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FTSE Russell

An LSEG Business

Retail Investor Survey

Index strategies: 2023's untapped opportunity

Retail investors seek advisors' assistance

Despite the turbulence in financial markets, U.S. retail investors are looking to increase their investments in index strategies in 2023. For advisors, this appetite for indexes represents an overlooked business opportunity, which is especially valuable after a year of mutual fund outflows.*

1 Advisors are overlooking 2023's opportunity

Two thirds of investors would like advisors to discuss index investing – showing the scale of this untapped opportunity.

2 Counterintuitively, shift to index strategies set to continue

Nearly four in ten retail investors who already own index strategies plan to add more. This counters expectations that index strategies prosper in buoyant rather than turbulent markets.

3 Closing the education gap on index strategies is key

Among those investors who don't invest in index-based strategies, the number one barrier to investing is lack of knowledge.

4 Investors are highly satisfied with index strategy performance

More than three quarters of investors agree that their index strategies have performed as well or better than other investments.

5 Revealing the small cap paradox

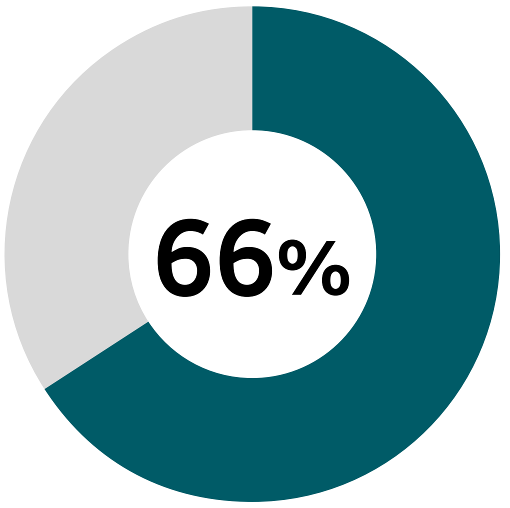
Less than a third of investors use small-cap index strategies, which would diversify the higher risk in this type of asset.

6 Investors are surprisingly positive, even in a turbulent market

With an intelligent eye to the long term, many investors say they would hold their portfolio in a stock market decline, and others view it as a buying opportunity.

* For 2022, U.S. ETPs attracted a net $593.4 billion, while conventional U.S. funds handed back a net $1.074 trillion. Combined the fund business (including ETFs) experienced $480.5 trillion in net outflows. Source: Refinitiv Lipper.

1 Advisors are overlooking 2023's opportunity



Two thirds of investors with financial advisors would like their advisor to discuss index investing – showing the scale of this untapped opportunity.

Revealing the extent of the missed opportunity, two thirds (66%) of those who say their advisor has not suggested index strategies want their advisors to discuss them. At a time when mutual funds have been experiencing outflows, retail investors' plans to increase their holdings in index strategies represent a significant opportunity for advisors, according to the inaugural FTSE Russell Retail Investor Survey.

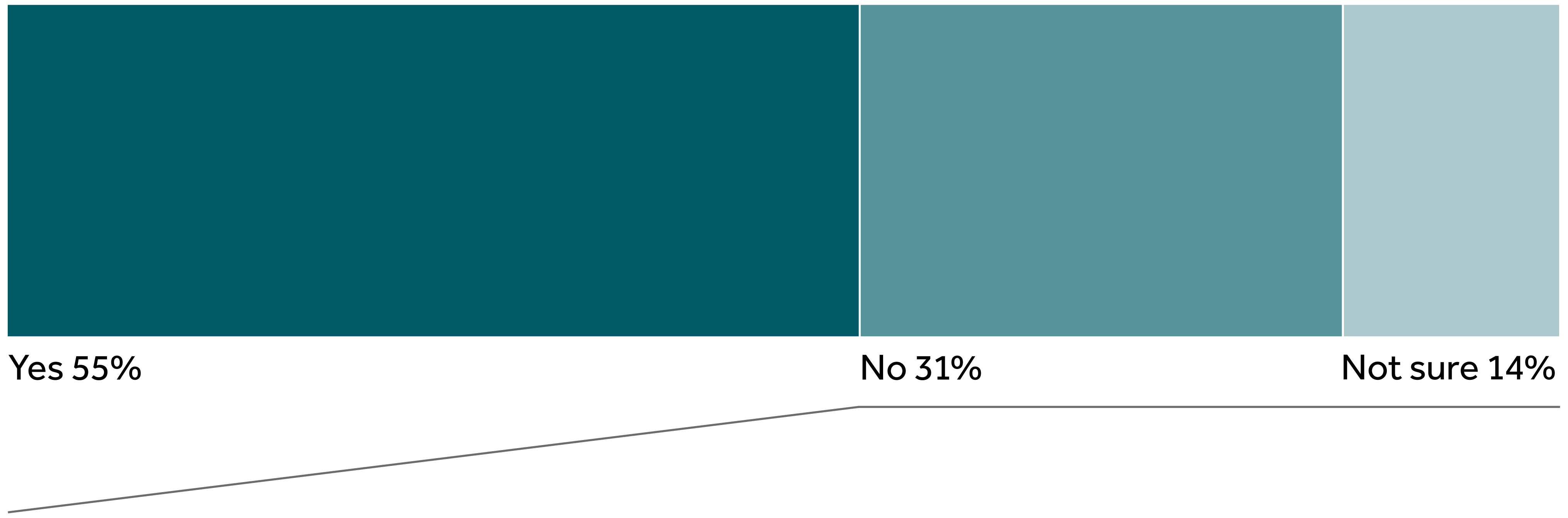
Almost half of investors (45%) who have advisors and are aware of index strategies don't recall their advisor speaking to them about index strategy investments.

