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Contrasting Investors' Behaviors, 2008 Versus 2020

By George H. Walper, Jr.



INVESTMENTS & WEALTH INSTITUTE®

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In the past 15 years, investors have experienced two historical recessions. Although both recessions resulted in devastating financial losses, the lessons investors learned from the 2008-2009 market collapse softened the blow for many in 2020, resulting in smaller losses and greater optimism. Additionally, the constraints placed upon investors by the pandemic, which have led Americans overall to spend more time working and staying at home, arguably have changed the manner in which individuals will communicate with investment professionals in the future.

Spectrem Group has been conducting research with investors since the 1990s. Each month Spectrem conducts online research with 750-1,000 investors with a net worth of \$100,000 to \$25 million. Spectrem also conducts additional research to gain insight into various topics or specific groups of investors. Every 18 months, Spectrem conducts research with investors with more than \$25 million of net worth. Most of the data used in this article is based on Spectrem's ongoing research. The margin of error for most of Spectrem's research is 3.5 percent.

An analysis of the research regarding the behaviors and attitudes of investors contrasting the 2008 economic crisis to the 2020 pandemic indicates the following:

- The economic and market collapse of 2020 is viewed differently than the collapse in 2008 and 2009. Why? Because investors understood the

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reasons for the 2020 market collapse and were better prepared emotionally and financially.

- The pandemic has made investors become more comfortable with new technology to communicate with financial professionals, which will change the traditional models in the future.
- As a result of asset allocation changes caused by the earlier recession, investors had higher concentrations of cash entering 2020 than in the past, which may have helped them in the current economic environment.

The following analysis explains why investors were better off in 2020 because of 2008 and evaluates other long-term changes caused by the pandemic.

IMPACT OF 2008 RECESSION VS. 2020 PANDEMIC ECONOMIC DOWNTURN

In late 2008 and 2009, we asked investors about the impact of the financial crisis on their overall net worth. Most investors indicated they lost about

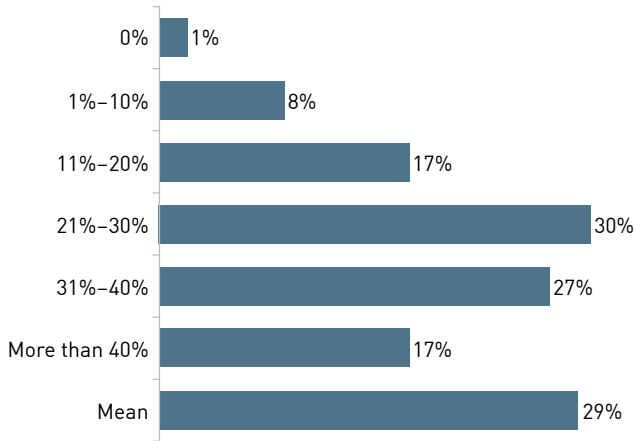
29 percent of their net worth in 2009 with 17 percent losing more than 40 percent.¹ In 2020 the question was asked somewhat differently. Investors were asked what percentage of their net worth they had lost as of April 2020 and May 2020.² The largest percentage (41 percent) indicated they had lost a fair amount of their net worth as of April with 21 percent indicating they had lost a significant amount of their net worth. By May 2020 those percentages were improving with fewer investors saying they had lost a significant amount of their net worth and more investors feeling they had lost a small amount of their net worth (see figures 1 and 2).

As of May 2020, 71 percent of investors said they felt that the United States would be going into a recession.³ In 2008, 31 percent of investors predicted that the U.S. economy would recover within one year and almost half (47 percent) felt the economy would recover within 13-24 months.⁴ Depending upon which indicator is chosen, the economy took much longer than two years to recover from the 2008 recession. In 2020, 30 percent of investors said they believe that the economy will recover within one year, 34 percent anticipate a one- to two-year recovery, and 36 percent expect the recovery will be two years or more.⁵ Investors are hesitant to predict a quick recovery in 2020 because of their experiences in 2008 (see figures 3 and 4).

