Schroders

Global Investor Study

How do the 'experts' make investment decisions?

Marketing material

Contents

Overview

A turbulent global economic environment and an overwhelming amount of information can sometimes make investment decisions a daunting task. How do those with experience and expertise tackle the challenge of getting the right mix of stability and profit?

We asked a cross-section of global investors to rate their investment knowledge from 'rudimentary' to 'expert/advanced' so we could find out just how those with more knowledge make investment decisions.

Those investors who feel they have more knowledge on the whole look to create a diversified portfolio. They balance traditional investments like equities and cash with the opportunities presented by alternative investments and property, alongside longer-term options such as thematic funds which focus on companies active in particular areas or sectors. This is especially true of those from the younger age groups.

This group of investors see a degree of risk as important and reveal that they like to keep their finger on the pulse, looking for opportunities to invest when stockmarkets drop.

About the research

In April 2018, Schroders conducted an independent online survey of over 22,000 people who invest, from 30 countries around the globe. The countries included Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. This research defines 'people' as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the past ten years.

Note: Figures in this document may not add up to 100% due to rounding.

Our findings in a nutshell

One third of people who feel they have higher levels of investment knowledge consider their investment portfolio to be very well-diversified. This is particularly true across the Americas, where an average 55% describe their portfolio as very well-diversified.

Younger generations are more likely to think they have diversified portfolios. Almost two fifths of those with higher knowledge levels under the age of 45 see their portfolios as very well-diversified, compared to one in four aged 45+. Those under 45 are also more likely to have a more evenly split portfolio, with less held in equities than the older age groups.

People who claim higher levels of investment knowledge keep less of their portfolio in cash than those with lower knowledge levels. Those with the lowest knowledge levels hold one-and-a-half times the amount of cash than those with the highest knowledge levels.

Healthcare is the thematic investment that people with higher knowledge levels find most appealing. Almost three quarters of these people expressed an interest in investment funds focusing on the healthcare industry.

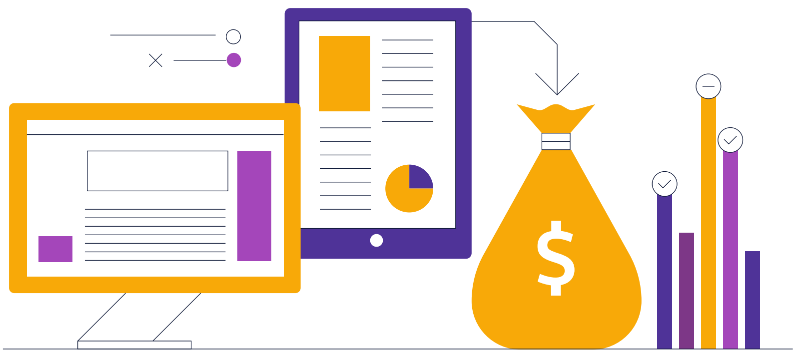
The higher the level of investment knowledge people feel they have appears to influence appetite for thematic investments. People with higher levels of knowledge show 20% more interest in thematic investments than those with less knowledge. This trend is most pronounced in the US with 39%, followed by UK and India with 28%.

Younger generations are more excited by thematic investments than older peers. On average, 73% of people under 45 with higher levels of knowledge are interested in thematic investments, compared to just 58% for people over 45.

Higher investment knowledge correlates with greater patience for thematic investments to reach their longer-term potential. In Asia, people with more knowledge are prepared to wait 32 months longer than they would for a standard fund.

People with higher levels of knowledge embrace risk, putting 75% more in high-risk funds than those with less knowledge. Those with higher levels of knowledge in Hong Kong put nearly one third of their portfolio in high-risk funds.