Do you currently work with a financial advisor?

Based on all 1002 respondents

Has your financial advisor ever discussed index strategies with you?

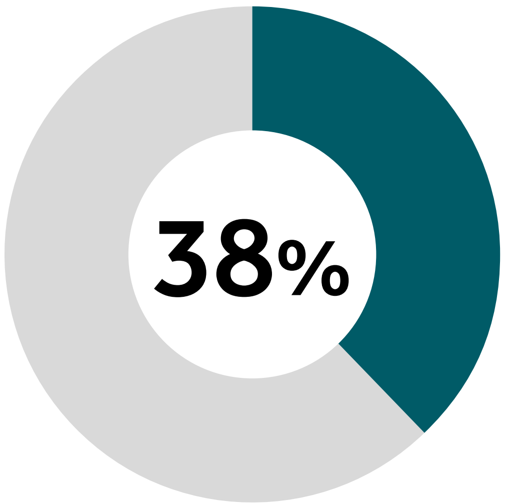
Based on 477 respondents with a financial advisor and aware of index strategies



Would you want your financial advisor to discuss index strategies with you?

Based on 215 respondents who have not discussed index strategies

2 Counterintuitively, a shift to index strategies is set to continue



Nearly four in ten retail investors who already own index strategies plan to add more.

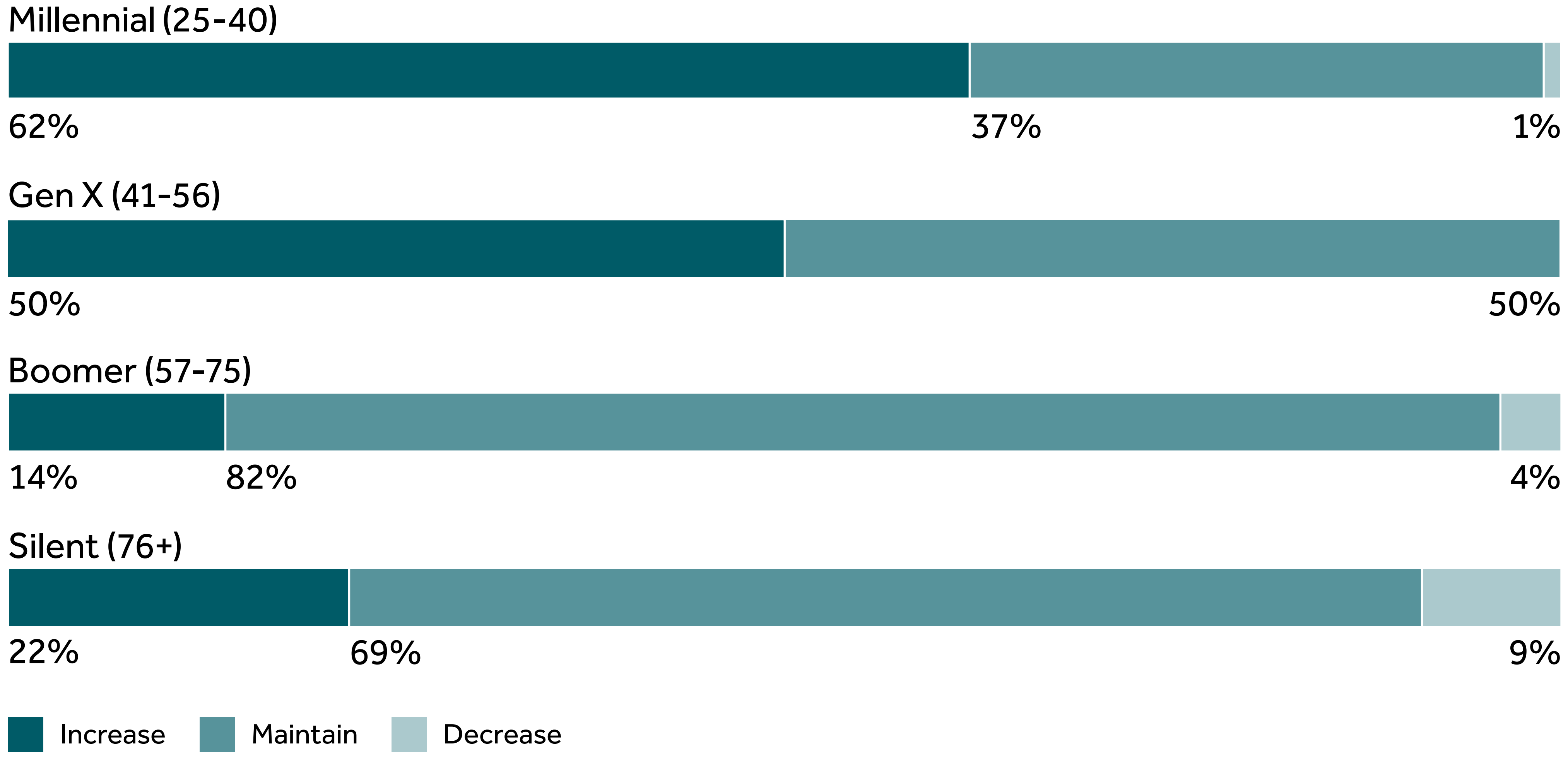
Our survey indicates that the multi-year shift to index-based strategies looks set to continue in 2023, with a high rate of net ETF inflows. That contrasts with conventional wisdom that index strategies prosper in buoyant but not turbulent markets. Suggesting that 2023 will be another year of investors favoring index-based strategies, nearly four in ten (38%) U.S. retail investors who hold indexes plan to add to their investments in these strategies.