As of June 2020, almost half (42 percent) of investors said they were confident

Figure 1

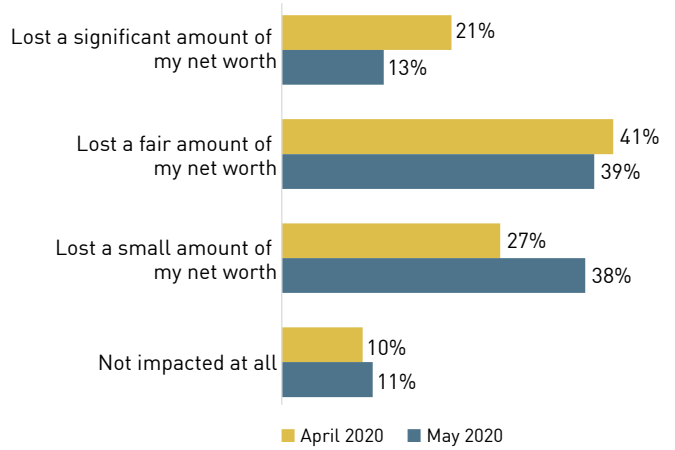
FALL 2008: THE FINANCIAL CRISIS HAS DECREASED MY OVERALL NET WORTH BY THE FOLLOWING PERCENTAGE



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Figure 2

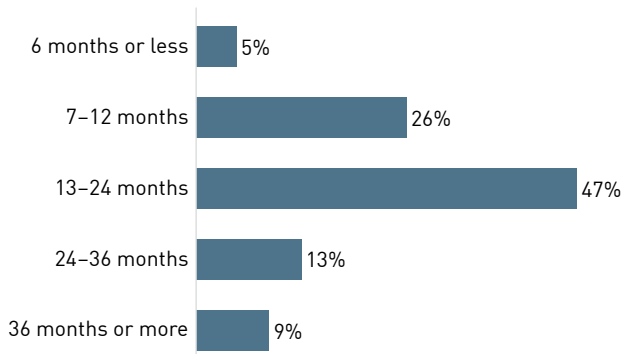
APRIL–MAY 2020: IMPACT OF THE CORONA CRASH ON NET WORTH



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Figure 3

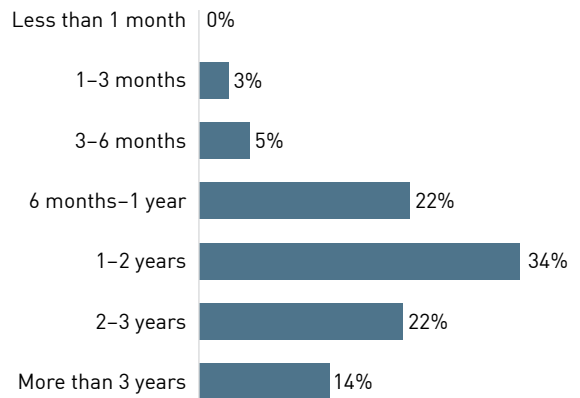
FALL 2008: WHEN DO YOU SEE THE U.S. ECONOMY RETURNING TO SUSTAINED LONG-TERM GROWTH?



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Figure 4

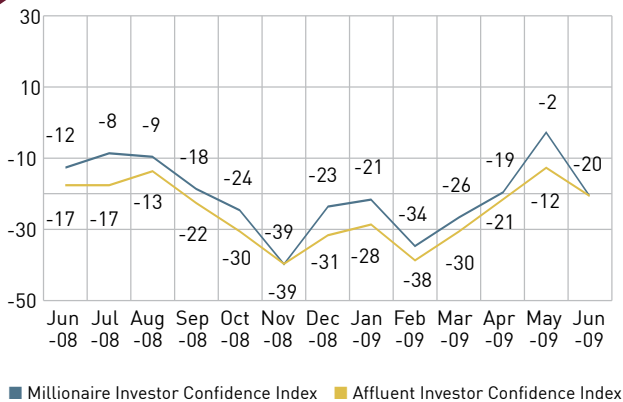
MAY 2020: HOW LONG DO YOU BELIEVE IT WILL TAKE THE U.S. ECONOMY TO RETURN TO PRE-CORONAVIRUS LEVELS?



