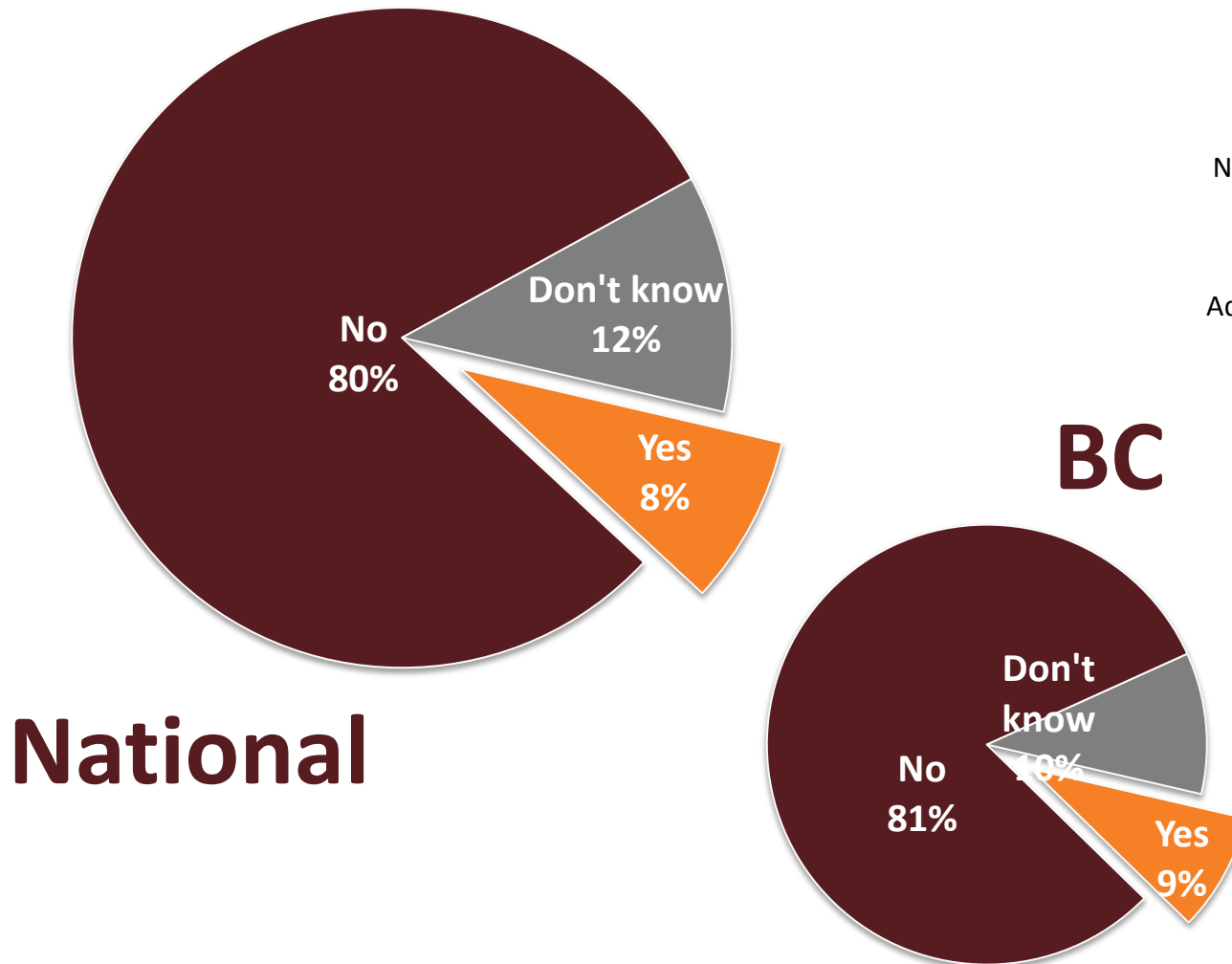
From what you have read, seen or heard, which of the following do you think are indicators of a possible fraudulent investment?



# Fraud victims: active investors and DIY investors both more likely to report being victims

Q

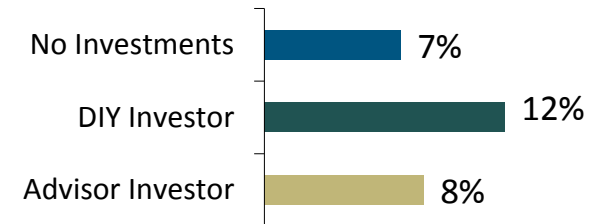
In fact, all of the above are red flags that may indicate an attempted fraud. To remind you, these are [warnings signs listed]. As a reminder, your responses to this survey are completely confidential. Like all the questions you've answered, the following questions will be used only for classification purposes. *Based on what you have read so far and what you already know, do you think you have ever invested money in a fraudulent investment?* [asked of all respondents]



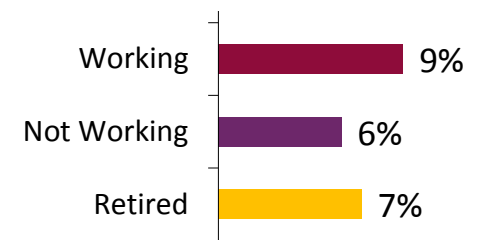
## National Segmentation

(those who say "Yes")