In 2023, do you expect to increase, maintain or decrease your use of index strategies?

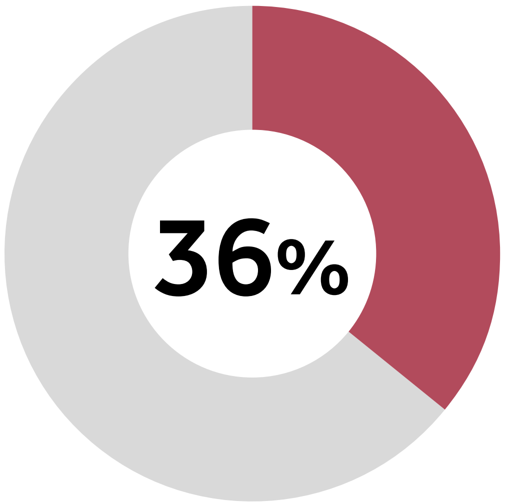
Based on 272 respondents who invest in index strategies

Breakdown by generation

Based on 272 respondents who invest in index strategies



3 Closing the education gap on index strategies is key



More than a third of investors who do not invest in index strategies say they don't know how they work.

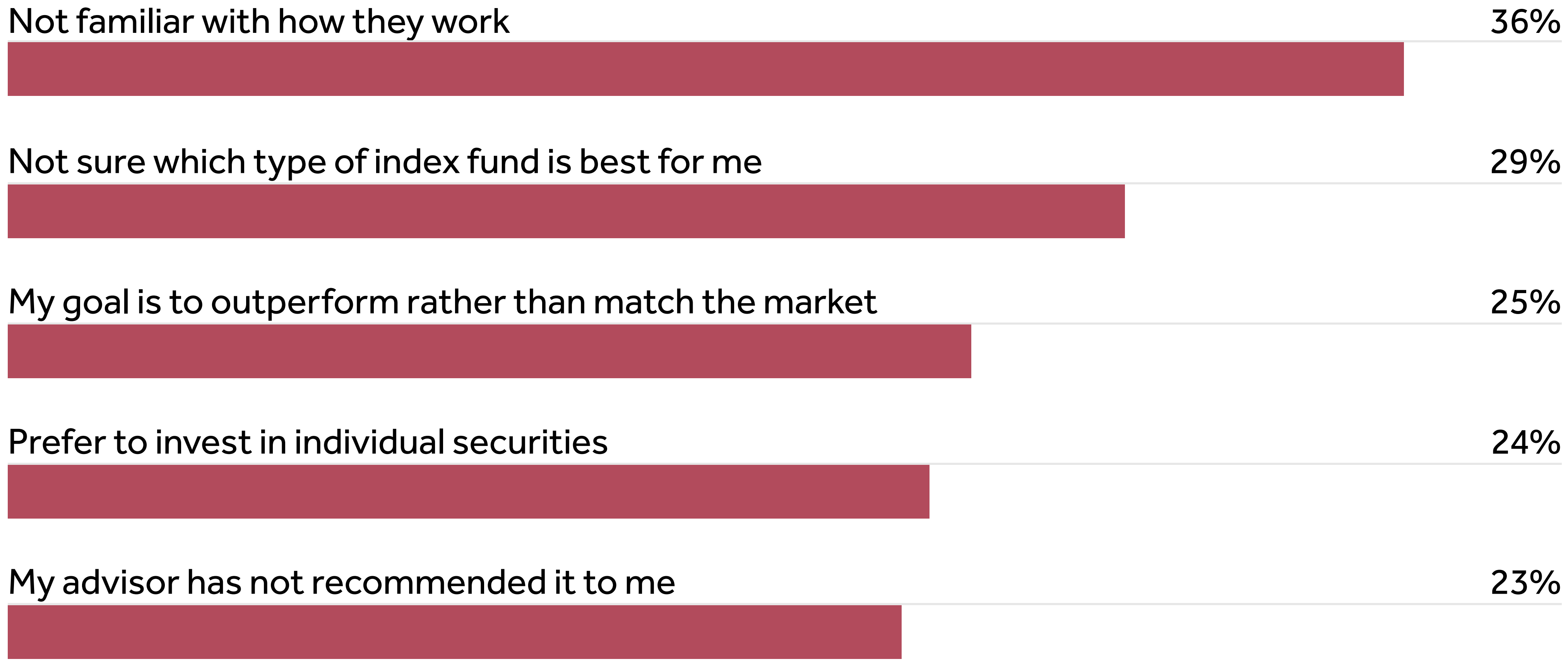
Advisors have a valuable role to play through education because investors who do not own index strategies say lack of knowledge is the biggest issue. They either don't know how strategies work or what would be suitable.