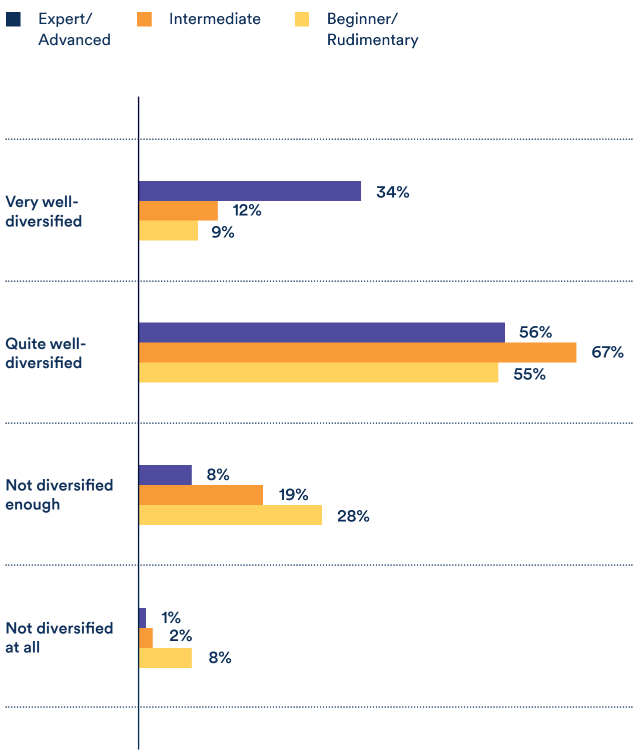
People with higher levels of knowledge are most likely to invest more in stock-related investments when the stockmarket drops. This is unlike those with less knowledge who are most likely to do nothing.



Diversified portfolios are prized as 'experts' move away from cash

Globally, people are comfortable that their investment portfolio is well-balanced, with four in five considering it to be very or quite well-diversified. However, when the results are split by self-assessed levels of investment knowledge, there is greater variation. Whereas one in three who describe themselves as 'expert' or 'advanced' see their portfolio as very well-diversified, less than one in ten (9%) of those with 'basic' or 'rudimentary' knowledge are of the same opinion.

How diversified do people think their investment portfolio is?



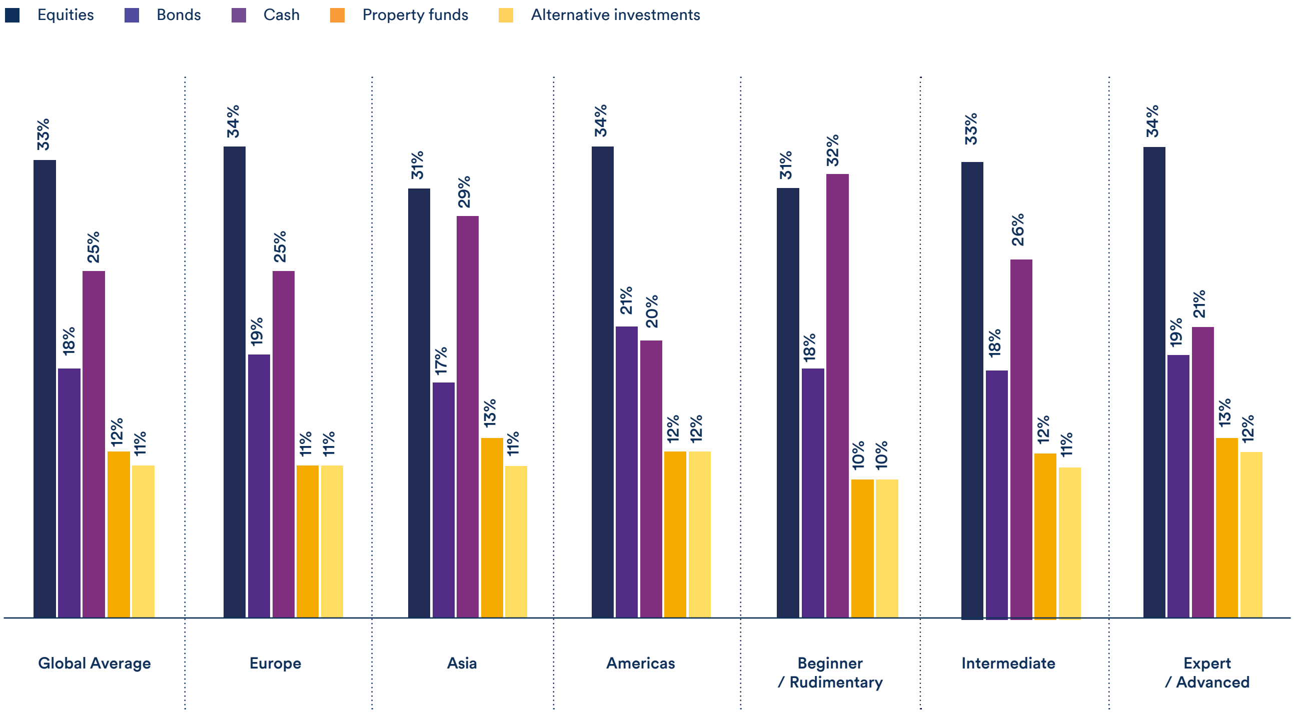
Geographically, the results tell us that there is a divide between those in the Americas and those in Europe. Almost a third (32%) of investors in the Americas believe their portfolio is very well-diversified, in contrast to just one in seven (15%) in Europe. Least differentiated are people in Portugal (41% not diversified enough or at all), where even 14% of those with more knowledge feel their portfolio is not diversified (enough or at all).

