2016 Trends in Investing Survey

Where financial advisers are investing now

A report by:

FPA Financial Planning Association

Journal of Financial Planning

FPA Research & Practice Institute

For more information on FPA membership, visit www.OneFPA.org.

2016 Trends in Investing Survey

About the 2016 Trends in Investing Survey

The 2016 survey, conducted by the *Journal of Financial Planning* and the FPA Research and Practice Institute™, was fielded in April 2016 and received 283 online financial adviser responses.

Executive Summary

As an investment vehicle that advisers use and recommend, exchange-traded funds continue to surpass mutual funds in popularity, according to a recent survey conducted by the *Journal of Financial Planning* and the FPA Research and Practice Institute™.

The 2016 Trends in Investing Survey showed that 83 percent of financial advisers surveyed currently use or recommend ETFs with their clients—the most popular investment vehicle among 18 options. Eighty percent of advisers surveyed currently use or recommend mutual funds (non-wrap) with clients.

FPA's Trends in Investing Survey has shown continued growth in the popularity of ETFs since 2006, when just 40 percent of survey participants indicated they used or recommended them. This percentage grew to 44 percent in 2008, and to 79 percent in 2014 (when mutual funds still reigned with 82 percent of advisers reporting the used/recommended them). In 2015, ETFs surpassed mutual funds for the first time in the survey's history, with 81 percent of advisers reporting they used or recommended ETFs with clients, compared to 78 percent who did so with mutual funds. The 2016 survey confirms the popularity of ETFs and their place as the investment product of choice among advisers.

The 2016 survey, which was fielded in April and received 283 online responses, also indicated that 46 percent of advisers plan to increase their use or recommendation of ETFs with clients over the next 12 months. No other investment vehicle showed this level of anticipated increased usage. For example, 23 percent of respondents plan to increase their use of individual stocks, and 21 percent plan to increase their use of mutual fund wrap programs.

Advisers surveyed are turning to ETFs primarily because of their lower costs and tax efficiency over mutual funds, the 2016 survey reveals. The majority of advisers also cite trading flexibility as one of the most significant advantages of ETFs.

The 2016 Trends in Investing Survey also showed that advisers continue to be moving away from variable annuities, with 39 percent currently using/recommending variable annuities, compared to 49 percent in 2012, and a high of 58 percent in both 2006 and 2008.

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Investments Used

Which investment vehicles do you *currently* use/recommend with your clients?

	2015	2016
Exchange-traded funds (ETFs)	81%	83%
Mutual funds (non-wrap)	78%	80%
Cash and equivalents	78%	74%
Individual stocks	53%	56%
Individual bonds	41%	52%
Variable annuities (immediate and/or deferred)	38%	39%
Mutual fund wrap program(s)	41%	38%
Fixed permanent life insurance products	28%	34%
Fixed annuities (immediate and/or deferred)	28%	30%
Individually traded REITs (not held in mutual fund)	30%	24%
Variable permanent life insurance	21%	20%
Other alternatives (bought directly, not included in other investment vehicles)	20%	17%
Non-traded REITs	18%	16%
Indexed annuities	10%	15%
Options	9%	8%
Private equity funds	8%	8%
Hedge funds (directly, not through mutual funds)	9%	7%
Other	2%	1%

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Which investment vehicles do you expect to *increase* your use/recommendation of over the next 12 months?

	2015	2016
Exchange-traded funds (ETFs)	51%	46%
None. I do not plan to increase the use/recommendation of any investment vehicles	25%	26%
Individual stocks	22%	23%
Mutual fund wrap program(s)	23%	21%
Mutual funds (non-wrap)	20%	19%
Individual bonds	11%	18%
Cash and equivalents	14%	15%
Fixed annuities (immediate or deferred)	10%	12%
Fixed permanent life insurance products	9%	10%
Variable annuities (immediate or deferred)	14%	9%
Indexed annuities	5%	9%
Other alternatives (bought directly, not included in other investment vehicles)	9%	9%
Individually traded REITs (not held in mutual fund)	6%	5%
Variable permanent life insurance	5%	4%
Private equity funds	3%	4%
Non-traded REITs	5%	4%
Hedge funds (directly, not through mutual funds)	4%	2%
Options	3%	1%
Other	1%	1%

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Which investment vehicles do you expect to *decrease* your use/recommendation of over the next 12 months?