After providing wise counsel through market turbulence, advisors are trusted to teach investors. Almost all investors (92%) with advisors are satisfied with their service.

Notably, index strategies are favored by wealthy investors, who may also be the most sophisticated. Four in ten (40%) investors with investable assets of over $1 million own indexes, compared with just two in ten (21%) with less than $250,000.

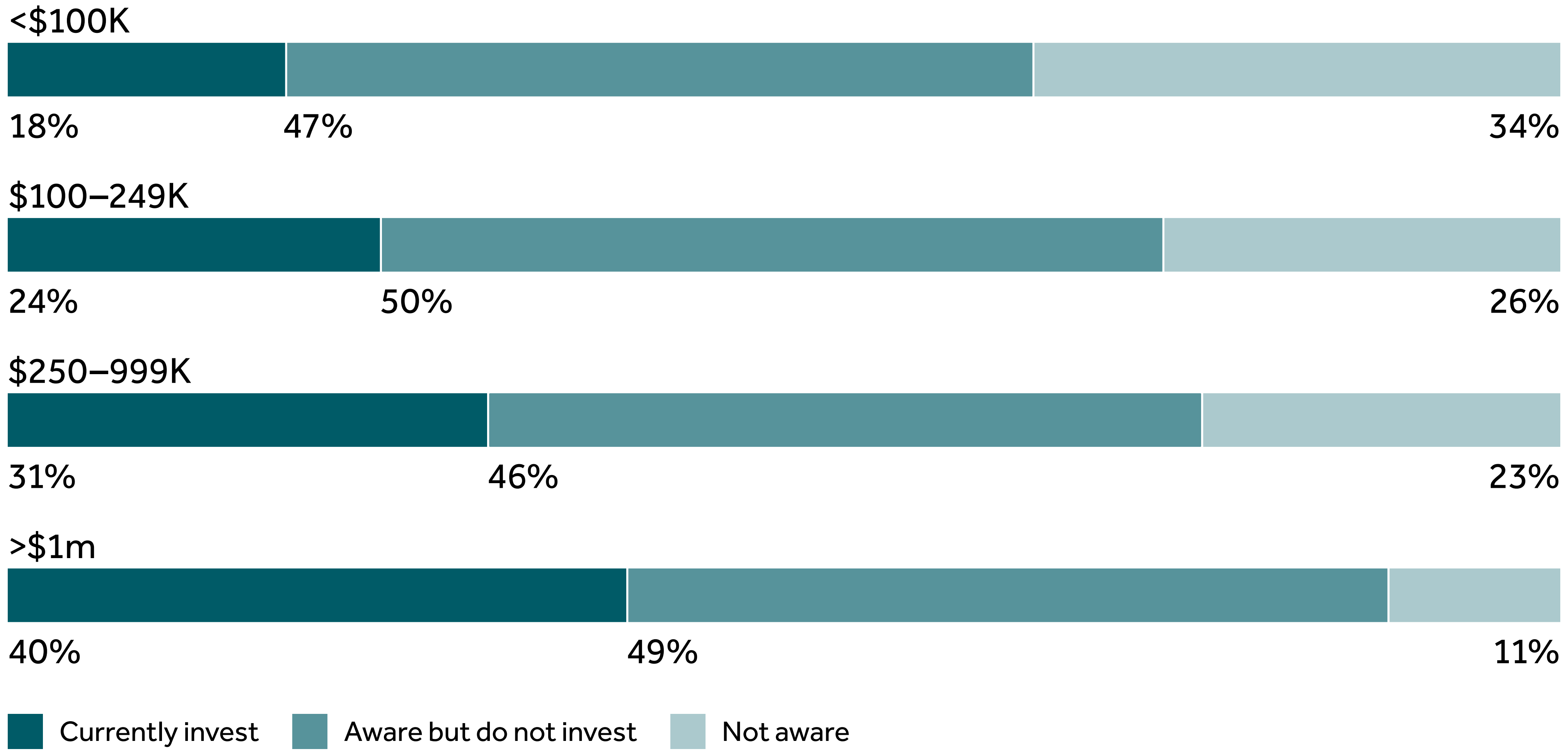
Reasons respondents do not invest in index strategies

