Wells Fargo/Gallup Survey: Investors Expect, But Not Sweating, a Stock Market Correction

56% say their financial situation would be hurt by it

One in four say they hardly ever look at portfolio

Wealth and Investment Management
September 28, 2017

ST. LOUIS--(BUSINESS WIRE)--A slight majority of U.S. investors, 54%, anticipate a market correction later this year in which the stock market takes back "significant gains." While still a majority, this is down from 62% worried about such a correction in 2013 and 58% in 2014 – the previous high points.

Most investors are not acting proactively to shield their portfolio as less than half say they are consulting with a financial advisor (48%) or rebalancing their portfolio (40%) in anticipation of a correction. Even fewer say they are selling stocks to help protect from future losses (18%) or buying bonds to help reduce their exposure to market risk (20%).

"One of the consequences of a protracted bull market is, unfortunately, investor complacency. With a market correction inevitable at some point, it's important for investors to check their confidence with a comprehensive risk assessment to determine how a market correction could affect their overall investment strategies," said Heather Hunt-Ruddy, head of Client Experience and Growth at Wells Fargo Advisors.

One reason investors may be feeling somewhat complacent is that they aren't hearing much in the news about a possible market correction. Only 36% say they have heard a lot or moderate amount about this in the news, while 63% have heard little or nothing.

Additionally, the financial wound of the recent recession finally appears to be healing for many. The percentage of investors who say they have not financially recovered from the recession is now 26%, down from 37% in February 2016. Similarly, 43% of investors currently say they know someone besides themselves whose financial situation hasn't recovered, down from 70% in 2016.

These findings come from the Wells Fargo/Gallup Investor and Retirement Optimism Index third-quarter survey conducted by telephone with 1,006 U.S. adults in households with $10,000 or more in stocks, bonds or mutual funds. The poll found investor optimism surging to a 17-year high, largely due to increased confidence in the stock market.

The July 28-August 6 poll includes other signs that investors are fairly comfortable with the market as it lingers near historic highs. Sixty-one percent consider it a good time to invest in the stock market while 37% disagree. And, relatively few investors – 15% - agree with the statement that “fear of a market correction is making your life stressful.” The rate is similar among retired (18%) and non-retired (14%) investors.

Correction Pain Would be Widespread

Even though investors aren’t fretting over a possible market correction, 56% say their financial situation would be hurt either a lot (13%) or a moderate amount (43%) by such a downturn. The overall percentage believing they would suffer financially includes 60% of high asset investors – those with $100,000 or more in investments – as well as 48% of lower asset investors.

At the same time, investors hedge when asked if they feel prepared for a market correction. Barely a third (32%) strongly agree they are prepared, while another 48% somewhat agree they are prepared. Fully one in five (20%) says they are not prepared.

As Wells Fargo has found before, most investors say they would respond to a correction by riding it out (62%). Just 9% would exit the market while 27% – the highest recorded for this trend – say they would see it as a buying opportunity.

“It’s noteworthy that investors say that their financial situation would be hurt by a market correction and yet they’re still not highly prepared,” added Hunt-Ruddy. “This underscores the need for professional financial advice or, at the least, a written investment plan and regular rebalancing of one’s portfolio.”

Those Who Snooze May Lose

When investors were asked to say which one of four investing styles most closely matches their own, most say they are a “good listener,” defined as investors who know where to get sound advice and usually follow it (55%). However, the next largest group, at 24%, is self-proclaimed “snoozers” who say they hardly ever look at their portfolio. Just 10% consider themselves “pros” that do their own research and feel confident in their abilities while 8% admit they are “instinctive investors” who mostly wing it.

Most investors – regardless of their gender, age, retirement status or investment class –describe their investing style as a good listener. However, non-retirees (26%) are more likely than retirees (18%) to describe themselves as snoozers. Also, investors with less than $100,000 invested in the market (33%) are more likely to be snoozers than those with $100,000 or more (19%).

Half Rely on Professional Advisor for Market Advice

Despite investors’ recognition that they are not investing pros, only about half (49%) say they are most likely to turn to a professional financial advisor to help them through a market correction. A third would rely on their own knowledge or research (35%) while 13% would turn to a trusted friend or family member and just 1% would rely on financial news commentators.

Do They Know Knowledge –and Diversification–is Power?

The poll reveals other risks to investors' ability to weather a correction. Barely a quarter of investors, 28%, describe their portfolio as highly diversified. Another 48% say it is somewhat diversified while 21% say it is not too diversified or not diversified at all.

Rebalancing is another mechanism for maximizing gains in a portfolio and can be especially important leading up to a correction. Yet less than half of investors (46%) report that they rebalance their portfolio at least annually; 21% say they do it less often and 29% say they never do it. Three in 10 investors (31%) say they would rather be stuck in traffic for an hour than rebalance their portfolio.

"In my view, diversification is the hallmark of savvy investing and one of the most important ways to weather a market correction," said Hunt-Ruddy. "It's concerning that more investors are not taking advantage of diversification and rebalancing of their portfolios."

The poll included two questions testing investors' basic knowledge about the markets. While most investors were right on at least one, less than half (46%) answered both correctly.

- When asked whether riskier investments tend to provide either higher or lower return potential over time than investments with less risk, 70% of investors correctly answer that riskier investments tend to provide higher potential returns. However 21% think the opposite is true, 5% say it depends and 4% aren't sure.
- Separately, when asked which of four types of investments have provided the best returns on average over the past 20 years, 64% correctly identified stocks. The most common incorrect answer was gold, named by 16%, while 8% named bonds and 6% CDs.

"With just 46% of investors answering both of these fundamental investing questions correctly, the remaining 54% may be ill-equipped to be managing their own investments without professional advice," said Hunt-Reddy. "This underscores the need for financial advisors to be consistently helping investors understand the market as well as their own portfolio."

Many Investors Still Risk Averse

Although investors aren't fearful about a correction, aversion to market losses remains an important part of investors' psychology, as seen in three different questions on the poll.

- By 62% to 33%, investors say that the fear of suffering big losses has a greater impact on their investing decisions than the prospect of earning big gains.
- Four in 10 investors (44%) say they have savings they are not invested because they are concerned about the market.
- Most investors (63%) say they can tolerate market downturns very or somewhat well. However, more than one in three (35%) report they have little or no tolerance for significant downturns.

About the Wells Fargo/Gallup Investor and Retirement Optimism Index

These findings are part of the Wells Fargo/Gallup Investor and Retirement Optimism Index, conducted July 28-Aug. 6, by telephone. The index includes 1,006 investors, aged 18 and older, randomly selected from across the U.S. with a margin of sampling error of +/- 4 percentage points. 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 size consists of 69% nonretirees and 31% retirees. Of total respondents, 41% reported annual incomes of less than $90,000; 59% 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 nonretired investor is 46 and the retiree is 69.

The Index of Investor Optimism had a baseline score of 124 when it was established in October 1996. It peaked at +178 in January 2000, at the height of the dot-com boom, and hit a low of -64 in February 2009.

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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.

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