the gandalf group

2018 Canadian Investor Survey

Opinion Research Findings on Financial Advice Services

December 12, 2018

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Introduction

The following is a summary of findings from a recent survey of Canadian individual investors. This report covers detailed findings as they relate to:

1. Reliance on professional advice and the incidence of robo-advisory services
2. Satisfaction with advice services
3. Satisfaction with investment services and products

The findings draw on an online survey conducted between October 31 and November 14, 2018, by the Gandalf Group Inc. on behalf of AGF Investments Inc.

- 1102 Canadian investors completed the survey i.e. Canadian adults who own mutual funds, exchange traded funds or stocks and are solely or partly responsible for their household's investment decisions. Those who work in the investment industry were screened out.
- Investors were screened in from a larger, representative sample of Canadian adults, proportionate to Canada's population's distribution by region, gender and age. I.e. Investors comprise almost half (44%) of the Canadian adult population.
- The sample is comparable to a 2017 survey conducted (April 7 to May 5), screened in with similar criteria and tracking questions to compare results.
- Most work with a professional advisor while 1 in 5 are non-advised, meaning they receive no advice from an advisor and intend to make investment purchases on their own online platform.
- An oversample (n=41) of robo-advised investors was collected to provide a more representative snapshot of this emerging advice channel (for a total of n=144).

Key Findings

1. The clear majority of investors (4 out of 5) rely on a professional advisor. Some take no advice and use online brokerage platforms – i.e. the so-called non-advised.
2. Advised investors are especially satisfied with the time advisors take to discuss their investments & objectives as well as what they see as unbiased advice and a range of options.
3. Most are very satisfied with their advisors when it comes to how they help instill discipline to reach their financial goals.
4. Even more agreed their advisors played an important role in encouraging them to start investing.

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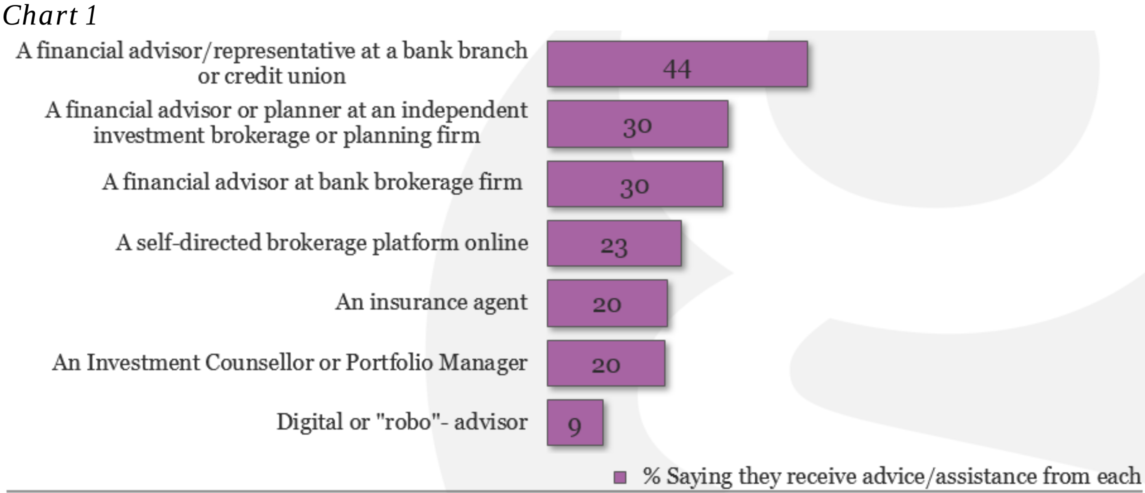
5. Virtually no investors are looking to reduce their reliance on professional advisors while a substantial minority would value more time from their advisors, including many who are already very satisfied with their advisors.
6. Younger investors are especially likely to be looking for more time and advice from professional advisors.
7. A smaller proportion of investors use digital or robo-advice platforms – less than 1 in 10. Those who do, still tend to rely on a professional advisor. And unlike those who don't have an advisor, most still will want more or somewhat more professional advice. They also differ substantially from other investors not simply by being younger but also claiming to have a high degree of knowledge about investing and have more to invest than most young or small investors.

