Wells Fargo/Gallup: Investor Optimism Remains Strong
Thursday, June 28, 2018 01:00:00 PM (GMT)

Nearly half 'very worried' about impact of D.C. 'political climate' on markets

Controlling emotions: 9 in 10 investors say they 'keep their cool' in periods of volatility

U.S. investors remain broadly positive about the U.S. investment climate, according to the Wells Fargo/Gallup Investor and Retirement Optimism Index.

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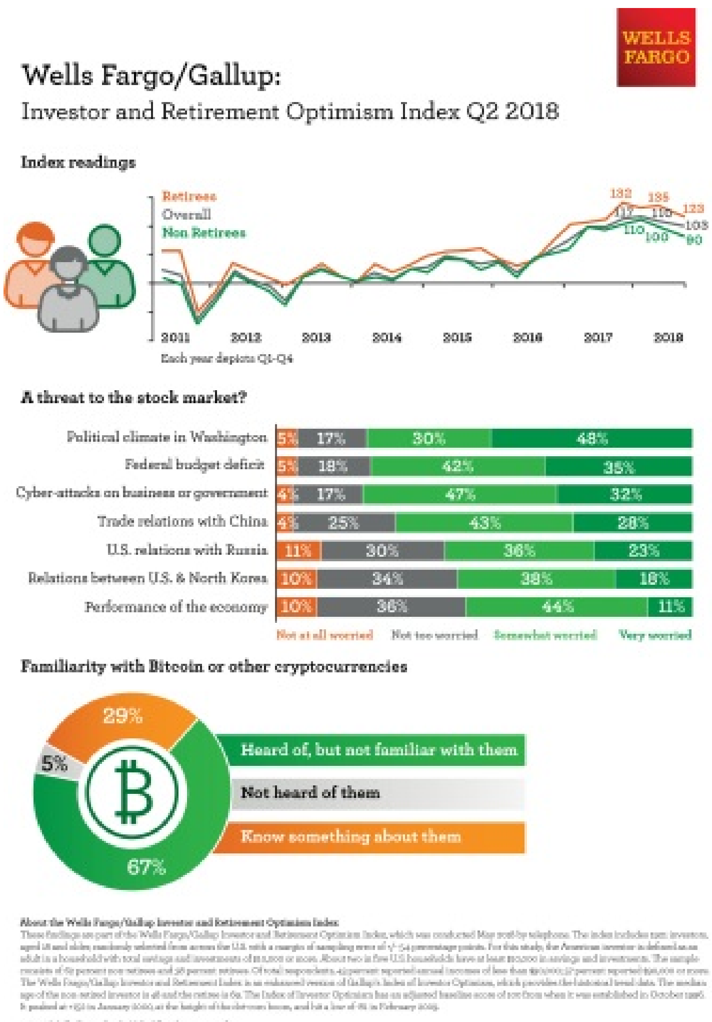

Wells Fargo Gallup Investor Optimism Index infographic Q2 2018

The index score in the second quarter is 103, with investors' 12-month outlook for economic growth, U.S. unemployment and their personal finances remaining strong. Although the index is a bit lower than the 117 recorded in November 2017, this is the sixth straight quarter it has registered 100 or higher. This follows a 16-year period when investor optimism was consistently below that level.

The full range of the index over its 22-year history extends from –81 in February 2009 to 152 in January 2000. (See the note at end about changes to survey methods and index trends this quarter.)

"While investors are enjoying current market conditions and the strength of the economy, they appear to be sleeping with one eye open. They are optimistic, but they also have clear concerns about what factors could impact markets and drive volatility," said Erik Davidson, chief investment officer for Wells Fargo Private Bank.

The second quarter Investor and Retirement Optimism survey was conducted May 7–14, 2018. This was three months after the stock market's sharp drop in February, and shortly after the monthly U.S. labor report was released showing unemployment falling to 3.9 percent in April, the lowest since late 2000. It dropped further to 3.8 percent in May. Nevertheless, the majority of investors reported feeling "somewhat concerned" (44 percent) or "very concerned" (11 percent) about recent stock market volatility. Fewer than half were "not too" (40 percent) or "not at all" (5 percent) concerned.

"There is an age old maxim that 'the markets climb a wall of worry.' Therefore, the fact that investors continue to harbor concerns for the market going forward is actually cause for comfort from a contrarian perspective," Davidson explained.