But, what do people mean by diversified? We found that the typical global investor divides their portfolio with a third in equities, a quarter in cash and the rest shared between bonds, property and alternative investments. These splits are broadly consistent across investors, with the exception of cash where there is variation according to both knowledge level and geography.

67%

of US 'experts' feel their portfolio is very well-diversified

How do people split their investment portfolio?



Cash isn't always king

On average, people who feel they have more investment knowledge (the 'experts') hold 33% less cash than those with less knowledge. The biggest gap is evident amongst people in Russia, where the 'expert/advanced' investors hold 54% less cash.

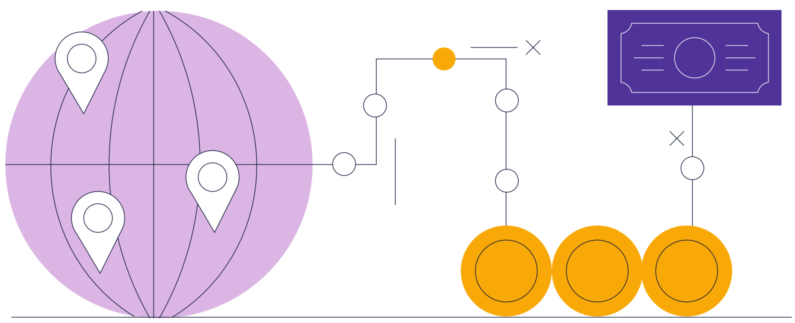
Although this trend is seen across geographies, there is one outlier. In France, those who feel they have more investment knowledge hold a marginally higher proportion of cash than those with less knowledge.

Geographically, it is the Americas and Asia that show contrasting behaviour. On average, people in the Americas hold 20% of their portfolio in cash, compared to 29% in Asia. Remarkably, within the Asia region, both South Korea and Indonesia reported cash as the largest part of people's portfolios.

33%

less cash held by those with more knowledge than those with less knowledge

> **"In France, those with more knowledge only hold marginally more cash than those with less knowledge**



How much of their portfolio do 'expert/advanced' knowledge investors hold in cash?

Region	Country	Cash
Asia	China	20%
	Hong Kong	25%
	India	21%
	Indonesia	23%
	Japan	27%
	Singapore	26%
	South Korea	28%
	Taiwan	23%
	Thailand	21%
Americas	Brazil	17%
	Canada	18%
	Chile	21%
	US	19%
Europe	Austria	25%
	Belgium	19%
	Denmark	17%
	France	18%
	Germany	21%
	Italy	20%
	Poland	23%
	Portugal	23%
	Russia	25%
	Spain	20%
	Sweden	15%
	Switzerland	23%
	The Netherlands	19%
	UK	23%

The generational divide

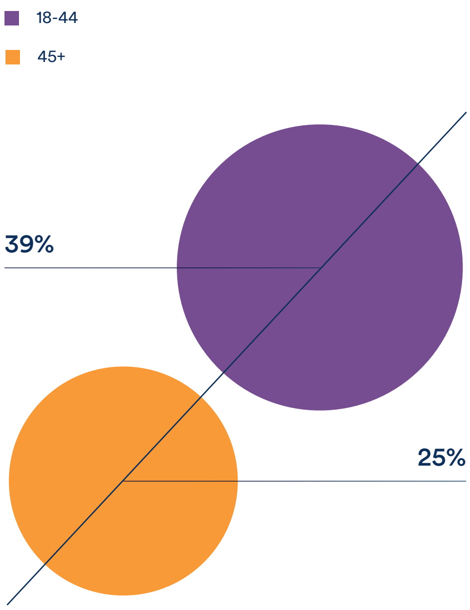
Looking at the results by generation, a clear split is apparent. People aged 44 and under who feel they have more knowledge suggest they have well-diversified investment portfolios, with over two in five in the 25–34 group describing their portfolio as very well diversified. The older age groups do not share this opinion, with only one in five describing their portfolio as very well diversified in the corresponding 65+ group.