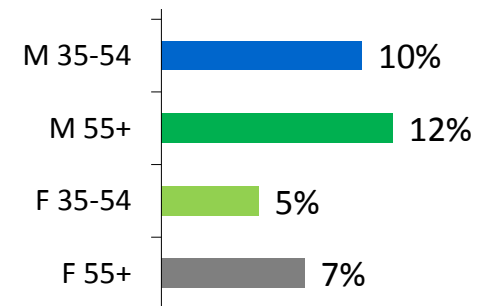
### Investor Segmentation



### Work Status



### Age-Gender

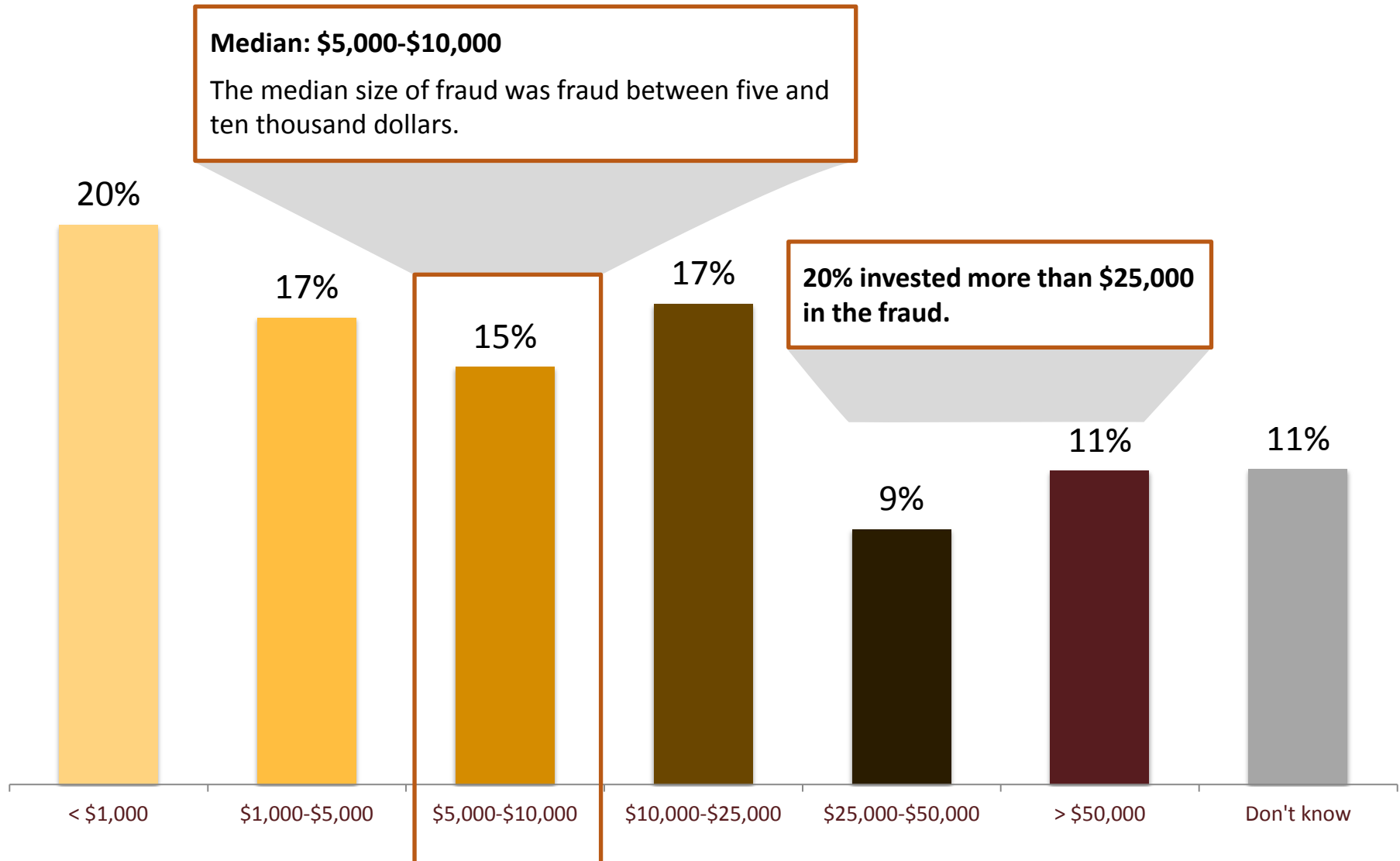


# The median amount invested was \$5,000-\$10,000, but 1 in 5 invested more than \$25,000



How much money did you invest in this investment fraud?

[asked only of those who have invested in a fraudulent investment]



# Personality:

## What role do personality traits play in your investing

# The Big 5 personality traits

The Big 5 personality traits represent a significant stream of research in the psychology community over a set of five personality traits that jointly measure most of what is distinct about individual personalities. The scale that we used to measure the Big 5 for this study is the Ten-Item Personality Index or TIPI.\*

Each of the five traits is measured as the average response to two of the items. Each trait is made up of one item where agreement places the respondent higher on that trait and one item where *disagreement* does so (reversed).

Trait	TIPI Items	Explanation**
Extroversion	Extroverted, enthusiastic Reserved, quiet (reversed)	People who are warm, assertive, active, excited, and positive
Agreeableness	Critical, quarrelsome (reversed) Sympathetic, warm	People who are trusting, altruistic, compliant, modest and straightforward
Conscientiousness	Dependable, self-disciplined Disorganized, careless (reversed)	People who are competent, dutiful, disciplined, deliberate and orderly
Emotional Stability	Anxious, easily upset (reversed) Calm, emotionally stable	People who are stable, not anxious, calm, in control
Openness to experience	Open to new experiences, complex Conventional, uncreative (reversed)	People who are curious, cultural, intellectual