Based on 478 respondents who are aware of index strategies but do not use

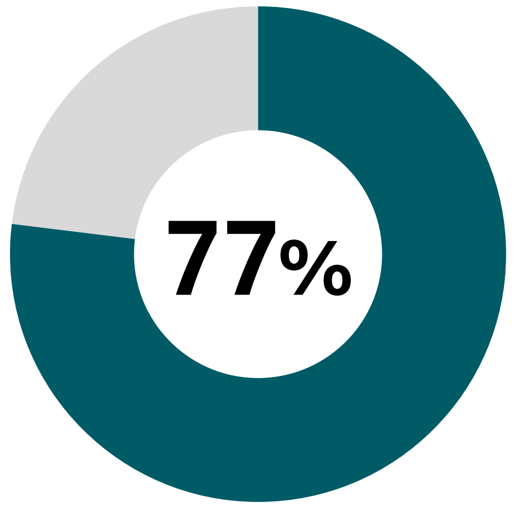


Awareness and usage of index strategies (by investable wealth)

Based on 750 respondents who are aware or invest in index strategies



4 Investors are highly satisfied with index strategy performance



More than three quarters of investors agree that their index strategies have performed as well or better than other investments.

Investors are highly satisfied with the performance of index strategies, according to our survey. More than three quarters (77%) agree that index strategies have performed as well as or better than their other investments.

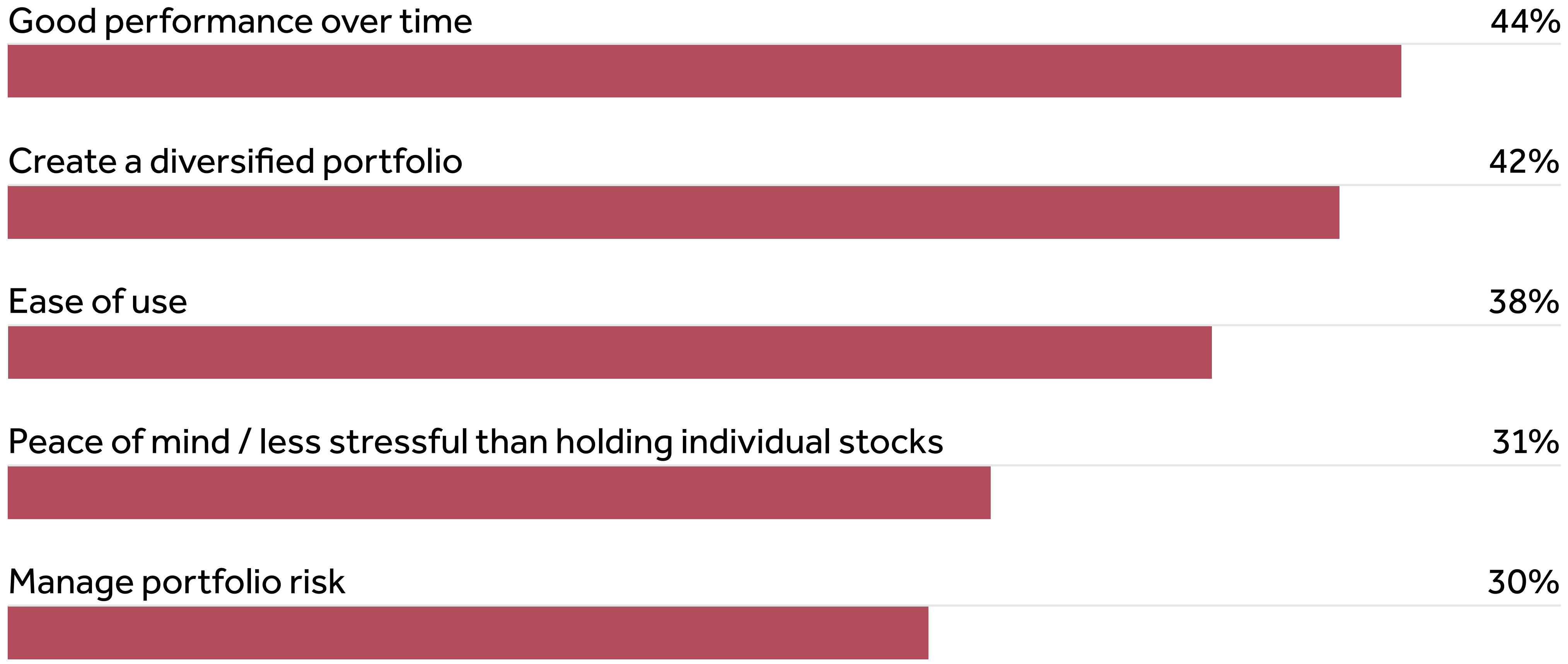
Investors have intelligent, long-term reasons for liking index strategies, citing "good performance over time" as the top reason why they invest, or plan to, in index strategies. They also have the bigger portfolio management picture in mind, viewing "create a diversified portfolio" as almost as important a reason, with "ease of use" also featuring as a major motivation for index investing.