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Figure 5

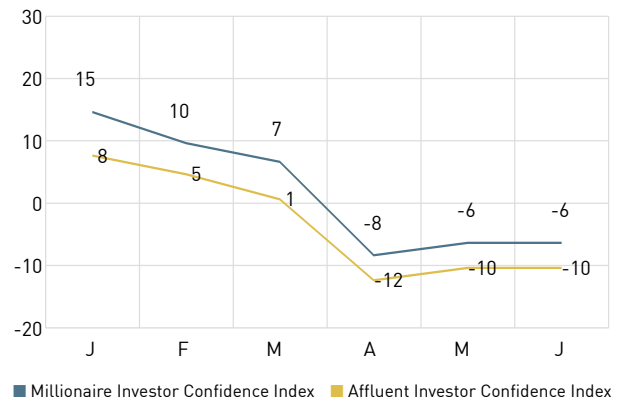
SPECTREM INDEXES—2008



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Figure 6

SPECTREM INDEXES—JANUARY–JUNE 2020



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that their financial situation would be better a year from now than at the present.⁶ Overall, more than half of investors are worried about the economy. One way to track the attitudes of investors is through the Spectrem Affluent Investor Confidence Index (SAICI[®]) and the Spectrem Millionaire Investor Confidence Index (SMICI[®]). Spectrem Group interviews more than 500 investors with investable assets of \$500,000 or more (half of whom have more than \$1 million of investable assets) on a monthly basis. These attitudes have been tracked since 2004. Investor attitudes reached their lowest point in November 2008 with a rating of -39. In contrast, the lowest rating achieved in 2020 is -12 in the SAICI and -8 in the SMICI (see figures 5 and 6). Millionaires generally are more optimistic than affluent investors.

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The indexes are calculated using several underlying components. The components include household income, household assets, company health, and the economy. They are calculated into an overall outlook component. This is then calculated against investment intentions and other factors to determine the total rating. Figure 7 shows the differences in attitudes of investors in the underlying household outlook components between November 2008 and April 2020; January 2018 information is shown as a reference point.

Note the following interesting differences found by comparing the

underlying components of Household Outlook over time:

- In January 2018, the Economy component of the outlook reached its highest recorded level, 44. By April 2020, the Economy component had plunged to -43, the lowest level recorded. Even in November 2008, feelings about the Economy were higher. Remember that the pandemic was at its height with most of the economy closed in April 2020.
- Confidence levels for the Company Health component were at 26 in January 2018 but fell to -24 by April 2020. This, too, was lower than November 2008 when the score was -14. Keep in mind that the Economy and Company Health components are external factors that impact individual lives.
- In contrast, the Household Assets component, which was at 64 in January 2018, fell to -22 in April 2020. In November 2008, however, feelings about Household Assets were at -37, indicating that investors felt more personally challenged in 2008 than in 2020.
- The Household Income component had a similar outcome—it was lower in 2008 than in 2020. This was because investors felt a greater impact in their own households in 2008 and were worried more about their personal circumstances than the overall financial environment.
- Yet, in April 2020, the Overall Household Outlook was lower than the lowest reading for the 2008 recession (-25 versus -21). In both circumstances, it was unclear what the future might be.

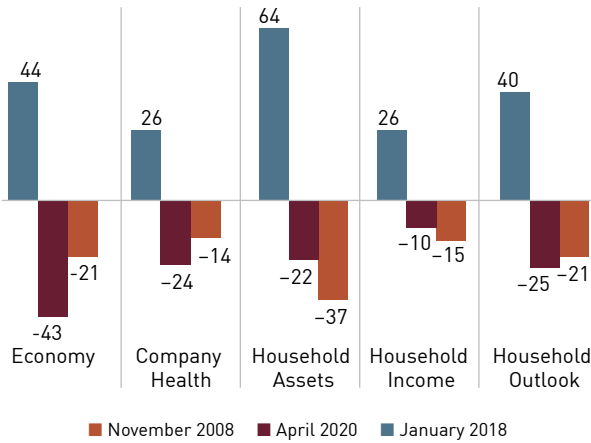
The economic crashes differ for investors due to the differing reasons for the market declines. Based upon qualitative research conducted by Spectrem Group in November 2008, investors were angry and lacked trust in the financial services industry, including their own financial advisors.⁷ This led many

investors to alter their reliance upon their financial advisors. As shown in figure 8, as of 2009, only 13 percent of investors described themselves as “Advisor-Dependent,”⁸ i.e., relying upon their advisors for all investment decisions. (This is their perception of how much they rely upon an advisor when making decisions, not their actual usage.) The level of advisor dependence in 2009 was significantly lower than in the earlier part of the decade when dependence upon advisors was greater. It took many years for that percentage to increase. As of January 2020, 21 percent of investors described themselves as Advisor-Dependent.⁹

Many changes in the overall attitudes and behaviors of investors relative to their relationships with advisors have occurred since 2009. For example, in 2009, 82 percent of investors used a financial advisor.¹⁰ In January 2020, the percentage of investors using a financial advisor had dropped to 73 percent.¹¹ Why are fewer investors using advisors in 2020? One reason is the distrust created during the 2008 recession, which led many investors to turn away from the use of an advisor. Secondly, the use of online tools has made investors more self-sufficient. Finally, the number of wealthy millennials has increased, changing the manner in which investors make investment decisions.