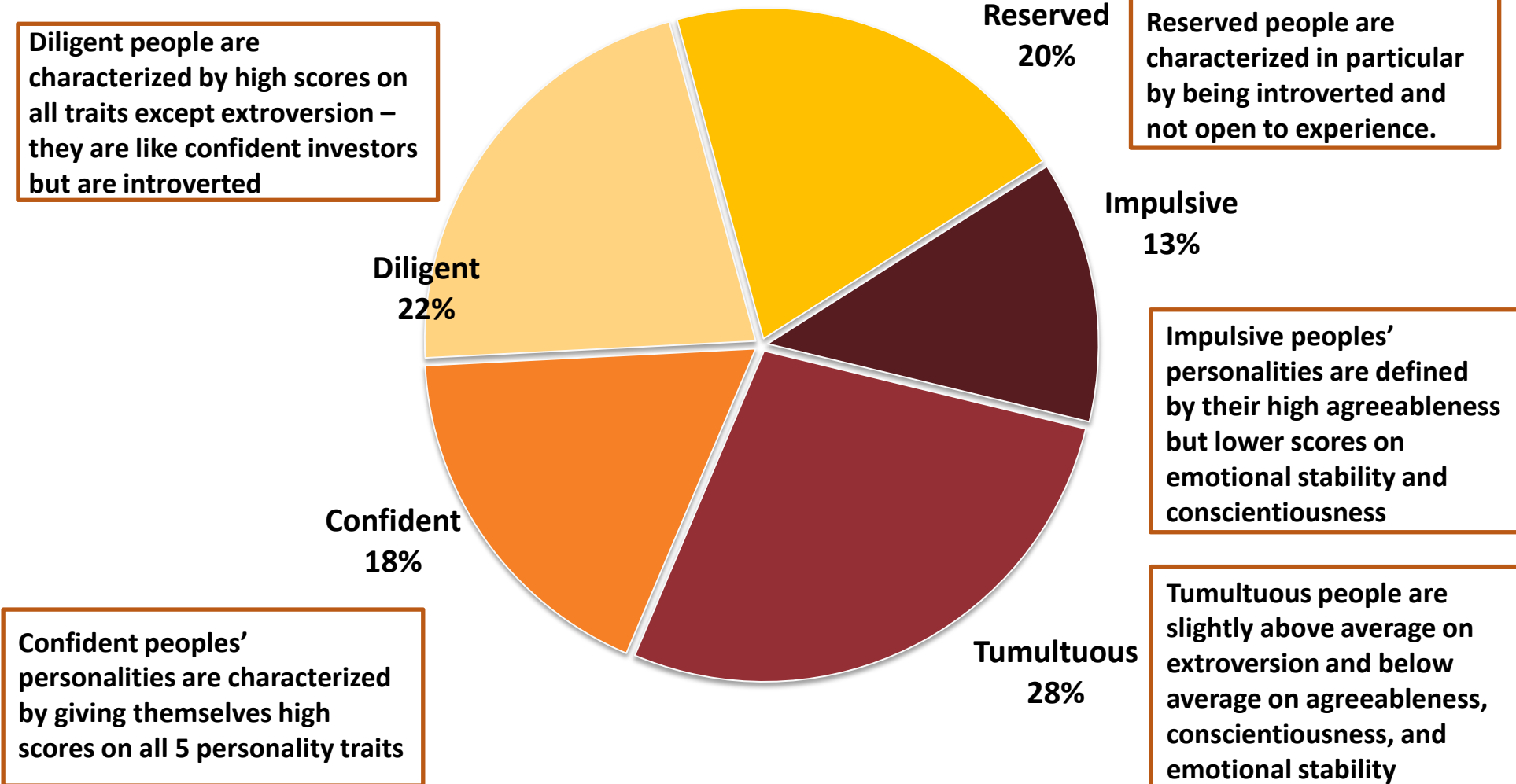
\*Gosling, S. D., Rentfrow, P. J., & Swann, W. B., Jr. (2003). A Very Brief Measure of the Big Five Personality Domains. *Journal of Research in Personality*, 37, 504-528

\*\*Adapted from: Matthews, Gerald; Deary, Ian J.; Whiteman, Martha C. (2003). *Personality Traits* (PDF) (3rd ed.). Cambridge University Press. Page 24.