Detailed Findings

Reliance on Advisors

It remains the case that the clear majority of investors (80%) rely on a professional advisor of some kind. The proportions relying on each type of advisory service are relatively unchanged this year compared to last. For example, the proportion that relies on a robo-advisor services represents 9% of investors, not significantly greater than the 7% recorded in 2017. (Chart 1)

Chart 1



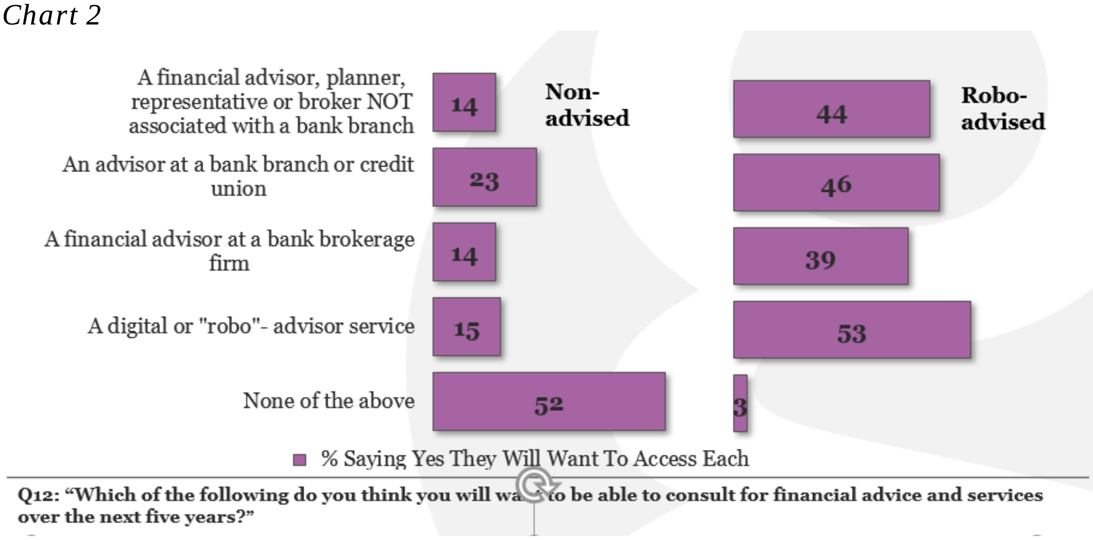
Q9: "Do you receive financial advice or assistance to purchase investments from any of the following types of financial advisors? "

There is also an overlap -- most (63%) who rely on an advisor or representative at a bank branch or credit union also reported they rely on at least one other type of advisor, such as an independent brokerage or an insurance agent or portfolio manager/counsellor.

Most who are "robo-advised" have at least one professional advisor and indeed many rely on more than one – both a financial institution branch advisor and/or some other kind of advisor.

A minority of investors do not have an advisor ("the non-advised"):. they do not rely on an advisor for any decision-making or advice or to make investment transactions (which they can do online). They represent 20% of all investors surveyed in 2018; statistically unchanged since a comparable 2017 survey. Almost half of this group expect they will want the services of a professional advisor in future. Among the robo-advised, even more (most) said they will want to access one or more types of professional advisors in the future. Many will want to stay with a robo-advisor but many more were either unsure and did not select this option or expect to work with a different advisor in future. (See Chart 2 below)

Chart 2



Just over half of investors are satisfied with the amount of professional advice and time they receive now from their advisors. Virtually none are looking to reduce their reliance on professional advisors while a substantial minority would value more time from their advisors, including many who are already very satisfied with their advisors. Small investors are somewhat more likely than the average to say they want more time and advice from an advisor. But even a substantial share of the non-advised (36%) want more time with or access to an advisor, suggesting that this group is not decidedly against working with advisors.

Younger investors are especially likely to be looking for more time and advice from professional advisors (See chart 3). The same is true for those who are solely or primarily robo-advised: most of this group wants more time with an advisor than they receive currently.