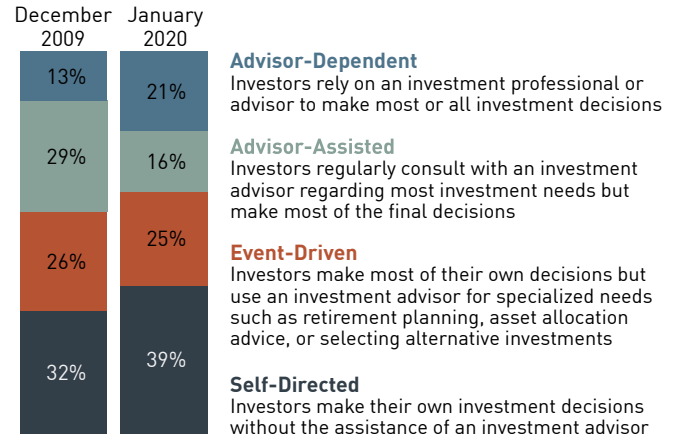
Note that the percentage of investors who describe themselves as “Self-Directed” in 2020 has grown since 2008 in figure 8. This is due to younger investors’ increased comfort with technology as well as greater access to information. Note that the term Self-Directed is a perception of how investors make investment decisions. Many Self-Directed investors may still use an advisor to some extent. They believe, however, that their decisions are made entirely on their own. As shown in figure 9, when advisor usage is segmented by age, it’s not surprising that Gen X and millennial investors are the most likely to define

Figure 7 SPECTREM AFFLUENT INVESTOR CONFIDENCE INDEX HOUSEHOLD OUTLOOK



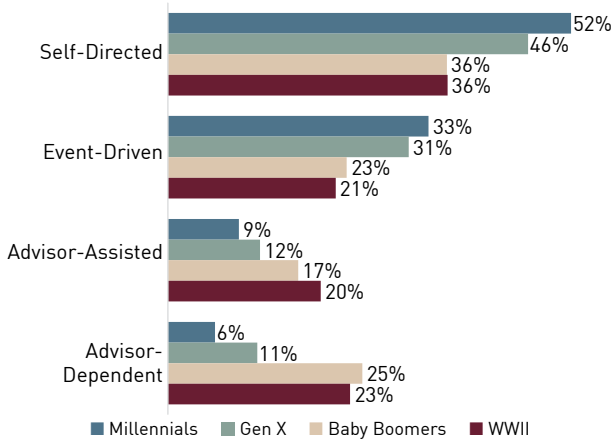
Source: © 2020 Spectrem Group. All rights reserved.

Figure 8 INVESTOR'S LEVEL OF ADVISOR DEPENDENCY



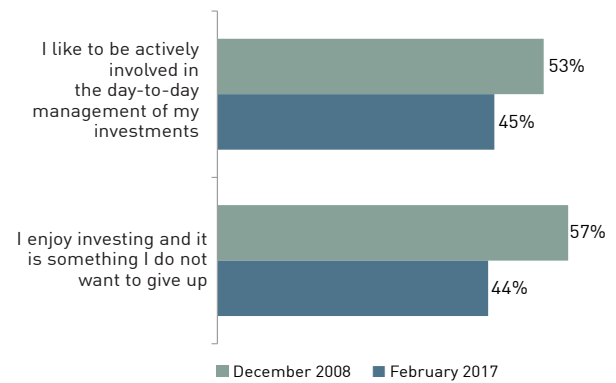
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Figure 9 INVESTOR'S LEVEL OF ADVISOR DEPENDENCY, BY AGE SEGMENT



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Figure 10 INVESTOR'S INVOLVEMENT IN INVESTING AND ENJOYING INVESTING



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themselves as Self-Directed and more baby boomer and World War II investors define themselves as Advisor-Dependent. Keep in mind when reviewing the segmentation by age that baby boomers still represent the greatest number of investors, followed by Gen X. Although millennials are the most populous generation, they are still amassing wealth.