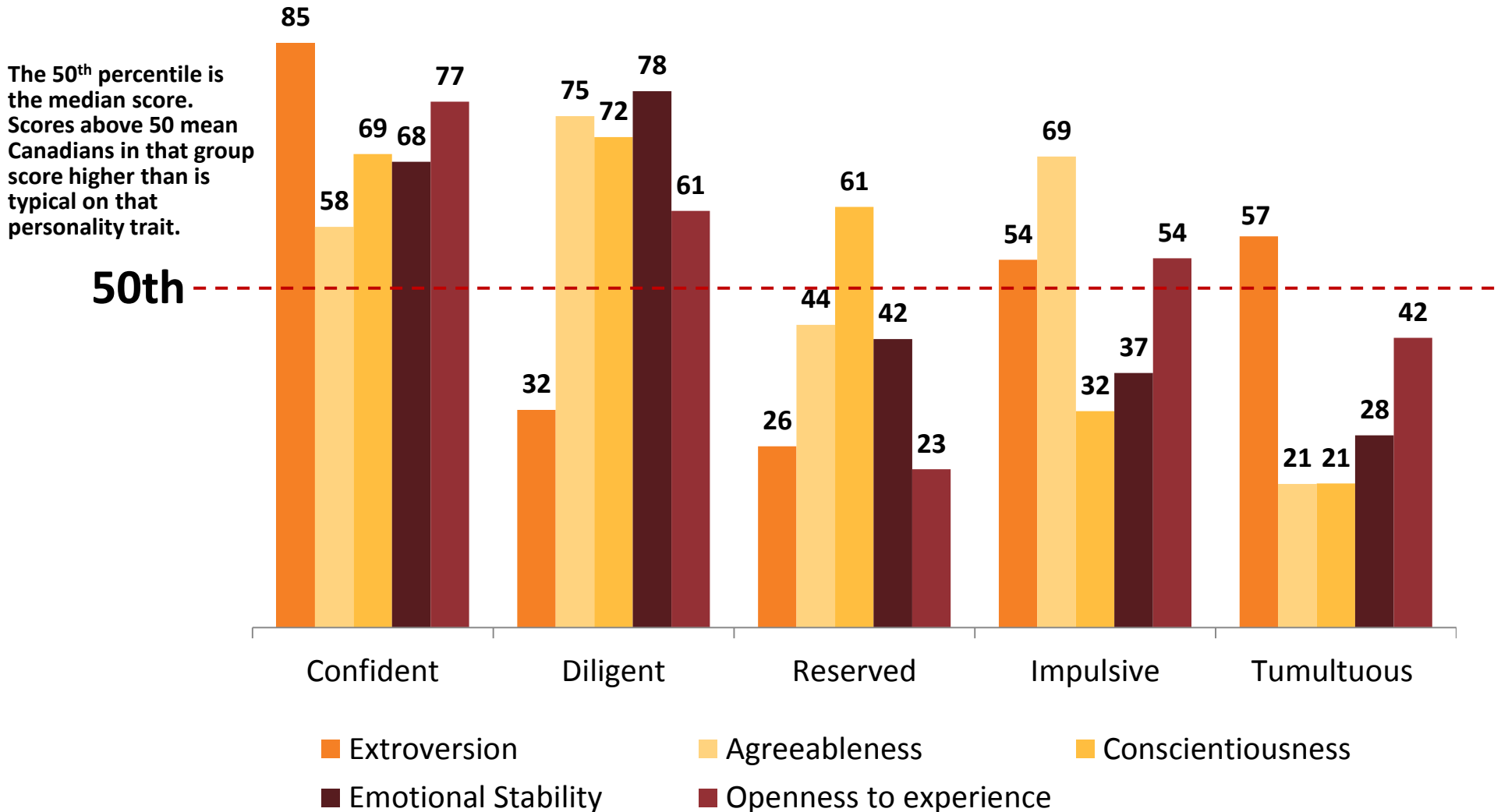
# Five personality types

We used cluster analysis to group Canadians into five personality types. The study shows that each personality type exhibits a different approach to investing and working with an advisor



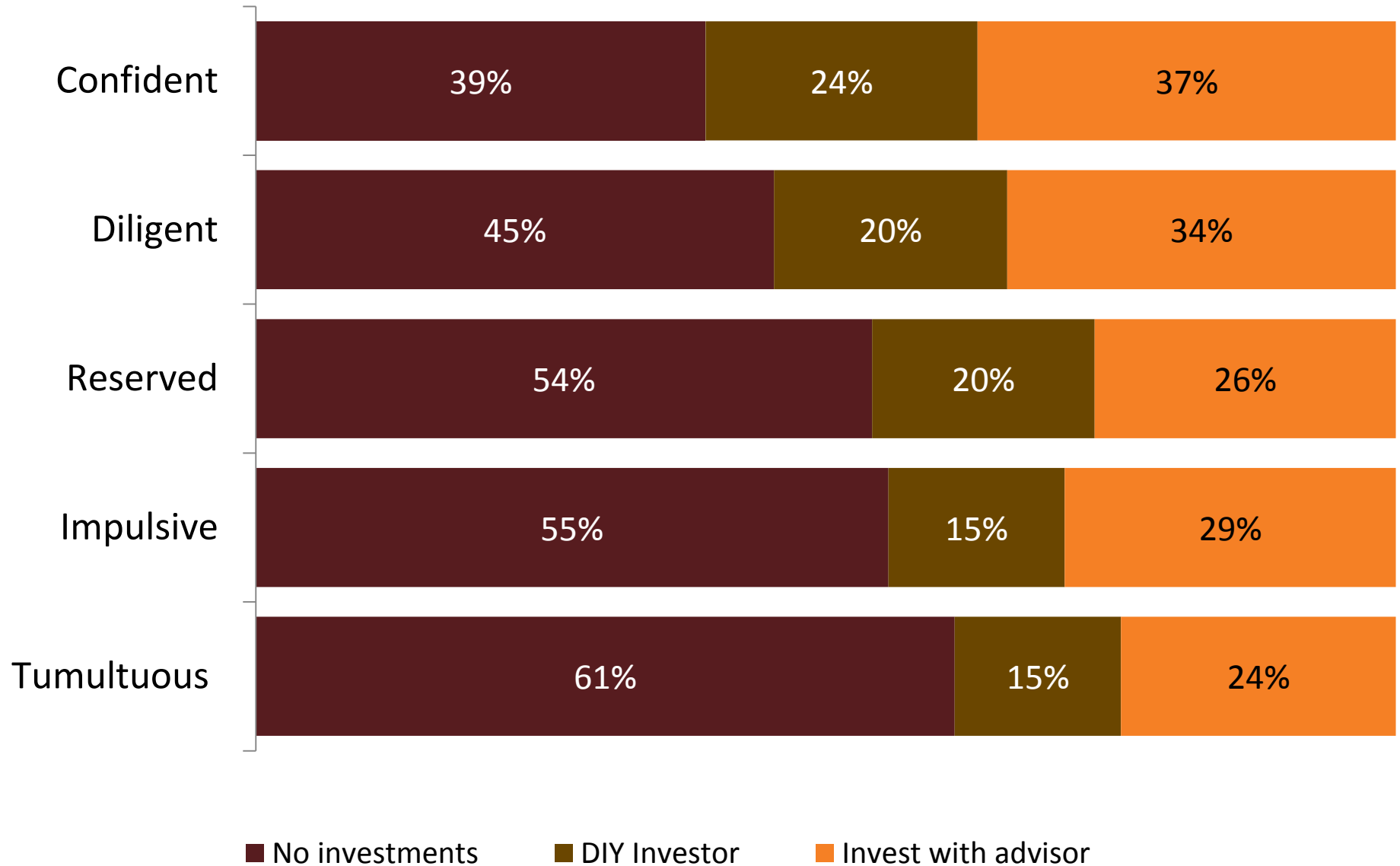
# What are the personality traits of each group?

This chart shows the average percentile score on each trait among each of the groups.



