2021 INVESTMENT BEHAVIOR IN A MARKET CRISIS

Investors Will Act Against Best Interests in a 50-percent+ Market Decline

By Devon Coquillard

Investments & Wealth Institute, in partnership with the Behavioral Investing Institute, recently conducted a study, "2021 Investor Behavior in a Market Crisis," about how both advisors and investors perceive bubbles and market crises.[1] The survey results revealed the depth of client temptations, their fears of market declines, and their understanding of their portfolios. The study also revealed advisors' perceptions about what their clients think of them.

The 2021 iteration builds upon the 2020 study[2] and illuminates the gaps between client and advisor perceptions regarding their advisory relationship. The study also outlines the behavioral finance techniques that advisors can utilize to demonstrate and reinforce their value to clients.

The research, conducted by Absolute Engagement, gathered input from 200 advisors and 750 investors in the United States during April and May 2021. Each investor respondent worked with a financial advisor, made or contributed to the financial decisions in their households, and met specific requirements regarding investable household assets.

Fielded against the backdrop of economic recovery and the continuing coronavirus pandemic, the research looked closely at investor behavior, risk tolerance, and confidence. The study revealed critical gaps and opportunities for advisors, including the following:

- Clients and advisors have inverse perceptions about the impact of communicating a plan of action, indicating that advisors are not doing a good job communicating with their clients. The research shows there is an opportunity to educate clients more effectively.
- During market declines of more than 50 percent, investors are more likely not to change course. At the same time, advisors in the same conditions are more likely to take action to diminish loss, demonstrating the value of advice, especially in challenging market conditions.

The research also examined differences in needs and preferences across segments, highlighting the significant differences in clients based on demographics. There was a considerable difference in risk tolerance based on age and level of wealth, with wealthier respondents reporting feeling less nervous about market changes and younger investors taking the most significant risk. Gender also was found to have an impact on behavior. Women respond more conservatively when making changes during a down market, but men are more likely to accept lower returns to minimize potential losses.

"These findings are fascinating and provide much insight for advisors on how they can better serve different segments of their clients," said Phillip Toews, chief executive officer of Toews Asset Management. "Perhaps most interesting is the data showing most advisors would stop investing to minimize loss during market declines, while investors would make no changes, highlighting the value of advice to mitigate risk and maximize returns. There is a clear opportunity for advisors to support clients with their expertise in these uncertain market conditions."

One reason financial advisors and investment professionals have a keen interest in behavioral finance and continue to field the study is because "investor behavior can have such a disastrous impact, despite advisors' best efforts," said Tim Whiting, chief revenue officer of Investments & Wealth Institute.

"This research expands upon last year's findings and shows both the importance of communicating with clients and practical ways to lessen behavioral bias in clients, and advisors themselves," Whiting said.

Read the entire report to get more insights and actionable behavioral finance techniques that advisors can utilize to demonstrate and reinforce their value to clients at https://iwicentral.org/investorbehavior2021.

Devon Coquillard is the communications manager for Investments & Wealth Institute. Contact her at dcoquillard@i-w.org.

ENDNOTES

1. "2021 Investor Behavior in a Market Crisis," Investments & Wealth Institute (July 2021), https://iwicentral.org/investorbehavior2021.
2. "Investor Behavior in a Market Crisis," Investments & Wealth Institute (June 4, 2020), https://iwicentral.org/investorbehavior2020.