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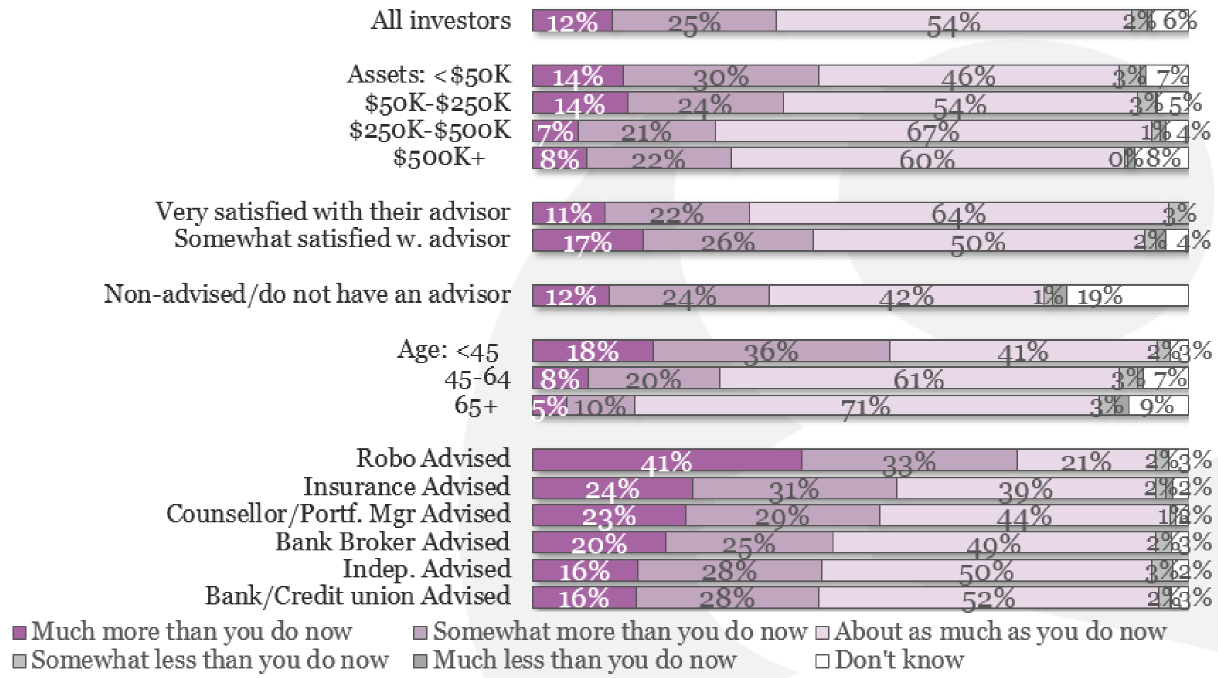
Chart 3



Q13B: "How much time and advice do you want to receive in the future from a professional that provides financial advice?"

Digital or Robo-Advice Services

Less than 1 in 5 said they will want to access a robo-advice service sometime in the next five years. While this would still permit roughly a doubling of the market for robo-advice it suggests a slow transition towards the digital platforms, at least among the current cohort (or age groups) that currently identifies as investors. As more young Canadians begin to save more and become investors this market may evolve and grow more rapidly.

The current robo-advised population is notable for several reasons (chart 4):

- They are younger: 91% under the age of 45 (the lion's share between 35 & 44).
- Unlike others their age, they tend to have more invested (70% with more than $50k) versus all investors under 45, only 55% of whom have more than $50,000 invested.
- They are far more likely than others to say they are very knowledgeable when it comes to investing – the majority, in fact, rated themselves as "very knowledgeable."