As mentioned above, in 2008 investors were angry with their financial advisors and financial providers overall. Therefore, they felt compelled to take on more of

the day-to-day administration of their accounts because they feared what could happen. After that, levels of trust with their advisors grew, a bull market in the United States continued for a decade, and investors became less interested in investing and turned over investment due diligence to their advisors (see figure 10).

Risk tolerance provides another interesting comparison between the earlier financial crisis and the 2020 economic shutdown (see figure 11). In 2009,

shortly after the 2008 crash, 14 percent of investors described themselves as Most Aggressive/Aggressive, 58 percent of investors defined themselves as Moderate, and 28 percent were Conservative.¹² In contrast, as of July 2020, 30 percent of investors described their risk tolerance as Most Aggressive/Aggressive, even higher than in January 2020 when markets were booming.¹³ As of July 2020, however, 21 percent of investors described their risk tolerance as Conservative, compared to only 17 percent in January 2020.¹⁴

The more aggressive risk tolerance in 2020 may be due to the fact that markets rebounded more quickly than in the 2008 recession. It also may be due to the difference in the underlying cause of the market collapse. The pandemic shutdown was a specific event leaving investors to believe that the underlying economy was still strong, although that attitude may change as economic uncertainty continues. In fact, 18 percent of investors in March 2020 and 23 percent of investors in April 2020 used the market crash to provide a buying opportunity.¹⁵

Investors in 2020 were better prepared for the economic crisis created by the pandemic than they were in 2008.

The 2020 economic downturn impacted the relationships investors have with their financial advisors, but advisors may have been more prepared and proactive than in 2008 (see figure 12). In 2008, more than one-third of investors (38 percent) indicated that their advisors had “done a good job in helping me” during the market downturn, with 56 percent of those using independent financial planners being the most satisfied. Not surprisingly, satisfaction with advisor performance was slightly lower (36 percent), although once again, independent financial planners were rated higher.

Investors in 2020 were better prepared for the economic crisis created by the pandemic than they were in 2008. For many, it was no longer the first economic crisis they experienced, making their expectations regarding an economic recovery more realistic. For some it was perceived as a buying opportunity. Investors' relationships with financial advisors in 2020 were more positive, with many advisors being perceived as

proactive. Although it remains unclear whether investors will remain loyal to their advisors in the years to come, overall reactions to the COVID-19 market crash were less dramatic than in 2008.

CHANGES IN COMMUNICATION METHODS: THE INCREASING MOVE TOWARD DIGITAL

The pandemic has spurred a change in communication methods between investors and advisors. These communication changes range from the number of times that investors have communicated with their advisors to the approach used for that communication. Not surprisingly, advisors who communicated more frequently with clients during the market volatility scored better than those who did not. Additionally, the acceptance of investors with new types of communication and methods of communication (e.g., virtual meetings) has increased since the onset of the pandemic.

In May 2020, we asked investors how many times they had spoken to their advisors since the onset of the pandemic. As shown in figure 13, nearly 60 percent of investors communicated with their advisors two or more times. As the number of times an investor communicated with the advisor increased, the more likely an investor was to indicate being “impressed” with the primary advisor (see figure 14).¹⁶

Although we did not ask specifically how these communications occurred, it is likely that most communication was via telephone conversations, virtual meetings, or email. Usage of communication methodologies such as texting and video calls already were beginning to increase before the pandemic, and it is anticipated that the use of these communication types will be even higher post-pandemic (see figure 15).¹⁷

Financial advisory and investment providers were quick to provide multiple types of digital communication when the coronavirus crash occurred (see figure 16). In fact, 57 percent of

investors indicated that they used the digital communication and education they received in spring 2020.¹⁸ What types of digital communication were the most effective? Almost a quarter of investors attended webinars and a similar percentage used other types of educational materials.¹⁹

Digital and virtual communication is likely to increase in the future. As investors continue to communicate from remote locations and as investment information and advice becomes increasingly available through digital channels, the old-fashioned quarterly face-to-face advisor meeting model is likely to change.