My index strategies have performed as well or better than my other investments

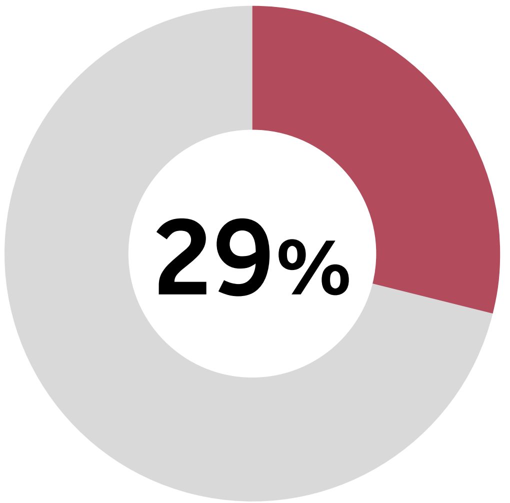
Based on 272 respondents who currently invest in index strategies

Top reasons for using or planning to use index strategies

Based on 424 respondents who use or plan to use index strategies



5 Revealing the small cap paradox



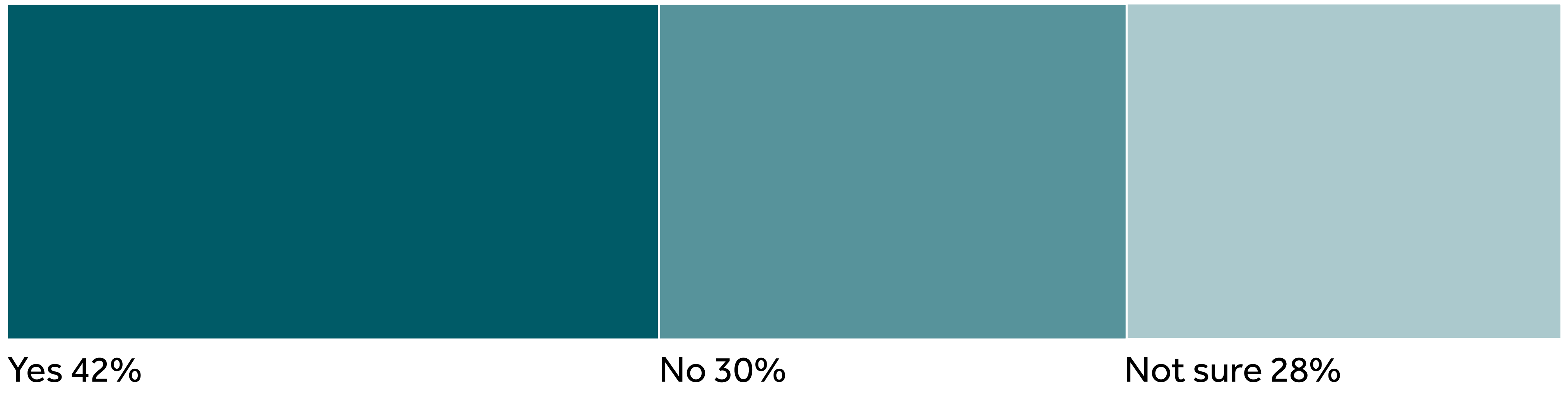
Less than a third of investors use small-cap index strategies, which would diversify the higher risk in this type of asset.

Showing how advisors are missing a trick, almost half (49%) of survey respondents investing in small caps do so by buying individual stocks. That exposes them to enormous stock-specific risk.

Paradoxically, only a little under a third (29%) use small-cap index strategies, although doing so would diversify their risk while still providing the opportunity for outsized returns. Almost four in ten (38%) invest through actively managed funds.

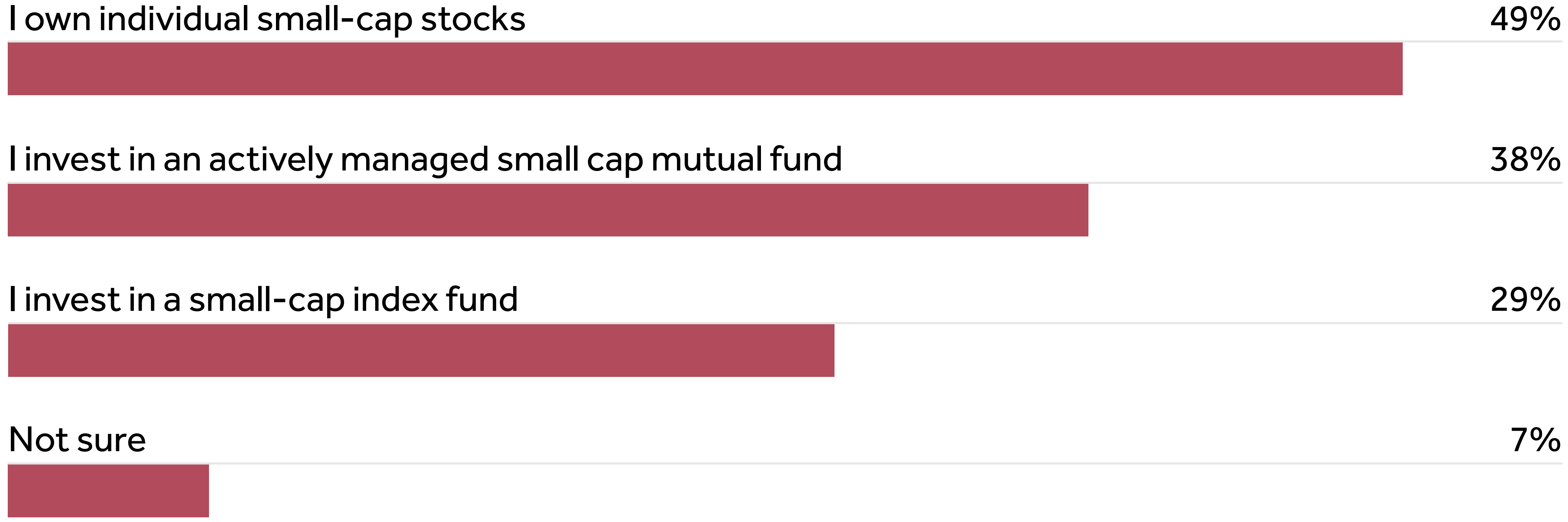
Do you currently invest in small-cap index stocks?