Top three risks to the stock markets

While overall investor optimism is strong and 41 percent of investors say the market will go up in value in

2018, investors worry certain economic and political matters could disrupt the market. Eight in 10 investors (79 percent) say they are somewhat or very worried about possible data breaches from cyberattacks on business or government affecting the market. A similar percentage worry about the political climate in Washington (78 percent) and the federal budget deficit (77 percent). Further, close to half, 48 percent, are very worried about the possible impact of the political climate, the highest level of extreme worry for any of the items tested.

Seven in 10 are “somewhat” or “very worried” that trade relations with China (71 percent) could impact the markets, while close to six in 10 worry to this degree about U.S. relations with Russia (59 percent), relations between the U.S. and North Korea (56 percent) and the economy’s performance (55 percent). The poll was conducted prior to the U.S.-North Korea nuclear talks in June.

“There is a lot going on in the world these days, and the results tell me that while investors are happy for today, they are worried about the future,” said Davidson.

Investors in wait, watch and see mode

Most U.S. investors expect stock market volatility to continue throughout 2018 (81 percent) rather than settle down before year’s end (19 percent). Further, 65 percent say the “worst is ahead of us” in terms of volatility, with 35 percent saying the “worst is behind us.” At least six in 10 agree that volatility has caused them to pay closer attention to their investments (62 percent) as well as to the market as a whole (59 percent).

Close to half of investors (46 percent) “somewhat” or “strongly agree” that market volatility is causing them to leave some of their money in cash now, rather than invest it. However, fewer are changing their existing investments as a result. Seventeen percent say they sold stocks to protect from further losses, while somewhat more, 25 percent, say they purchased stocks to benefit from lower prices. One in five investors (20 percent) were rattled enough to shift some investments into lower-risk instruments such as bonds or a stable value fund. The most common actions investors report taking are consulting with a financial advisor (42 percent) and rebalancing their portfolio (35 percent).

Retired investors were more likely than non-retired investors to report taking most of the actions tested and are particularly likely to consult with an advisor (59 percent of retirees versus 32 percent of non-retirees), to have rebalanced their portfolio (45 percent versus 30 percent), and to have sold stocks to prevent further losses (23 percent versus 13 percent).

Investors are twice as likely to believe the stock market will go up in value over the next year (41 percent) than believe it will go down in value (22 percent), with 37 percent saying it will stay the same. Those who say markets will gain expect growth to be solid, predicting a median rate of return over the next year of 8 percent. Those who say the market will go down in value have a more extreme expectation, predicting an average market loss of 12 percent.

“Given favorable economic tailwinds and healthy levels of investor skepticism, which keep valuations relatively reasonable, we believe stocks have more room to run in 2018,” said Davidson.

Most investors handling volatility well

The poll also offers several signs that investors are keeping this year’s volatility in perspective:

- Three in four investors (74 percent) say the market volatility seen this year is normal and was to be expected; 26 percent consider it a sign the market is in trouble.
- Nearly one in five, 19 percent, say that this year’s volatility “caught them off guard.”
- The majority, 74 percent, disagree that volatility has made their life stressful; 26 percent say it has.
- The majority of investors, 78 percent, say they are very or somewhat confident about investing in the stock market as a way to build wealth for retirement. The remaining 22 percent are very or somewhat doubtful.
- Looking further into the future, investors predict that the median rate of return over the next 20 years will be 10 percent, similar to the long-term average for the S&P 500 when not accounting for

inflation[1].

Female investors (62 percent) are more likely than male investors (48 percent) to be “somewhat” or “very concerned” about recent volatility in the stock market. Perhaps because of this, women (73 percent) are less likely than men (83 percent) to say they are confident in the stock market as a good way to build retirement wealth.

More than a quarter of investors (27 percent) agree that this year’s volatility has resulted in a significant decline in their investments. By contrast, just 18 percent say volatility has caused them to cut back on their day-to-day spending.

“Investors reasonably expect increased market turbulence going forward. Nevertheless, in their own minds they are ready for it and have every intention to ride it out, recognizing the wisdom of a long-term approach to investing,” said Davidson.

Few admit to emotional investing

The poll gave respondents three opportunities to indicate whether they mainly tend to respond emotionally or rationally when investing, but none yielded more than 5 percent admitting to being emotional.

Asked directly whether they are more of a rational or an emotional investor, 96 percent consider themselves rational and just 4 percent emotional. In a separate question, 95 percent identify with the statement that they maintain their cool when investing even when the market is volatile; just 5 percent say they tend to panic when the market is falling fast. Similarly, 95 percent say they are in the market for the long haul regardless of the ups and downs; 5 percent say they are ready to jump out of the market at any time if it falls too far or too quickly.

Asked about their reaction to two possible emotions for investing, six in 10 investors (59 percent) say the fear of losing a lot of money has more influence on their risk tolerance and investment choices; 41 percent say the desire to earn a lot of money motivates them more.