	2015	2016
None. I do not plan to decrease the use/recommendation of any investment vehicles	48%	51%
Mutual funds (non-wrap)	16%	16%
Individual stocks	14%	9%
Individual bonds	11%	9%
Variable annuities (immediate or deferred)	7%	9%
Non-traded REITs	9%	7%
Cash and equivalents	8%	6%
Mutual fund wrap program(s)	8%	6%
Variable permanent life insurance	4%	4%
Exchange-traded funds (ETFs)	3%	3%
Fixed annuities (immediate or deferred)	7%	3%
Indexed annuities	3%	3%
Hedge funds (directly, not through mutual funds)	3%	3%
Other alternatives (bought directly, not incl. in other investment vehicles)	3%	3%
Individually traded REITs (not held in mutual fund)	3%	2%
Options	3%	1%
Fixed permanent life insurance products	2%	1%
Private equity funds	1%	1%
Other	1%	0%

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Which investment vehicles do you currently use/recommend with clients?

Investment Vehicle	2006	2008	2010	2012	2014	2015	2016
Mutual funds (non-wrap)	85%	81%	88%	82%	82%	78%	80%
ETFs	40%	44%	72%	74%	79%	81%	83%
Cash and equivalents	53%	52%	84%	76%	79%	78%	74%
Individual stocks	66%	69%	49%	53%	50%	53%	56%
Individual bonds	60%	53%	52%	49%	45%	41%	52%
Mutual fund wrap program(s)	39%	44%	42%	38%	40%	41%	38%
Variable annuities	58%	58%	53%	49%	41%	38%	39%
Fixed annuities	36%	23%	49%	35%	29%	28%	30%
Private equity funds	3%	3%	8%	9%	11%	8%	8%
Hedge funds	9%	5%	13%	9%	9%	9%	7%

Source: FPA's Trends in Investing Surveys (not all options are displayed here, only ones comparable year-over-year). Respondents could select all that applied.

Economic Outlook

What is your economic outlook for the...

next 6 months? **(1 Bullish, 5 Bearish)**

1	2	3	4	5
5%	21%	60%	13%	1%

next 12 months?

1	2	3	4	5
5%	32%	48%	13%	2%

next 2 years?

1	2	3	4	5
10%	41%	31%	14%	4%

next 5 years?

1	2	3	4	5
32%	32%	25%	8%	3%

Key Finding: Advisers' long-term economic outlook is much more positive than their short-term outlook. The majority (64 percent) of advisers are "bullish" for the next five years, compared to just 26 percent "bullish" (indicating a 1 or 2 on the scale) over the next six months.

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Key Finding: ETFs Remain Most Popular Investment Vehicle among Advisers

When asked about the investment vehicles they currently use or recommend with clients, financial planning professionals have indicated a continued preference for exchange-traded funds.

The 2016 FPA Trends in Investing Survey, conducted by the *Journal of Financial Planning* and the FPA Research and Practice Insitutite™, found that 83 percent of financial advisers surveyed currently use or recommend ETFs with their clients—the most popular investment vehicle among 18 options—followed closely by mutual funds (non-wrap), which 80 percent of advisers surveyed currently use or recommend.

Since its inception in 2006, FPA's annual Trends in Investing survey has shown a growing interest in ETFs, and just last year ETFs surpassed mutual funds as the investment product most commonly used.

This year's survey, which was fielded in April and received 283 online responses from FPA members, also indicated that 46 percent of respondents plan to increase their use or recommendation of ETFs over the next 12 months. Twenty-six percent of respondents do not plan to increase their use or recommendation of any particular investment vehicle, meanwhile, 23 percent of respondents plan to use or recommend more individual stocks in client portfolios over the next year.

What do you believe are the most significant advantages of ETFs over mutual funds?	
Lower costs	75%
Tax efficiency	56%
Trading flexibility	51%
Transparency of holdings	22%
Diversification	9%
There are no advantages	5%

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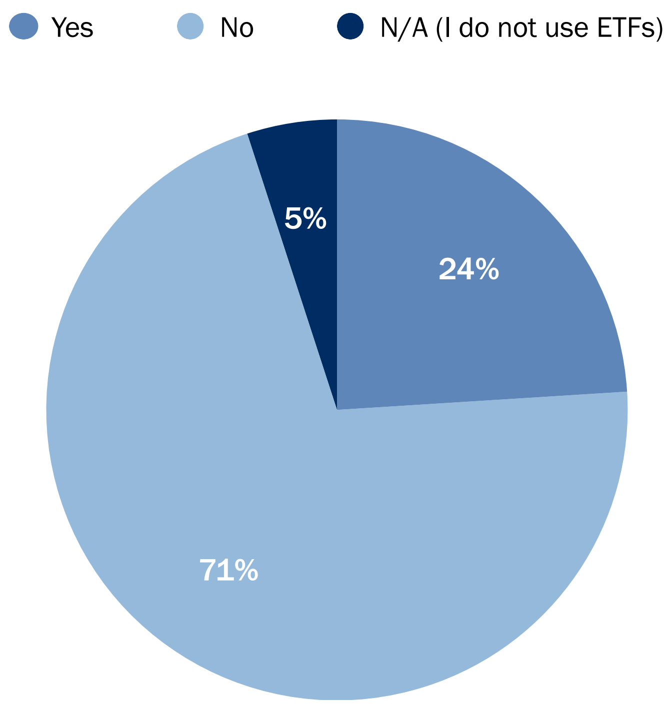
Smart Beta