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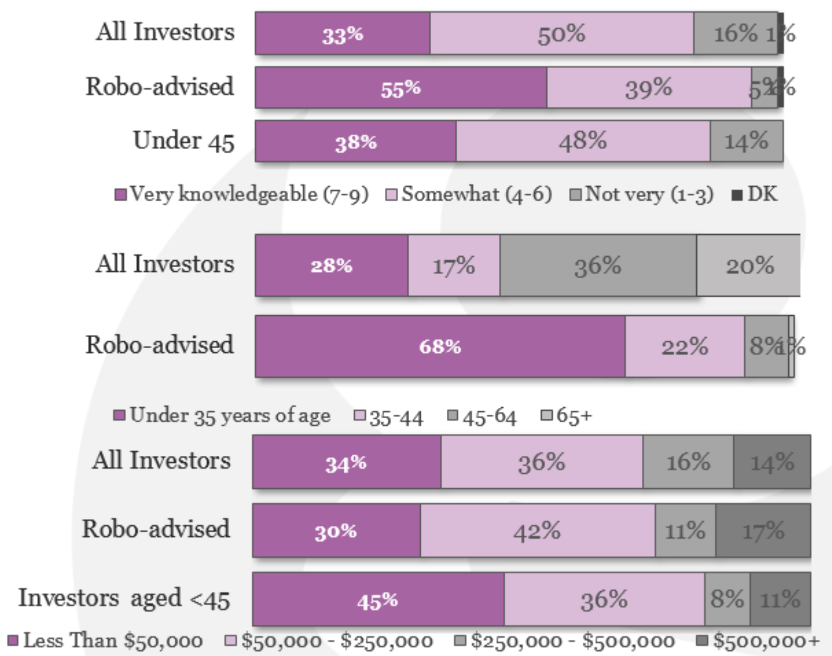
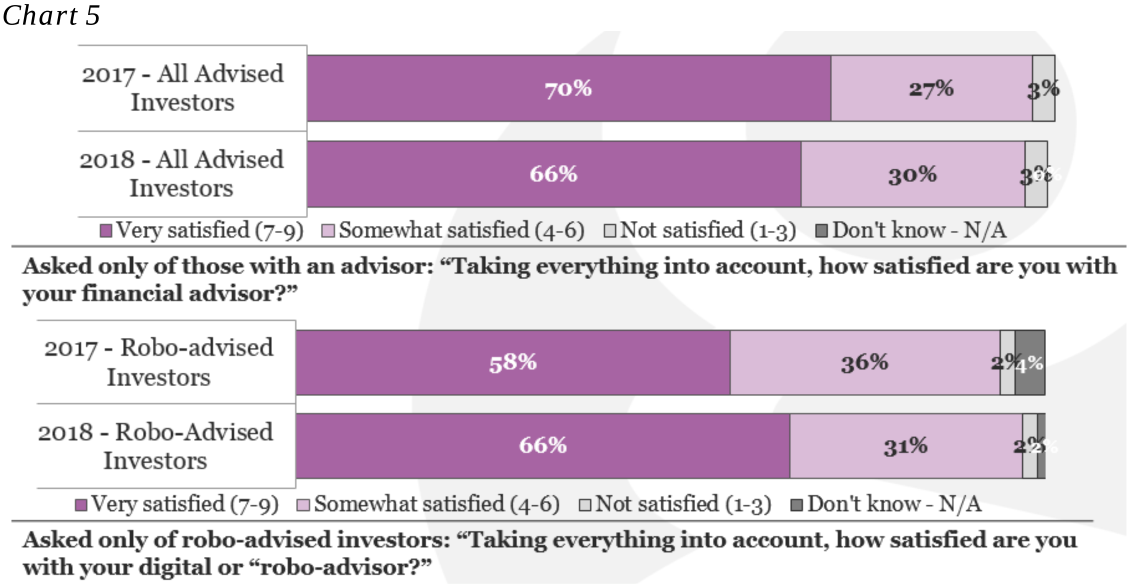
Chart 4



Satisfaction with Advisors

Consistent with 2017 research, the clear majority of advised investors is very satisfied with their advisors.