Based on all 1002 respondents

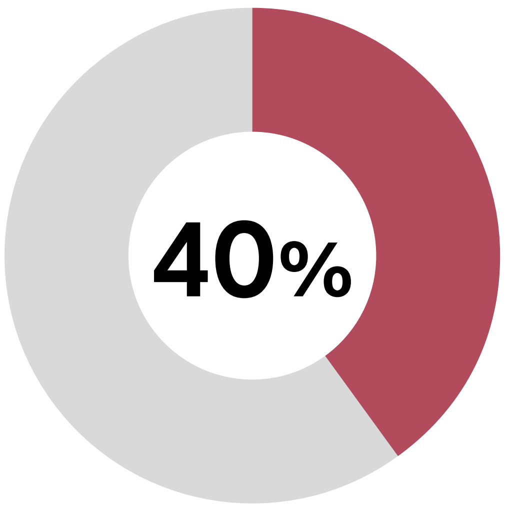


Method of investing in small cap stocks

Based on 420 respondents who invest in small cap stocks



6 Investors are positive, even in a turbulent market



With an intelligent eye to the long term, 40% of investors say they would hold their portfolio in a stock market decline, and others view it as a buying opportunity.

Looking forward to the rest of 2023, investors are unexpectedly optimistic: they are as likely to seize chances for larger gains as they are to avoid investment risk. When asked if they are choosing a “risk on” or “risk off” approach, investors are evenly split at 37%—with 26% not sure.

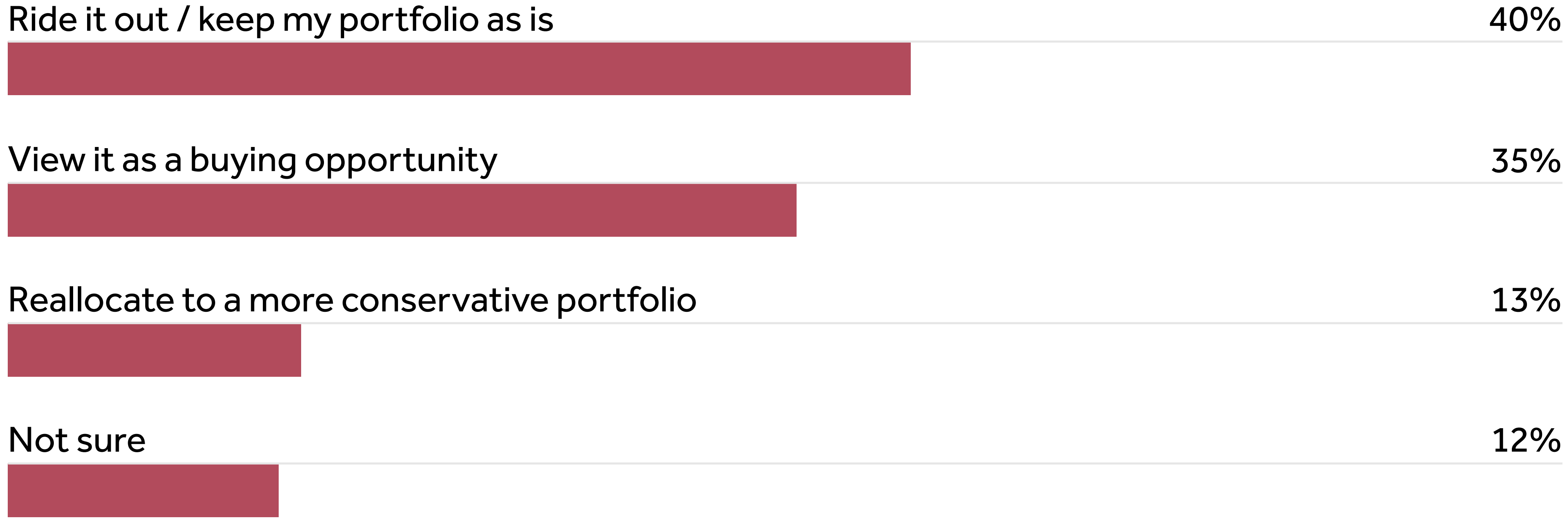
Indicating a long-term approach, four in ten (40%) investors say they would hold their current portfolio if there were a major stock market correction. A further 35% would view it as a buying opportunity. However, nearly three quarters (73%) of investors expect a recession in 2023 and almost two thirds (62%) name this as their biggest concern about investing during the year.