These perspectives are reflected in the way the 'expert/advanced' investors in the respective age groups split their portfolios. Typically, the older age groups are weighted towards equities, with little attention given to property funds and alternative investments. Whereas the younger age groups have a more even split, holding fewer equities and higher amounts in property funds and alternative investments. This is illustrated perfectly by a comparison of the two age groups discussed earlier. The 65+ group hold nearly half in equities (49%) and less than 15% in property funds and alternative investments. However, the 25–34 group carry less than a third in equities and 30% in property funds and alternative investments.

49%

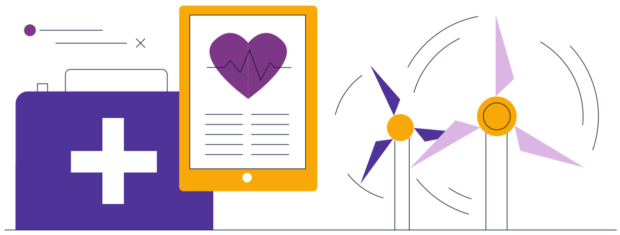
held in equities by 'experts' over the age of 65

A very well-diversified investment portfolio (percentage of 'expert/advanced' that think their portfolio is well-diversified)

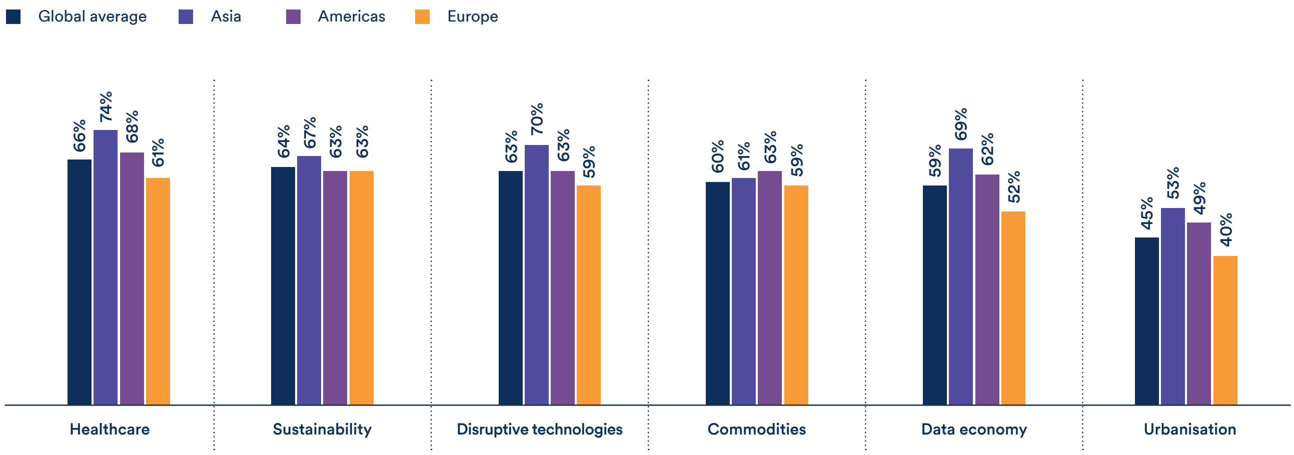


Thematic investment funds hold appeal across the board

Investment funds that focus on companies active in particular areas appeal to all investors, with interest peaking in Asia.



How interested are people in thematic investments?



The results also show us that thematic investments are more popular with people with higher knowledge levels. On average, 20% more of those who feel they have greater knowledge show appetite than those with the least knowledge. This rises to 30% in the Americas, in large part driven by the 39% gap in appetite seen in the US, compared to Brazil (19%), Canada (18%) and Chile (18%).

> **"**
> **Across the board, it is healthcare that stands out**

Across the board, it is healthcare that stands out, with nearly three quarters (73%) of those considering themselves to be 'expert/advanced' indicating interest, followed by disruptive technologies (71%) and sustainability (70%).