Chart 5

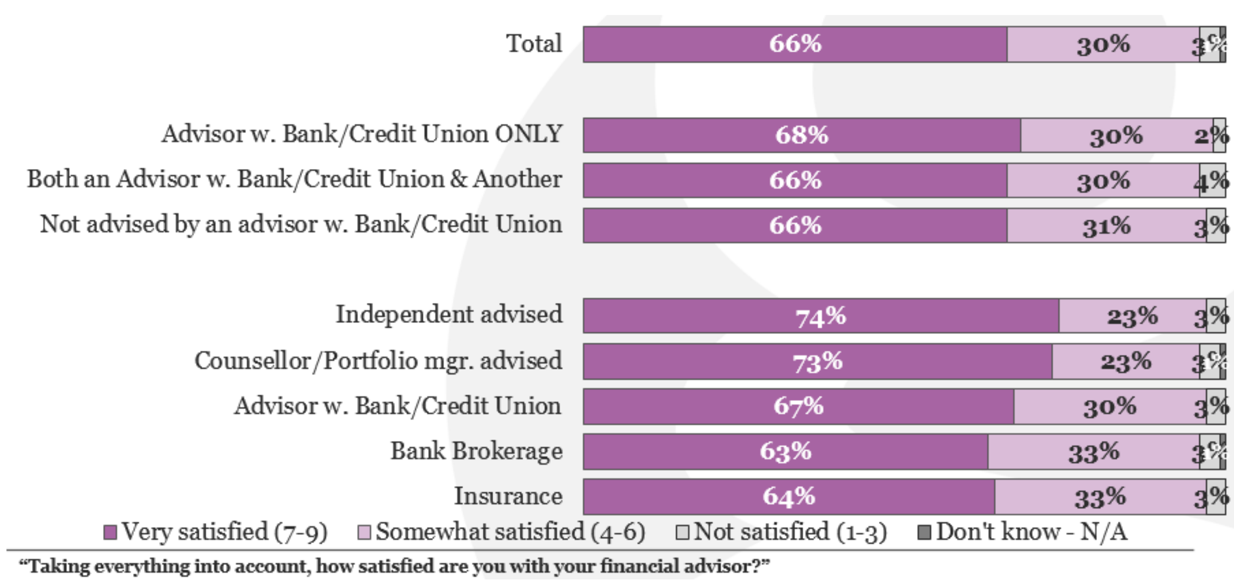


Taking everything into account they tend to give very high satisfaction scores in relation to the advice they receive with very few saying they are dissatisfied. (See chart 5)

- 66% are very satisfied - not significantly lower than the 70% who said they were very satisfied overall in 2017.
- Only 3% are dissatisfied with their financial advisor. Just over three in ten are moderately satisfied or somewhat satisfied.
- Satisfaction with robo-advice services is almost identical to satisfaction with professional advisors – 66% very satisfied. This is higher than satisfaction scores recorded in 2017 but owing to the small sample of robo-advised in both surveys this is not a statistically significant increase.

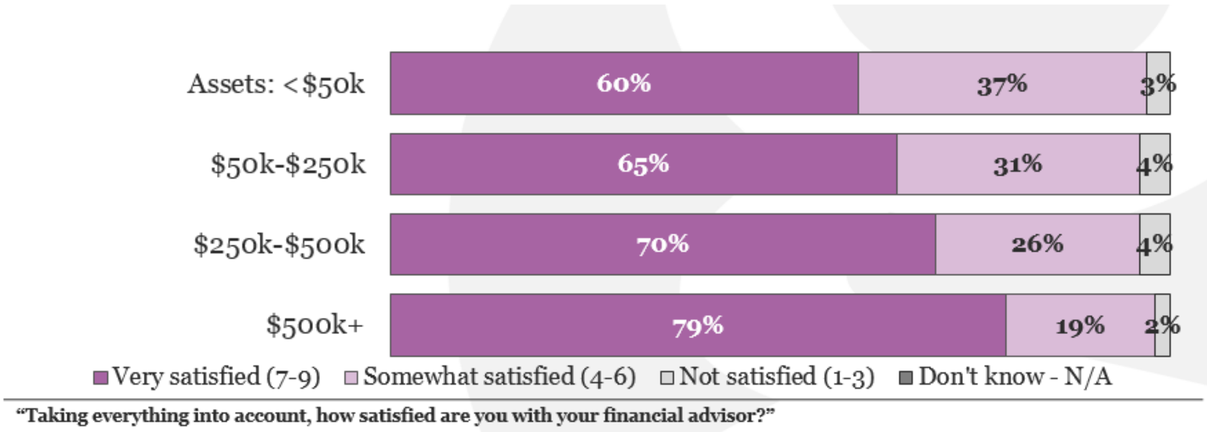
There is not a substantial difference in satisfaction by advice channel type. (See chart 6). Satisfaction appears to be somewhat higher (significantly so) among those who say they work with clients of independent advisors or portfolio managers/counsellors. But the difference is not as substantial as the difference by portfolio size. Also note that investors were asked to rate the advice they receive from their advisor rather than each and all of the advisors they have, by channel. So there is an overlap between those working with an advisor with a financial institution for instance and those with an advisor elsewhere. Notably, when we isolate some of those cases we see no significant difference —for example, between those who get advice from a bank branch or credit union versus those who do not versus those who rely on both (see chart 6).

Chart 6



The more substantial difference in satisfaction is on the basis of the amount invested. (See chart 7.) Small investors and those with less than $250k invested are no more dissatisfied than high net-worth investors, but they are less likely to be very satisfied with their advisor, taking everything into account.