# Tumultuous least likely to invest; confident and diligent are more likely to work with advisors

## Advisor segmentation:



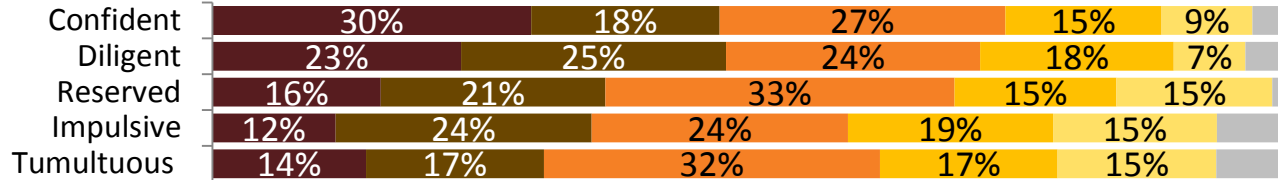
# Impulsive people say they don't wait or conduct research; tumultuous don't wait, ask questions, or refer to a plan



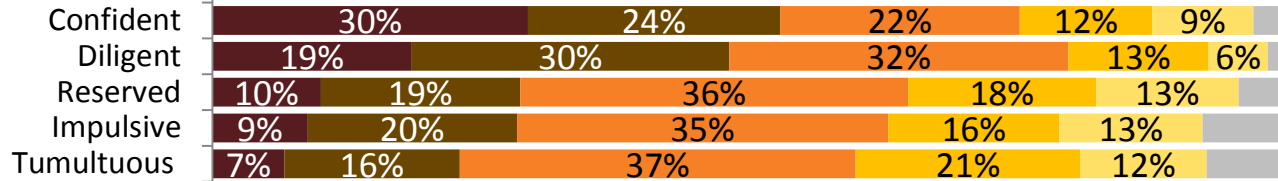
How often do you take the following steps to ensure that an investment you've been offered is suitable for you and your risk profile?\*

[asked of all respondents]

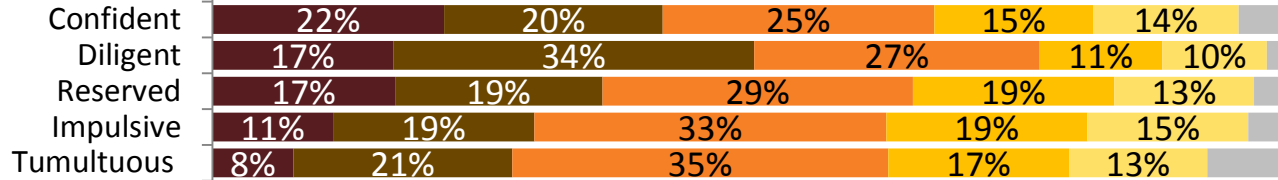
Ask your investment advisor questions about the investment's suitability for your risk tolerance and portfolio mix



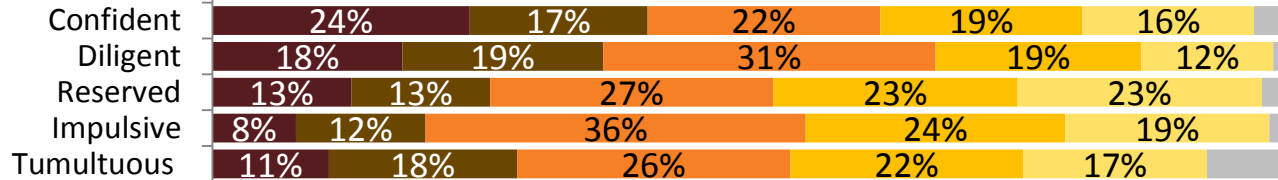
Refer to your financial plan



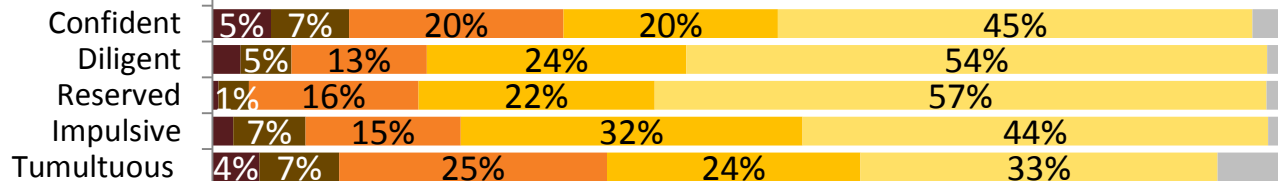
Wait a day or more before deciding to invest



Conduct independent research



Consult a third party, such as an accountant or lawyer not related to the investment