Disruptive technologies and the Data economy also attract attention. This is particularly true amongst Asian investors, where 70% and 69% respectively claim interest, regardless of knowledge level. The levels of interest in the Asia region are shown no more clearly than by those with more knowledge in Thailand. Disruptive technologies, the Data economy, Commodities and Healthcare were considered interesting to nine in ten 'expert / advanced' investors

9 in 10

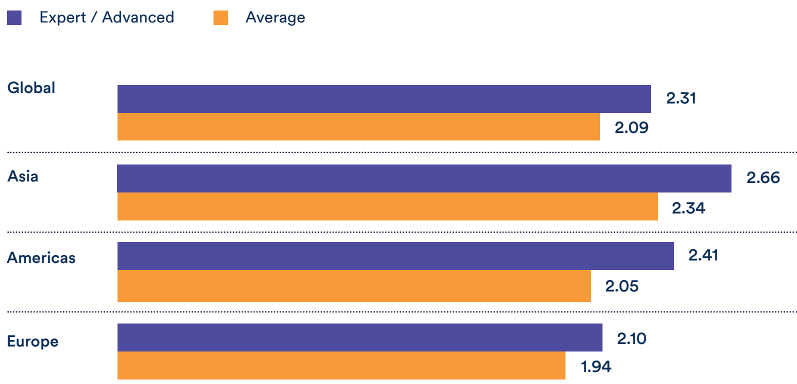
Thai experts are interested in both Disruptive technologies and Data economy

Worth the wait

People are also prepared to be more patient with thematic investments, showing willingness to hold onto them for just over two years longer on average than standard investment funds. Those who feel they have more knowledge in particular are comfortable playing the long game, suggesting they would wait almost 27 months longer, rising to over 32 months for those in Asia. ‘Expert/advanced’ investors in Indonesia and Thailand suggested they were prepared to wait nearly four years.

However, this patience is not witnessed in Scandinavia. Both Danish and Swedish ‘expert/advanced’ investors advised they’d only wait 20 months.

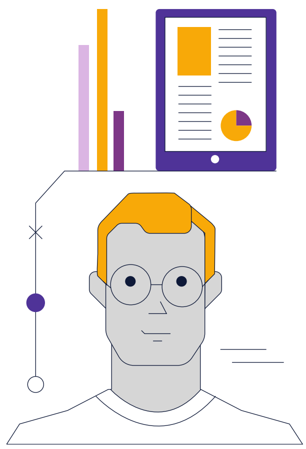
How many years longer are people prepared to hold onto thematic investment funds for?



A millennial theme

Thematic investment funds are seen to be much more popular with the millennial generation. This is particularly the case with the 25–34 age group where 75% of the ‘expert/advanced’ investors are interested on average. This is compared to just 59% in the corresponding 65+ age group. Interest is also consistently high across the different areas, with at least seven out of every ten in the same 25–34 group declaring interest in every thematic investment category.

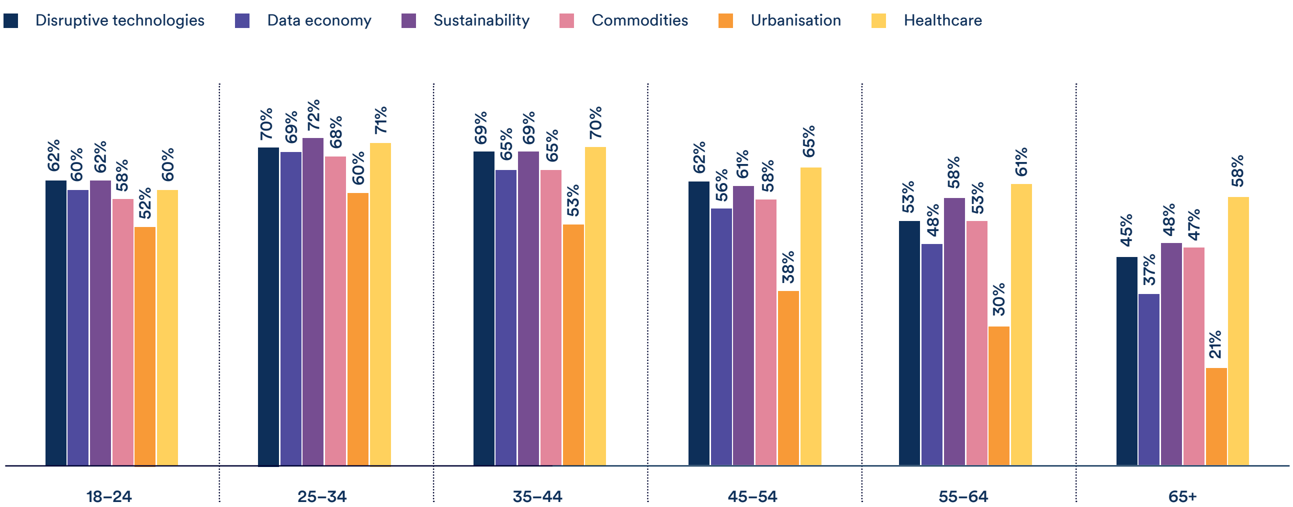
Appetite is low throughout the 65+ ‘expert/advanced’ investors with the one exception of healthcare where 68% were keen.