Will you take a ‘risk on’ or ‘risk off’ approach to investing in 2023?

Based on all 1002 respondents

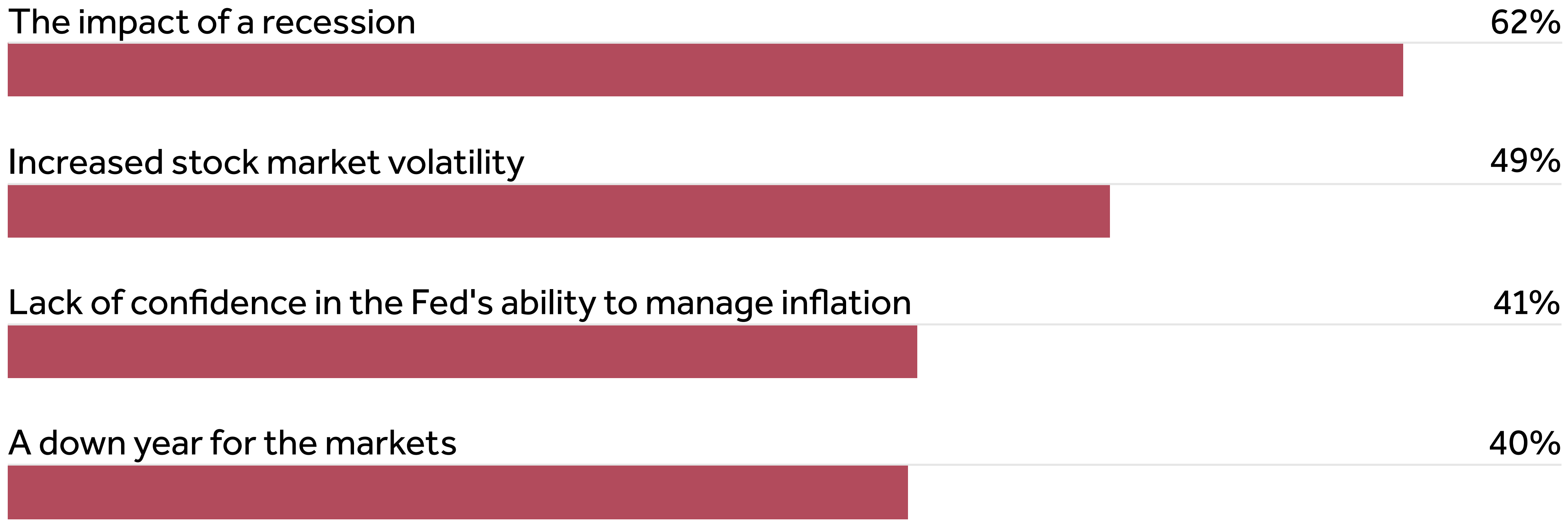
What would you do if stock market declined in 2023?

Based on all 1002 respondents



What are biggest concerns about investing in 2023?

Based on all 1002 respondents



Conclusion

Our inaugural FTSE Russell Retail Investor Survey shows how much investors value their financial advisors' partnership and wise advice, especially on new ideas and asset allocation strategies. In particular, it finds that investors want index strategy recommendations.

Retail investors view index strategies as a way to diversify and achieve long-term gains. Advisors should take note that high-net-worth clients especially are satisfied with their index strategies: they don't always want to allocate to unique and alternative investments. What's clear is that many investors need more investment education, which is an opportunity for financial advisors. This survey reveals that a trusted advisor willing to discuss a variety of solutions will build lasting client relationships.

FTSE Russell can be a valued partner in building these client relationships. Our indexes are rules-based, transparent, and rigorously maintained. You can also count on FTSE Russell to provide a wide variety of research and thought leadership, designed to help advisors plan better investment strategies and educate their clients.

A few words about our research:

Fielded in November 2022, FTSE Russell surveyed more than 1,000 US retail investors owning stocks, mutual funds or ETFs outside the workplace on a range of topics related to indexes, index investing and their economic outlook for 2023.

The research was conducted by 8 Acre Perspective, an independent marketing research firm. For more information, visit the FTSE Russell website.

About

About FTSE Russell:

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FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. Approximately $17.9 trillion is currently benchmarked to FTSE Russell indexes. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on applying the highest industry standards in index design and governance and embraces the IOSCO Principles. FTSE Russell is also focused on index innovation and customer partnerships as it seeks to enhance the breadth, depth and reach of its offering.

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