Chart 7



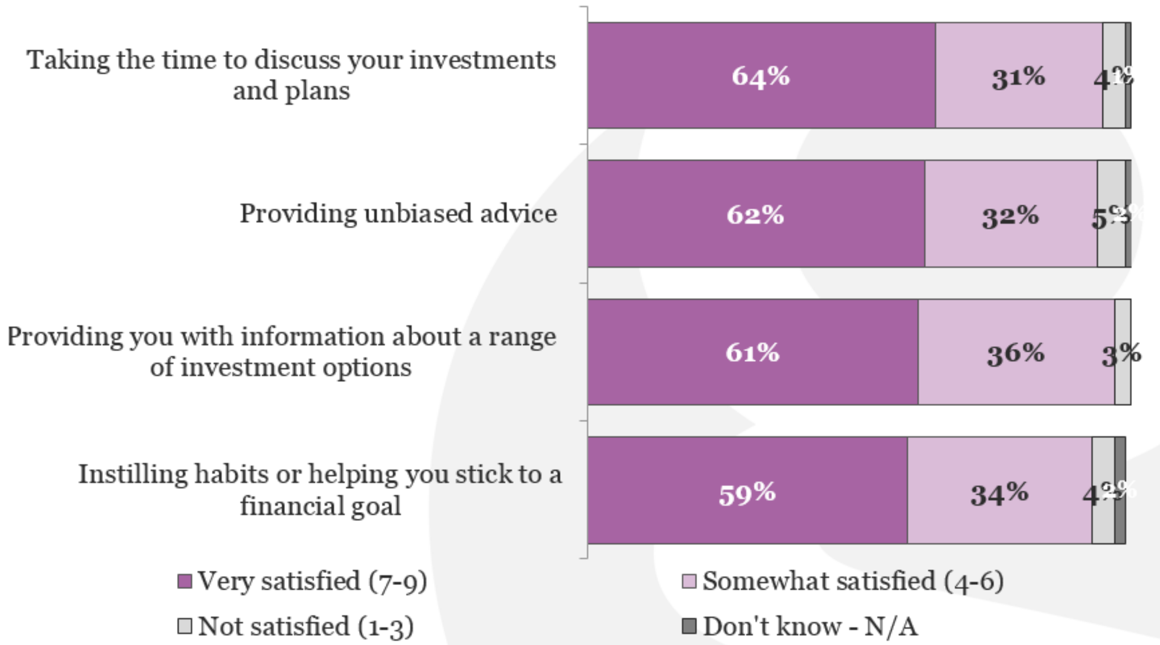
Rating Specific Advice Deliverables

Advised investors are especially satisfied with the time advisors take to discuss their investments and objectives as well as what they see as unbiased advice and a range of options (see chart 9).

- 59% are very satisfied with their advisors when it comes to how they help instill discipline to reach their financial goals
- 67% agreed their advisors played an important role in encouraging them to start investing (see chart 10)
- 61% are very satisfied with the range of investment options they receive

With respect to each facet of advice services, only a small fraction of investors are very dissatisfied (9% or less – see chart 8 & 9). There is less satisfaction with respect to the amount they pay in fees to their advisors (9% very dissatisfied and about half of advised investors saying they are only somewhat satisfied – see chart 9). Yet, far more are very satisfied with the value they get for what they pay in fees (38%) than believe they get too little value (9%).

Chart 8



"How satisfied are you with your financial advisor when it comes to offering or doing each of the following?"