75%

of 25–34-year-old ‘experts’ are interested in thematic investments (on average)

How interested are different age groups in thematic investment?



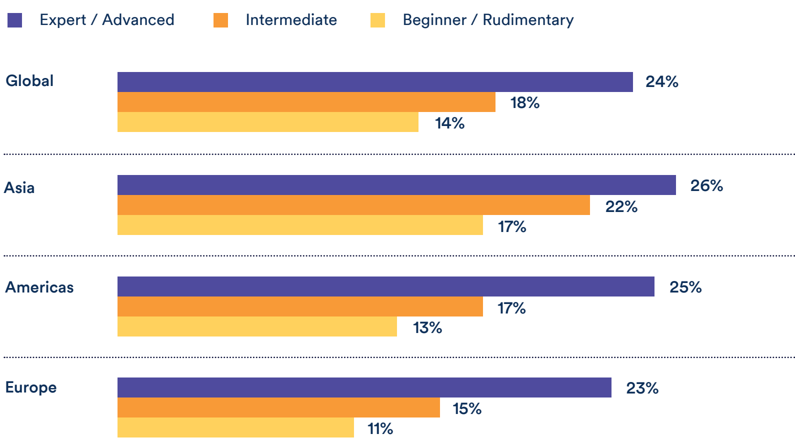
Experts see the opportunity in risk and responsiveness

Throughout the world, 'expert/advanced' investors embrace higher levels of risk when investing. Those who feel they have more knowledge put on average 10% more in high-risk funds than those with less knowledge do. The only exceptions to this trend are seen in India and Russia, where those with more knowledge put just 2% more in high-risk funds, than those with least knowledge.

At a continental level, there is only a subtle difference between risk appetite. 'Expert/advanced' investors in Asia hold on average 26% in high-risk funds compared to 23% in Europe. However, at a country level, greater range can be observed.

'Expert/advanced' investors in Hong Kong and in Denmark keep 32% in high-risk funds compared to just 18% in high-risk funds amongst counterparts in Russia.

How much of their portfolio do people put in high-risk investments?



Seizing the moment

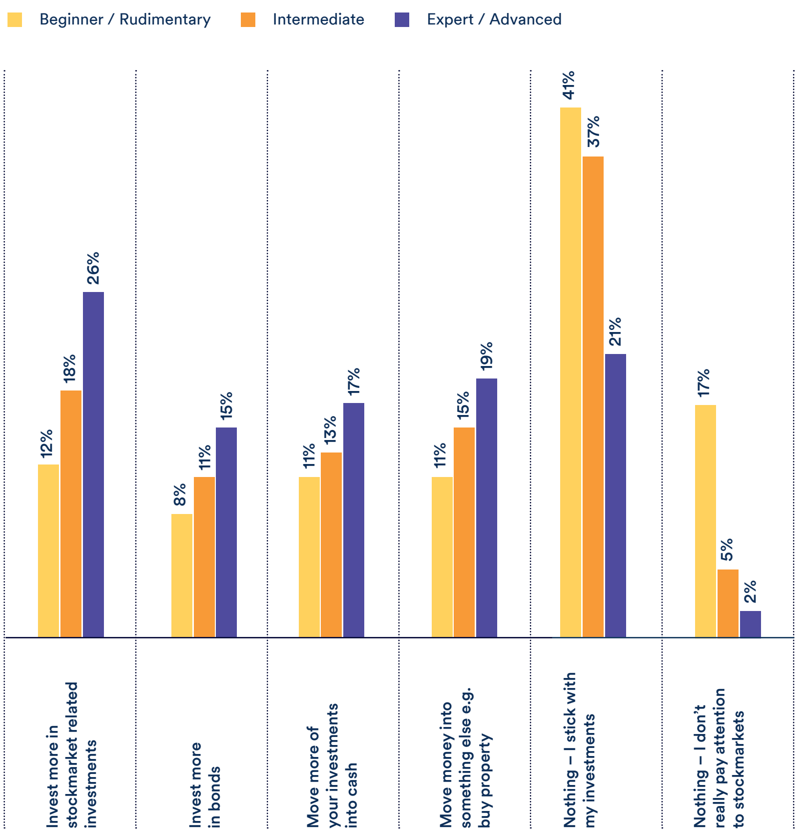
People who feel they have more investment knowledge are also those that take the most active approach to responding to the market. In all cases, they take more positive action when the stockmarket drops than peers with less knowledge. As shown by 58% of people with the least knowledge doing 'nothing', they are much more passive.