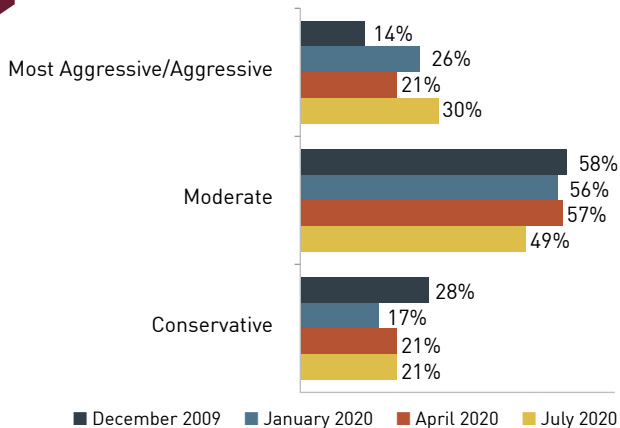
PORTFOLIO IMPLICATIONS

The impact on the portfolios of wealthy investors in 2020 was similar to 2008, although investors started at higher asset levels and began to recover more quickly in 2020 (see figures 17 and 18). In conducting this analysis, Spectrem relied upon its data for millionaire households (those with \$1 million or more of net worth, not including the value of the primary residence). In general, the investable assets of a millionaire household represent about 56 percent of an investor's total portfolio.²⁰ It's interesting to note that the amount of short-term assets held in a millionaire's account in 2008 was much lower than in 2020.²¹ As of July 2020, millionaires held about 15 percent of their total investable assets in cash. In 2008 investors were more likely to be invested in stocks and bonds than in 2020.

A comparison of average investable asset balances also shows differences between 2008 and 2020 (see figure 19).²² On the left, note that investors in 2008 were asked the balances of their accounts before the crash and then asked for the balances several months later. On the right, figure 19 identifies balances in January 2020 and compares those balances in March, April, and July. As shown, investors had higher cash balances at the outset of the 2020 market

Figure 11

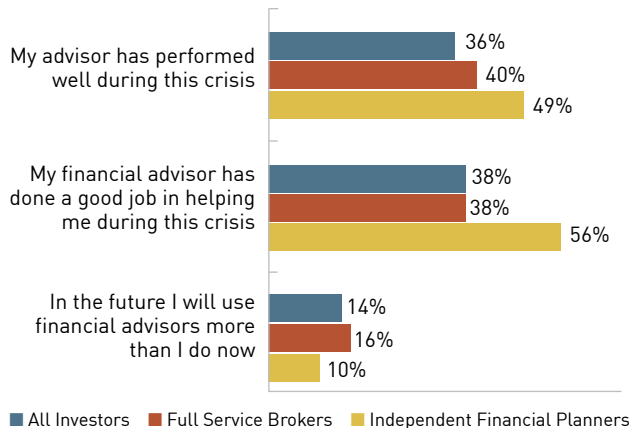
INVESTORS' RISK TOLERANCE



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Figure 12

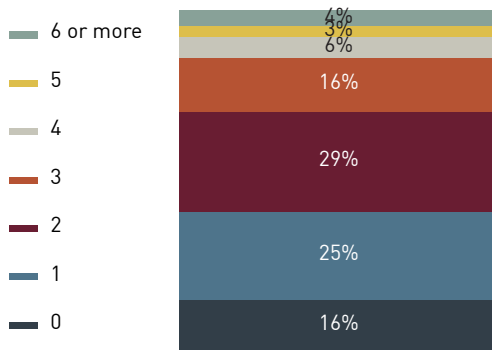
INVESTORS' RELATIONSHIPS WITH ADVISORS DURING 2008 ECONOMIC CRISIS



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Figure 13

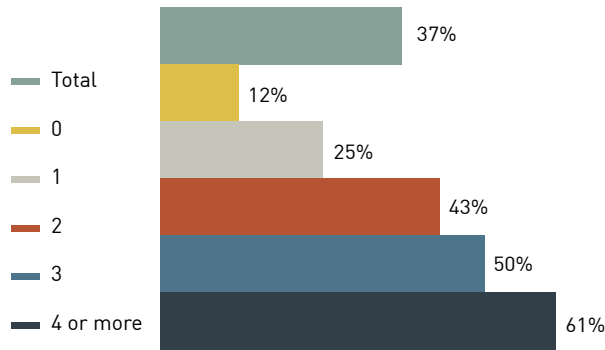
MAY 2020: NUMBER OF TIMES INVESTORS HAVE COMMUNICATED WITH PRIMARY ADVISOR SINCE FEBRUARY 15, 2020