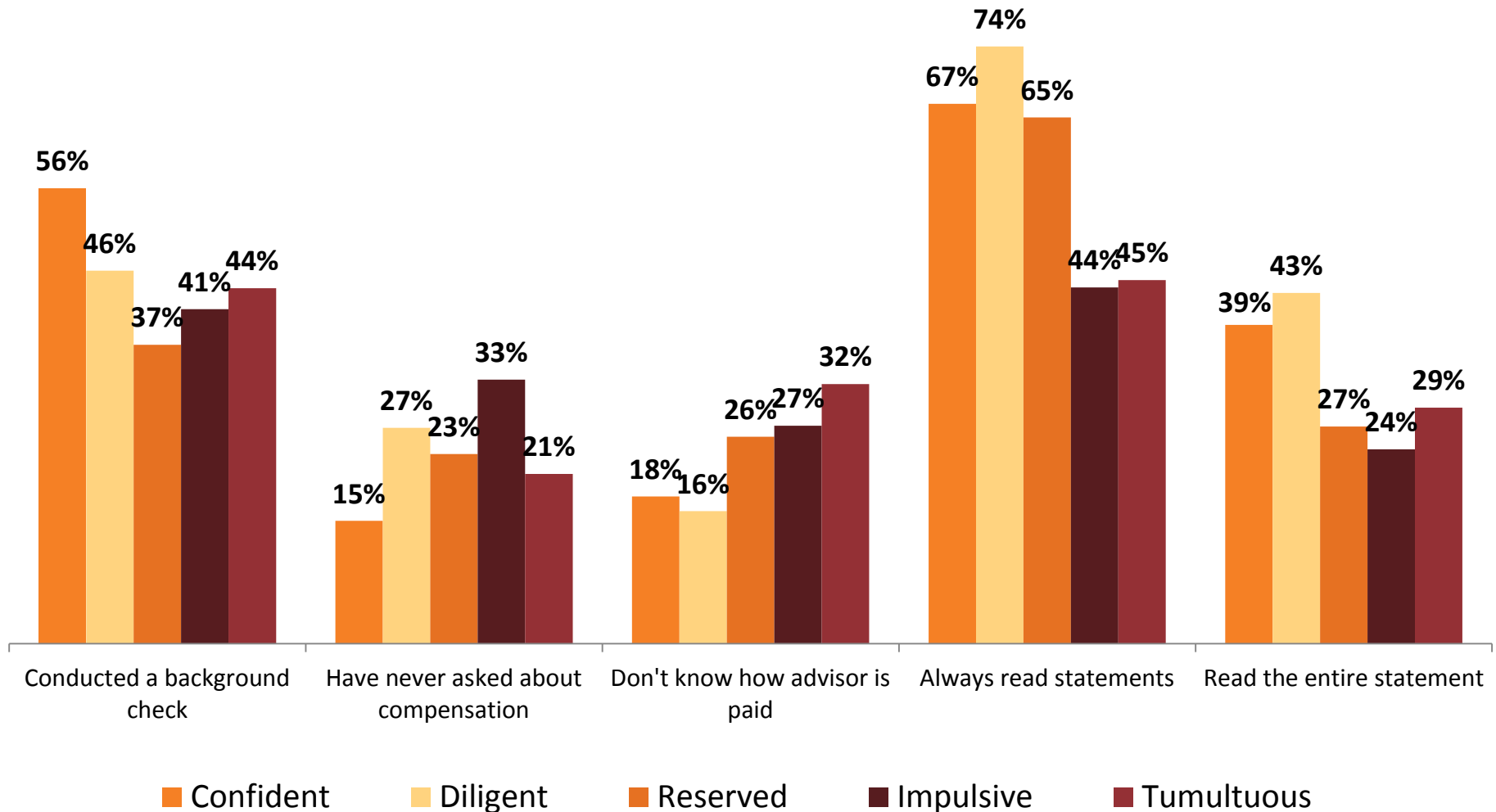


Always Often Sometimes Rarely Never DK

\*Those who say the behaviours are not applicable to them are not shown

# Diligent people report reading their statements thoroughly, but may not ask about compensation

Key behaviour and knowledge in the advisor-client relationship:



# Tumultuous people are not able to recognize warning signs and are more likely to report being victims of fraud

To what extent did each personality type report having invested in a fraud?