Most notable is the step to invest more in stockmarket related investments in these circumstances. Over one in four 'expert/advanced' investors take this action when the stockmarket drops, which is significantly higher than those with least knowledge (one in eight).

58%

of people with less knowledge do 'nothing' when the stockmarket drops

What do people do when the stockmarket drops?



As with risk appetite, ‘expert/advanced’ investors in Asia are the most active in reinvesting in the stockmarket and those in Europe the least. And, again, it is Russia that take the most conservative approach, with only 17% of experts reinvesting in stockmarket, as well as South Africa with 13%. Instead, Russia prefers to shift to something else, e.g. property (25%) or simply do nothing (26%).

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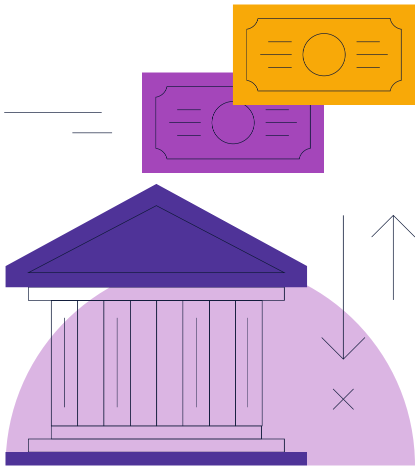
‘Experts’ in Asia are the most active in reinvesting in the stockmarket



#1

action taken by Russian ‘experts’ when stockmarket drops is to move to something else, e.g. property

What proportion of ‘expert/advanced’ investors put more in stockmarket related investments when the stockmarket drops?

Region	Country	Stockmarket
Asia	China	25%
	Hong Kong	29%
	India	33%
	Indonesia	32%
	Japan	33%
	Singapore	36%
	South Korea	25%
	Taiwan	34%
	Thailand	28%
Americas	Brazil	26%
	Canada	26%
	Chile	19%
	US	24%
Europe	Austria	22%
	Belgium	24%
	Denmark	20%
	France	27%
	Germany	30%
	Italy	22%
	Poland	21%
	Portugal	23%
	Russia	17%
	Spain	23%
	Sweden	22%
	Switzerland	20%
	The Netherlands	22%
	UK	28%