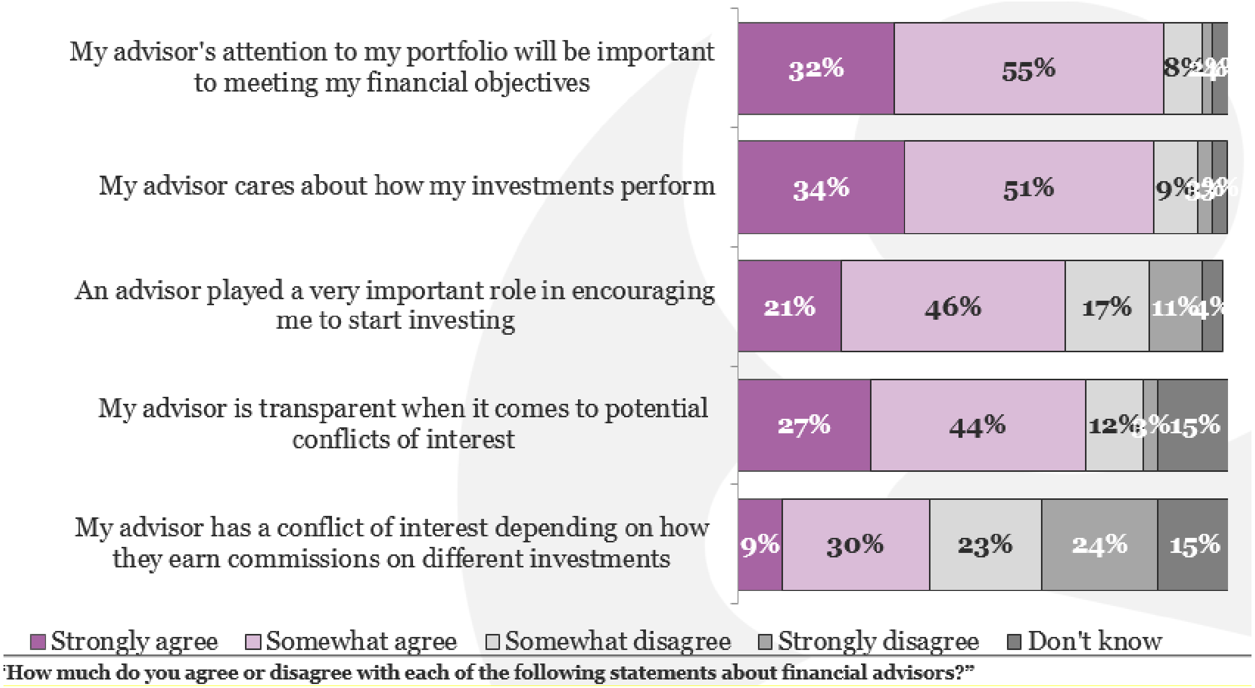
Chart 9

"Now please tell us how satisfied you are with each of the following aspects as they relate to your advisor?"

A noteworthy finding is that investors appear to rate their own advisors more positively than they rated advisors – or the advice industry – generally (see chart 10).

- In a comparable survey in 2017, 74% agreed advisors care about how their clients' portfolios perform. In this survey, 84% agreed <u>their</u> advisors care about how their portfolios perform.
- In 2017, only 54% agreed advisors are transparent about potential conflicts of interest. In this survey, 71% agreed <u>their</u> advisors were transparent about potential conflicts of interest while 15% disagreed that they were transparent.
- In 2017, 66% agreed advisors have a conflict of interest depending on how they earn commissions and fees; yet in 2018 only 39% agreed <u>their</u> advisor had a conflict of interest depending how they earn commissions/fees.

Chart 10



Investors are more satisfied with the advice they receive than with their investments. While there has only been a slight and not significant decrease in investors' overall satisfaction with their advisors since 2017 (66% compared to 70%) there has been a significant decrease in investors' satisfaction with the rate of return or growth in their portfolios:

- 39% said they were very satisfied, 50% somewhat satisfied (see chart 11).
- in a comparable 2017 survey, significantly more (46%) were very satisfied with their investments' performance.

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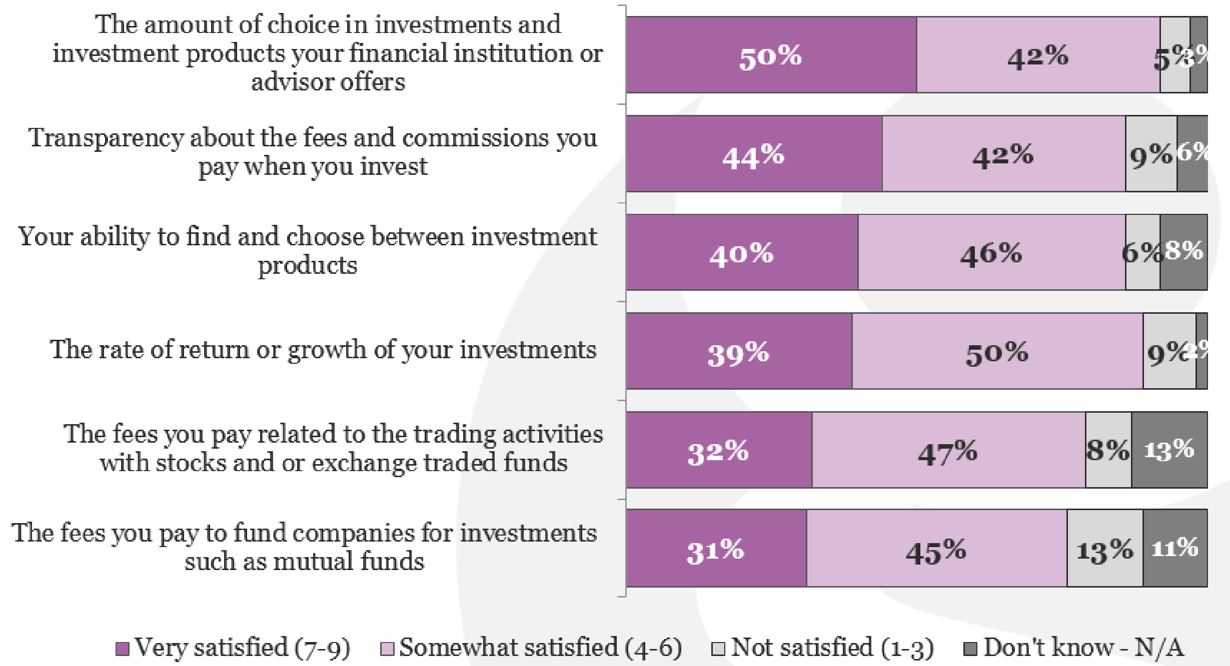
Chart 11