8%

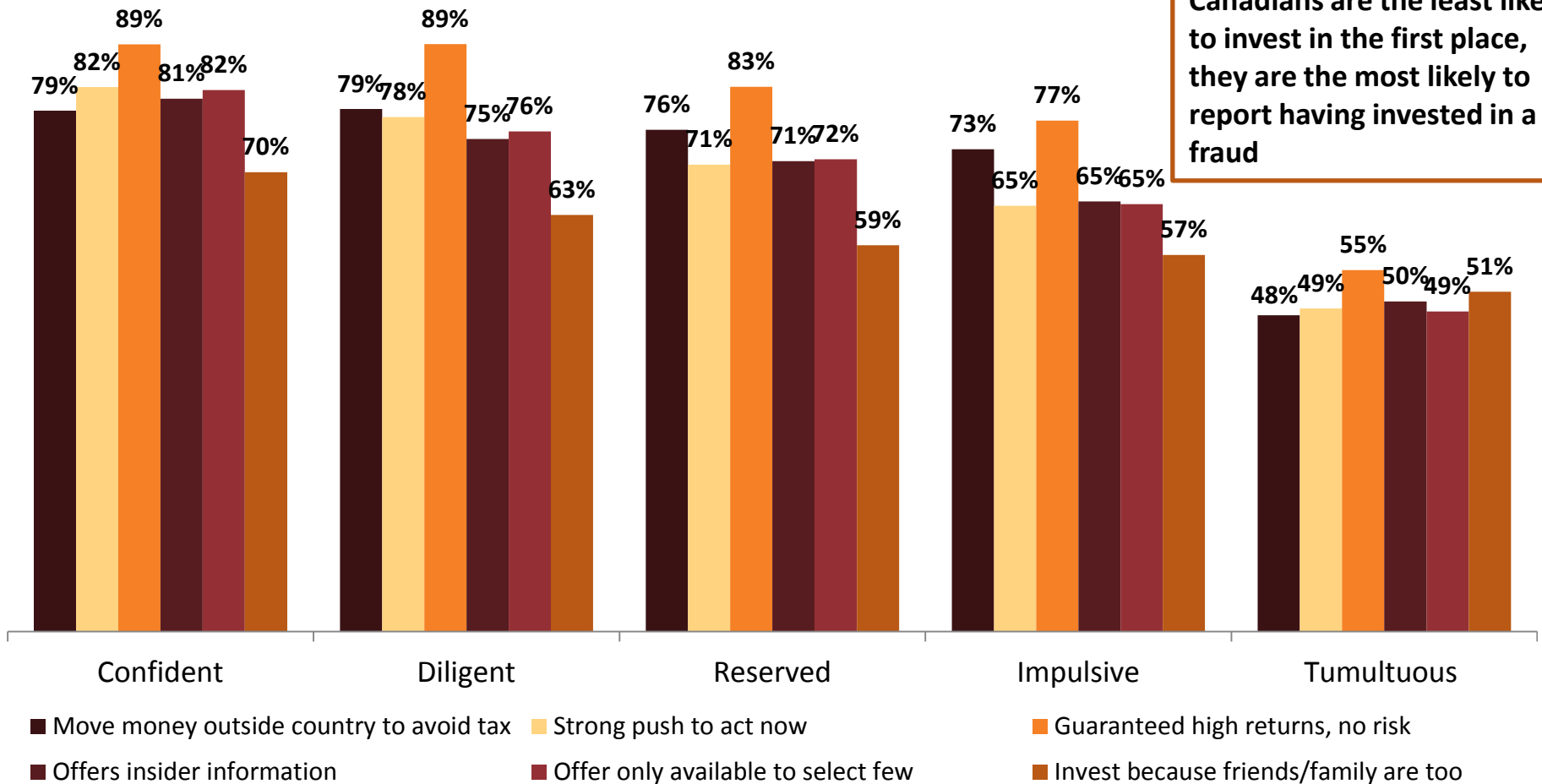
7%

7%

5%

12%

Who is able to recognize warning signs of fraud?



# What drives Smarter Investing?

# Using Regression Analysis

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## What is Regression Analysis?

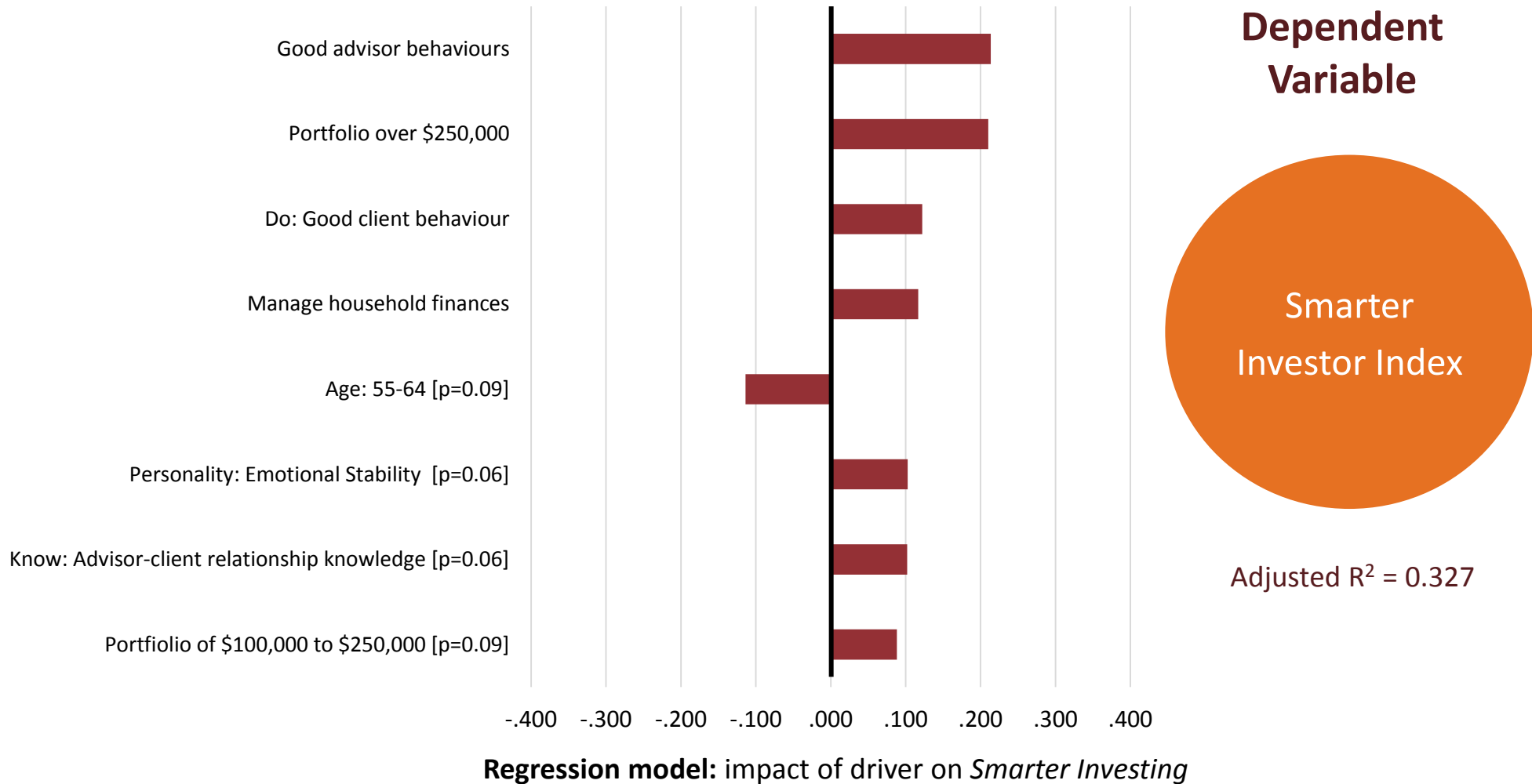
Regressions are another way of determining importance.