Although the concept of “smart beta” continues to get media attention, and fund providers continue to release new ETFs products in this category, survey results indicate that only 24 percent of advisers have used smart beta ETFs with clients in the last 12 months. This is a slight increase from the 22 percent reported in the 2015 survey.

Have you used/recommended smart beta ETFs with clients in the last 12 months (since April 2015)?



Source: 2016 Trends in Investing Survey

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Active vs. Passive

What type of management do you think provides the best overall investment performance, taking into account costs associated with each style?	2014	2015	2016
Active	18%	15%	15%
Passive	25%	24%	19%
Blend of the two	57%	61%	64%

Key Finding: Advisers increasingly favor a blend of active and passive management.

Although the percentage of advisers favoring active management remained unchanged from 2015 (15 percent) and was slightly lower than that reported in 2014 (18 percent), a larger majority of advisers (64 percent) now indicate a preference for a blend of active and passive management compared to what was reported in 2014 (57 percent).

Asset Allocation / Rebalancing

Did you recently (within the last 3 months) or are you currently re-evaluating the asset allocation you typically recommend/implement?	2014	2015	2016
Yes	57%	64%	60%
No	43%	35%	39%
Don't know	0%	1%	1%

I re-evaluate the asset allocation strategy I typically recommend/implement because of anticipated/existing changes in:	2015	2016
The economy in general	68%	74%
I continually re-evaluate asset allocation	74%	74%
Specific investments	47%	43%
Administrative aspects of investments (cost, lead manager, etc.)	22%	30%
Inflation	34%	28%
Income tax legislation	24%	24%
Investment tax legislation (capital gains, interest, etc.)	28%	21%
Health care law	6%	5%

Source: 2015 and 2016 Trends in Investing Surveys

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In the past 12 months (since April 2015), the number of changes to your specific investment selections has:	
Increased	34%
Decreased	5%
Stayed the same	61%

Key Finding: Changes in investment costs and fund management cause more planners to re-evaluate asset allocation.

The 2016 survey shows that advisers are increasingly re-evaluating the asset allocation strategy they typically recommend/implement due to changes in the administrative aspects of investments, such as cost and lead manager (30 percent, compared to 22 percent in 2015). Meanwhile, advisers seem less concerned with inflation and changes to investment tax legislation today than in 2015.

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About the Respondents

How are you compensated by your clients for your investment services?	
Fee-Only	56%
Commission Only	3%
Fee and Commission	41%

What is your primary practice model/registration status?	
Independent IAR/RIA	49%
Dually registered adviser	22%
Registered rep, independent adviser affiliated with a B-D	15%
Registered rep, employee for a B-D	7%
Unregistered planner/adviser	4%
Trust officer/working through a trust company or bank	3%

Are you a CFP® practitioner?	
Yes	98%
No	2%

How many years have you been in the financial services profession?	
5 or less	6%
6 to 10	12%
11 to 15	17%
16 to 20	17%
21 or more	48%

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About the Financial Planning Association

The Financial Planning Association® (FPA®) is the principal professional organization for CERTIFIED FINANCIAL PLANNER™ (CFP®) professionals, educators, financial services professionals and students who seek advancement in a growing, dynamic profession. Through a collaborative effort to provide more than 24,000 members with One Connection™ to tools and resources for professional development, business success, advocacy and community, FPA is the indispensable force in the advancement of today's CFP® professional. Learn more about FPA at OneFPA.org and follow on Twitter at twitter.com/fpassociation.

About the *Journal of Financial Planning*

First published in 1979, the mission of the *Journal of Financial Planning* is to expand the body of knowledge of the financial planning profession. With monthly feature articles, interviews, columns, and peer-reviewed technical contributions, the *Journal*'s content is dynamic, innovative, thought-provoking, and directly beneficial to financial advisers in their work. Learn more here.

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