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Figure 14

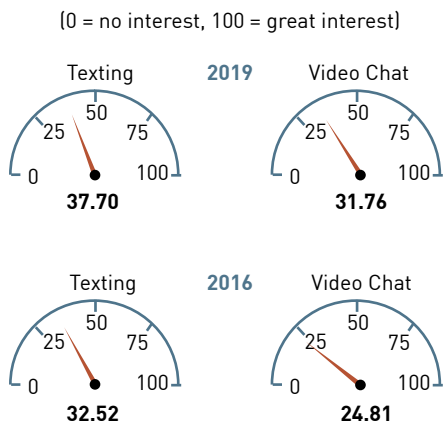
MAY 2020: FAVORABLE IMPRESSIONS OF PRIMARY ADVISORS BY NUMBER OF COMMUNICATIONS



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Figure 15

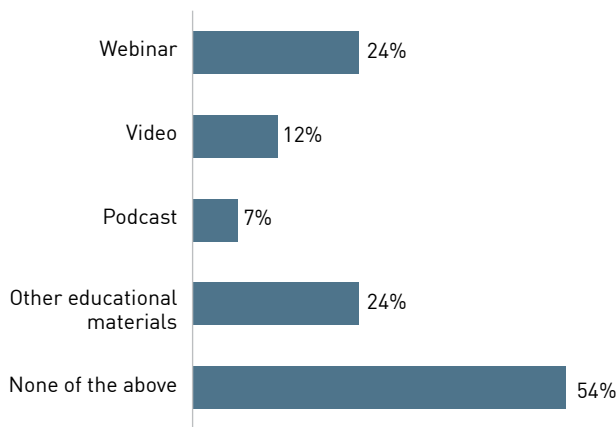
INTEREST IN COMMUNICATING WITH ADVISOR VIA THIS METHOD



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Figure 16

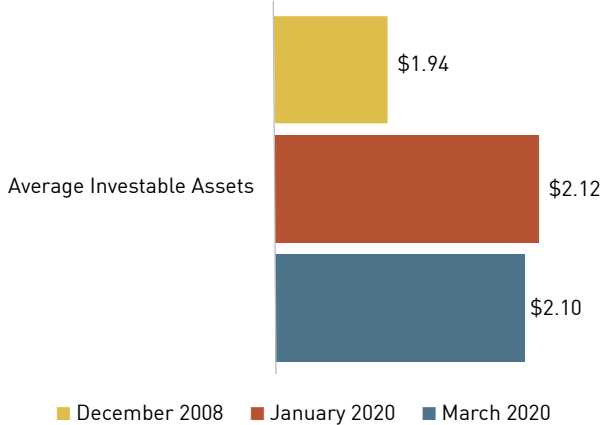
MAY 2020: ADVISOR EDUCATION OFFERINGS REGARDING THE CORONA CRASH



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Figure 17

MILLIONAIRES' INVESTABLE ASSETS, IN MILLIONS



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crash compared to 2008. Overall, the changes in portfolio balances in 2020 did not vary significantly when compared to 2008.

Overall, millionaires did not initially make dramatic portfolio changes in March 2020, to most likely to keep their asset allocations the same. They did, however, begin making more changes in April and May 2020, but that was primarily to take advantage of potential market opportunities.

Despite their relatively positive attitudes about the market, investors in 2020 are less confident about the recovery of the overall economy. This may be another lesson learned from 2008.

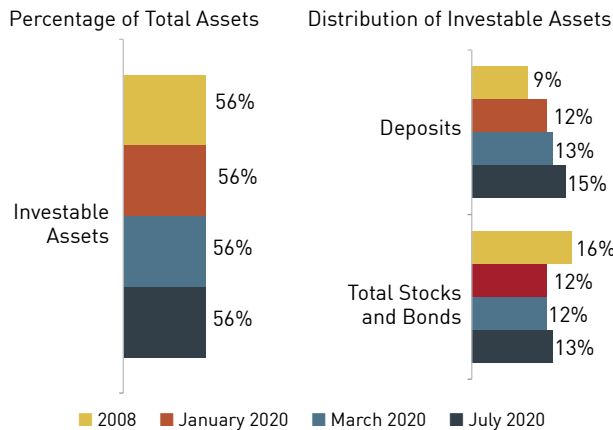
CONCLUSIONS

It is important for financial advisors and their firms to understand how investors have changed within the past two decades. Two historic market crashes within a relatively short time have created investors that are more likely to retain a greater percentage of their assets in cash. But despite this relatively conservative reaction, investors are more seasoned and have become somewhat more comfortable with market volatility and the understanding that the market provides both opportunity and risk. Because of this greater understanding, investors are likely to continue to invest in the market but will have greater expectations of their financial advisors. Those expectations are no longer just about buying and selling but about understanding the intricacies of the market and the impact it can have on their clients' individual households.