- A regression allows us to take all the questions that may explain a key question and determines which of these is the most important.
- Regressions do this by holding all the likely suspects constant and varying one questions at a time to see which questions (explanatory variables) have the greatest impact on the key question (dependent variable).
- In this study, we use regression to determine what drives higher scores on the *Smarter Investor Index*



# Among those with advisors: What advisors and clients **Do** are both top drivers of the Smarter Investor Index <sup>73</sup>

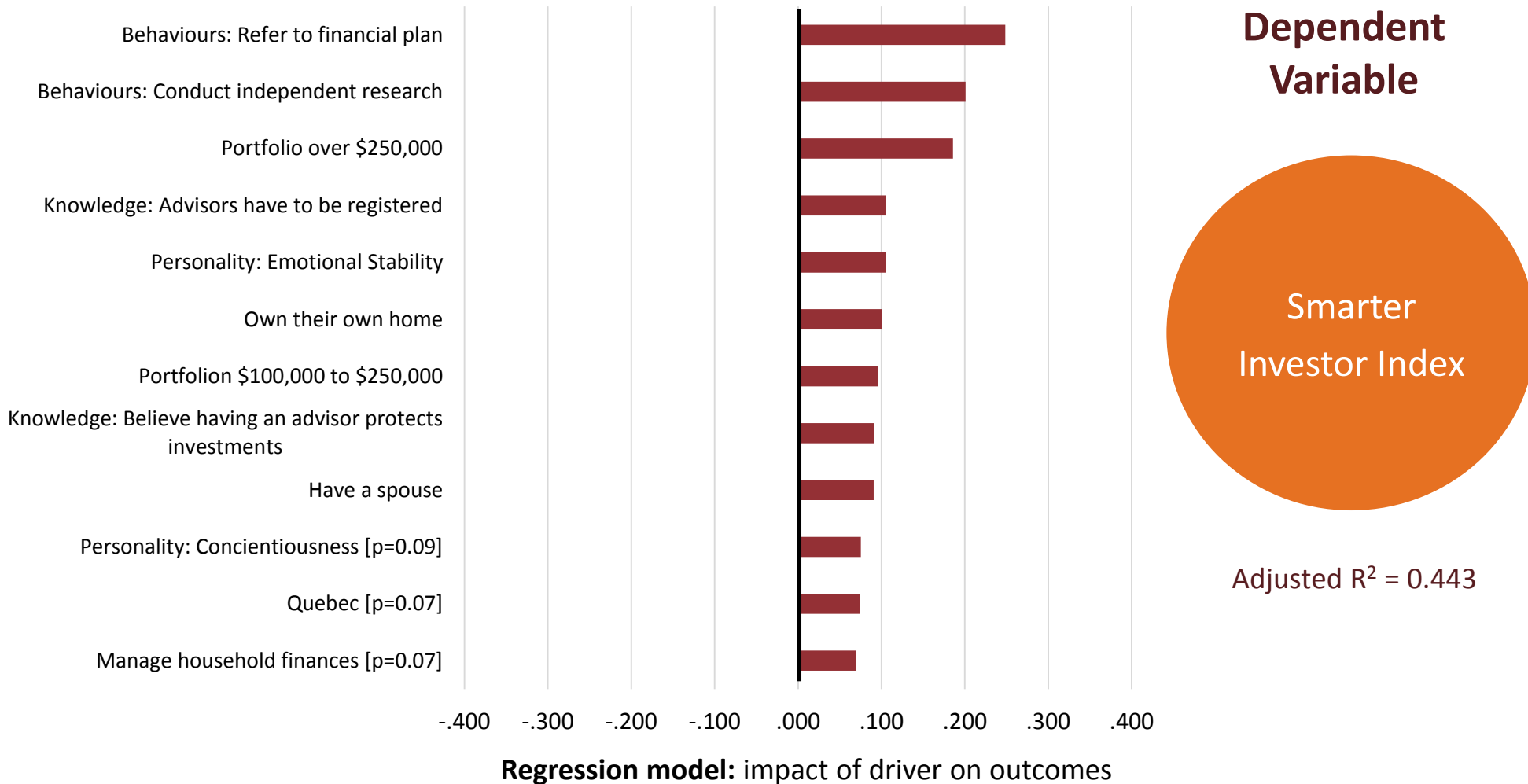
Regression models allow us to understand the role of each variable in explaining variance in the dependent variable while holding all of the others constant. Looking at the key factors within the client-advisor relationship explains **33%** of the variance in the *Smarter Investor Index* among those who work with an advisor.



**Note:** Chart shows standardized beta scores. All drivers significant at a 95% confidence interval unless indicated otherwise.

# Among all Canadians: Good investing behaviours are key drivers of the Smarter Investor Index

Regression models allow us to understand the role of each variable in explaining variance in the dependent variable while holding all of the others constant. A regression model of general behaviours and knowledge (*not* those specific to advisor-client relationships) explains **44%** of the variance in the *Smarter Investor Index*.



**Note:** Chart shows standardized beta scores. All drivers significant at a 95% confidence interval unless indicated otherwise.

## British Columbia Securities Commission & InvestRight

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## Innovative Research Group



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We provide critical information needed to assess and overcome public affairs and corporate communications challenges, identify and evaluate potential solutions, and monitor outcomes.

# Appendix: Note on cluster methodology

# Cluster methodology

The use of cluster analysis to group respondents by patterns of personality traits is part of the “person-centered” approach to personality (Sava and Popa, 2011). As Sava and Popa note, most of this work originates from Block and Block’s (1980) three cluster approach and subsequent studies have found personality typologies to have as much or more explanatory power than multivariate analysis using individual traits. This makes the approach especially useful given the added parsimony it provides and the fact that results are straightforward to present and interpret.

The cluster centers here were arrived at using k-means clusters and are based on the prototypes identified in the literature by Sava and Popa and, in particular, the cluster centres identified in their own research. However, we also observed some differences in this sample of Canadians 35 and older compared to other results discussed in the literature. The relationship between the prototypes described in Sava and Popa and our own results are presented below.

Cluster	Closest prototypes	Characterized by
Confident	Resilient	High scores on all 5 traits
Diligent	Resilient (but introverted)	High scores on all traits except for extroversion
Reserved	N/A	Low scores on extroversion and openness to experience
Impulsive	Strain	High scores on agreeableness and low scores on emotional stability and conscientiousness
Tumultuous	Under-controlled	Low scores on agreeableness, emotional stability, and conscientiousness