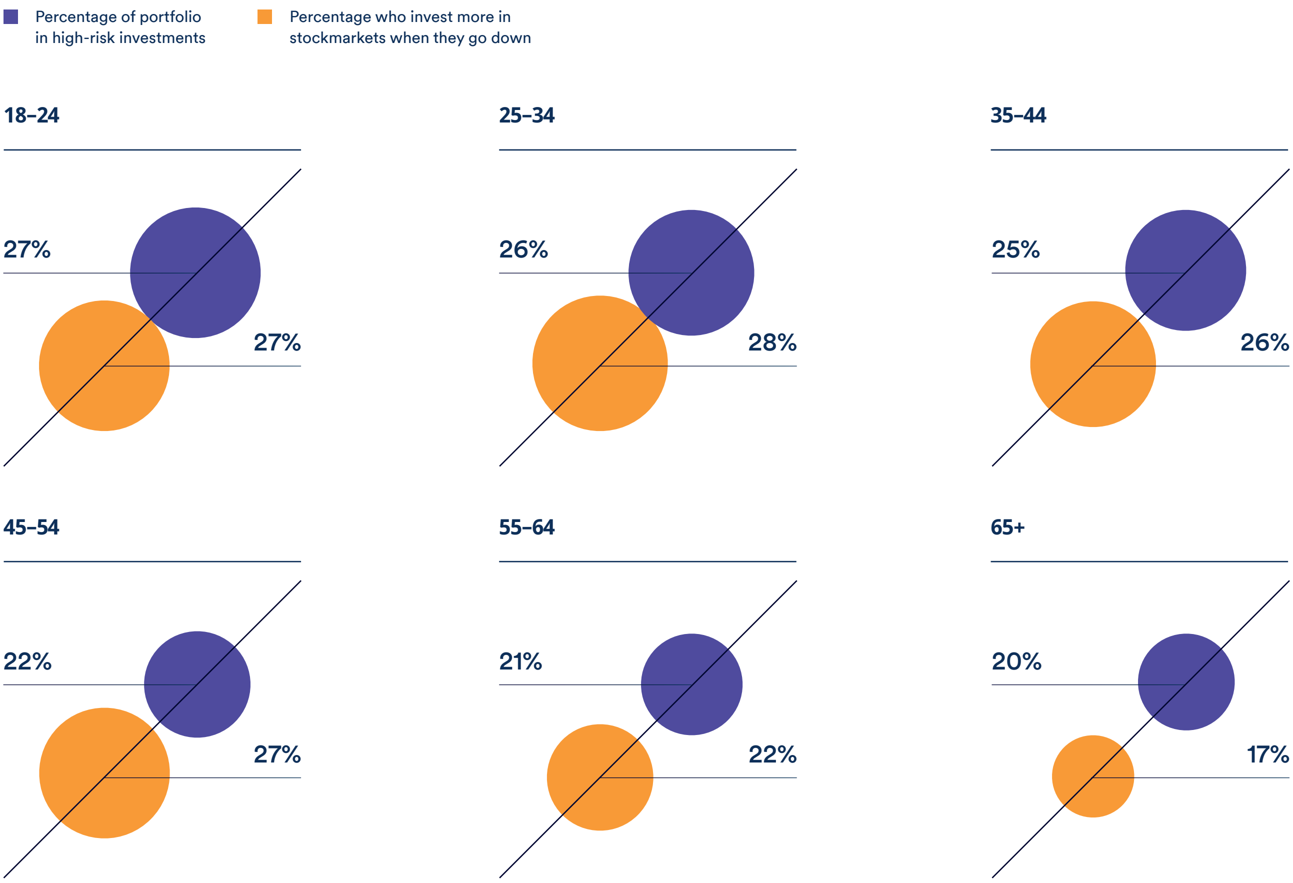
The passive boomer

There is a clear correlation between age and embracing risk and taking action. 'Expert/advanced' investors from the 18–24 age group hold on average 27% of their portfolio in high-risk investments. This percentage consistently decreases with each subsequent age group, bottoming out at just 20% for 'expert/advanced' investors over 65.

A similar trend can be seen when the proportion of 'expert/advanced' investors that invest more in stock-related investments when the stockmarket drops is analysed. Over one in four 'expert/advanced' investors from the same 18–24 group take this action, compared with just 16% of those over 65.

> **There is a clear correlation between age and embracing risk and taking action**

How much of their portfolio do 'experts' put in high-risk investments?



How do you compare?

Greater levels of investment knowledge can help people better understand how to balance their portfolio and make reactive investment decisions. The results suggest people who claim they have such levels of knowledge believe in the benefits of a diversified investment portfolio, lowering exposure to cash and the long-term potential of thematic investment funds. They also consider a degree of risk in their portfolio decision-making and highlight that, in some cases, opportunities can be presented when the stockmarket drops.

Understanding how to get the balance right is key to long-term stability for your investments and depends on your personal investment goals.

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

This information is not an offer, solicitation or recommendation to adopt any investment strategy. If you are unsure as to the suitability of your investment, speak to a financial advisor.

About this research

Schroders commissioned Research Plus Ltd to conduct, between 20th March and 23rd April 2018, an independent online study of 22,338 people in 30 countries around the world, including Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, UAE, the UK and the US. This research defines 'people' as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last ten years. These individuals represent the views of investors in each country included in the study.

Important information

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