In addition to the changes in the investment psyche, investors will communicate with financial advisors and make investment changes differently in the future. Investors will expect proactive

Figure 18

MILLIONAIRES' DISTRIBUTION OF ASSETS

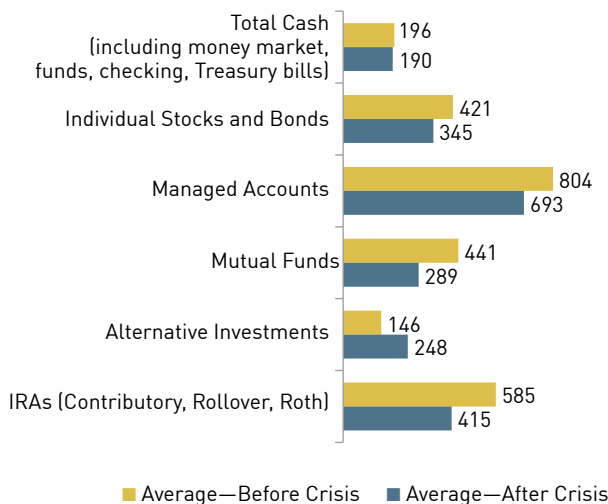


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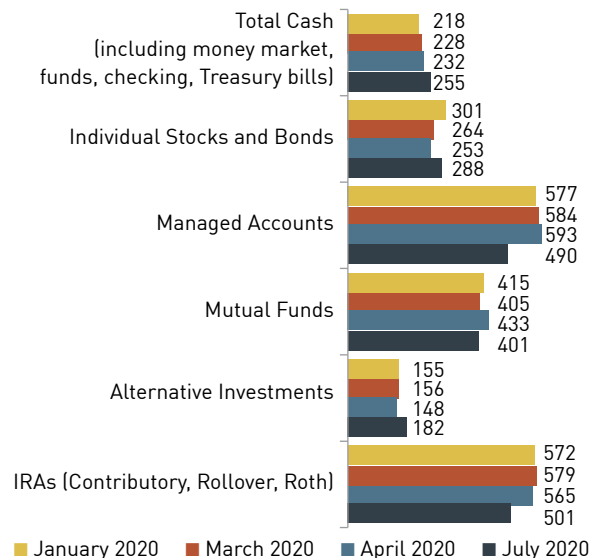
Continued on page 48 →

Figure 19

AVERAGE INVESTABLE ASSET BALANCES, 2008 AND 2020



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CONTRASTING INVESTORS' BEHAVIORS . . .

Continued from page 36

communication from their advisors, and they will be more willing to engage in a virtual manner.

These changes may seem like they will be easy to implement, but advisors need to determine how to create warm and trusting relationships in a virtual world. Once an investment plan is in place, it still may be beneficial to continue face-to-face meetings as well as virtual meetings depending upon the preferences of the individual investor.

It may be a long time before investors are willing to put their cash into aggressive investments. After all, many may feel they benefited by having cash reserves at the time of the 2020 crash. Each investor's situation is unique, but financial advisors may want to point out that these cash reserves can allow clients to take advantage of future investment opportunities.

The recession of 2008 and the pandemic market crash of 2020 are two historic economic episodes that will be studied by experts for years to come. It is also likely that these two episodes will impact the behaviors of investors for decades to come as they determine portfolio allocations, find new ways to interact with financial advisors, and react to future market events. ●

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ENDNOTES

1. Spectrem Group, "Attitudes of Affluent Investors on Surviving the Economic Crisis."
2. Spectrem Group, "Corona Crash: What Advisors Should Be Saying to Investors Now" (May 2020).
3. Id.
4. Spectrem Group, "Attitudes of Affluent Investors on Surviving the Economic Crisis."

5. Spectrem Group, "Corona Crash: What Advisors Should Be Saying to Investors Now" (May 2020).
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8. Id.
9. Spectrem Group, "Investor Attitudes and Behaviors."
10. Spectrem Group, "Millionaire Investor 2009."
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15. Spectrem Group, "Corona Crash: What Advisors Should Be Saying to Investors Now" (May 2020).
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19. Id.
20. Spectrem Group, "Millionaire Investor 2008"; "Portfolio Trends, Expenditures and Perceptions of Providers."
21. Id.
22. Id.



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