Female investors (65 percent) are more likely than male investors (52 percent) to say their investment choices are driven mainly by fear of losing money. Men (48 percent) are more likely than women (35 percent) to be driven by the desire to earn a lot of money.

Investors unfamiliar with Bitcoin, consider it risky

Bitcoin may have visibility with investors, but it has a long way to go in building familiarity and credibility, not to mention buyers. In an initial measurement of investor interest in bitcoin by Wells Fargo/Gallup, conducted before the news that cryptocurrencies were hacked, fewer than three in 10 investors (29 percent) say they have some familiarity with bitcoin or other cryptocurrencies. Another 67 percent say they have heard of bitcoin or other online currencies but don’t know much about them. Five percent say they had never heard of them.

Only 2 percent of investors who had heard of bitcoin and other cryptocurrencies say they currently own bitcoin. Of the rest, less than one-half of 1 percent say they plan to buy bitcoin in the near future; 26 percent say they are intrigued by it but won’t be buying it anytime soon. Fully 72 percent say they have no interest in ever buying bitcoin.

Three in four investors who had heard of the currency rated bitcoin a “very risky” investment, with most of the rest calling it somewhat risky (23 percent). Only 2 percent say it is not too risky.

Methodology note

Starting with this quarter’s poll, the Wells Fargo/Gallup Investor and Retirement Optimism Index is being conducted online using the Gallup Panel, a proprietary probability-based panel of U.S. adults, recruited via random-digit-dial (RDD) methodology. The poll was previously conducted by telephone, using random digit dial technology. Because of expected differences in the way respondents answer questions online versus on the telephone, the index trends have been adjusted using statistical modeling, so they are comparable to the new web-panel results. The modeling was based on a comparison of Gallup Panel test data from the 2018 first quarter investor poll to parallel telephone poll data.

About the Wells Fargo/Gallup Investor and Retirement Optimism Index

The results of this Wells Fargo/Gallup Investor and Retirement Optimism Index are based on a Gallup Panel web study completed by 1,921 U.S. investors, aged 18 and older, from May 7 to 14, 2018. The Gallup Panel is a probability-based longitudinal panel of U.S. adults who Gallup selects using random-digit-dial phone interviews that cover landline and cellphones. Gallup also uses address-based sampling methods to recruit Panel members. The Gallup Panel is not an opt-in panel. The sample for this study was weighted to be demographically representative of the U.S. adult population, using the most recent Current Population Survey figures. For results based on this sample, one can say that the maximum margin of sampling error is ±5.4 percentage points at the 95 percent confidence level. Margins of error are higher for subsamples. In addition to sampling error, question wording and practical difficulties in conducting surveys can introduce error and bias into the findings of public opinion polls.

For this study, the American investor is defined as an adult in a household with total savings and investments of $10,000 or more. About two in five U.S. households have at least $10,000 in savings and investments. The sample consists of 62 percent non-retirees and 38 percent retirees. Of total respondents, 43 percent reported annual incomes of less than $90,000; 57 percent reported $90,000 or more. The Wells Fargo/Gallup Investor and Retirement Index is an enhanced version of Gallup's Index of Investor Optimism, which provides the historical trend data. The median age of the non-retired investor is 48 and the retiree is 69.

The Index of Investor Optimism has an adjusted baseline score of 100 from when it was established in October 1996. It peaked at +152 in January 2000, at the height of the dot-com boom, and hit a low of -81 in February 2009.

About Wells Fargo

Wells Fargo & Company (NYSE: WFC) is a diversified, community-based financial services company with $1.9 trillion in assets. Wells Fargo's vision is to satisfy our customers' financial needs and help them succeed financially. Founded in 1852 and headquartered in San Francisco, Wells Fargo provides banking, insurance, investments, mortgage, and consumer and commercial finance through more than 8,500 locations, 13,000 ATMs, the internet (wellsfargo.com) and mobile banking, and has offices in 42 countries and territories to support customers who conduct business in the global economy. With approximately 271,000 team members, Wells Fargo serves one in three households in the United States. Wells Fargo & Company was ranked No. 25 on Fortune's 2017 rankings of America's largest corporations. News, insights and perspectives from Wells Fargo are also available at Wells Fargo Stories.

About Gallup

Gallup delivers analytics and advice to help leaders and organizations solve their most pressing problems. Combining more than 80 years of experience with its global reach, Gallup knows more about the attitudes and behaviors of employees, customers, students and citizens than any other organization in the world.

[1] https://dqydj.com/sp-500-historical-return-calculator/

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