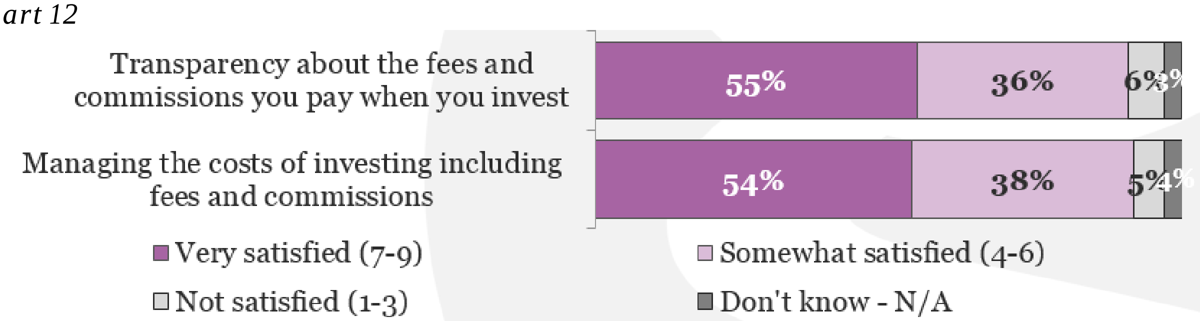
"How satisfied are you with each of the following aspects relating to your investments?"

Investors are not enthusiastic about having to pay fees in relation to trading or to fund companies:

- fewer are very satisfied about each (32% & 31% respectively and about 1 in 10 very dissatisfied - see chart 11) than are very satisfied with what they pay their advisors in fees (39% - see chart 9).

There is far more satisfaction when it comes to transparency about fees and commissions or the work advisors do to manage the costs of those (chart 12): most are very satisfied with their advisors' performance in these respects, although there is some room for improvement, as more than a third are only somewhat satisfied.

Chart 12



"How satisfied are you with your financial advisor when it comes to offering or doing each of the following?"

Conclusions

The demand for advice services appears stable with signs that there is going to be continued demand for more professional time and advice, not less. This is reinforced by the fact that very few investors are dissatisfied with their advisors and even some who are very satisfied still say they want more advice than they currently receive.

They are less satisfied with the performance of their investments or the amount they pay in fees than they are with their advisors. Some of this is due to the volatility in the markets since September 2018 (which shed most gains from the previous year) and how investors feel financially in general (especially small investors). While there is room for improvement, they are not as concerned about the transparency of the fees they pay or the work that advisors do to manage those costs compared to how they feel about the amount they pay in fees. Relative satisfaction with fees may also reflect the fact that i investors are not looking to fees as an outcome of investing. It would be normal to expect many to pay little little or nothing when possible. In that sense, it would be surprising for investors to be enthusiastic about fees. Yet, more advised investors are very satisfied with the fees they pay to advisory than are very dissatisfied. So, there is room for improvement with respect to fees (and to a lesser extent transparency around fees), yet most investors are not dissatisfied with fees for advisory services.

Current investor attitudes suggest there will continue to be demand for professional advice alongside the growth of digital advice platforms and robo-advice. It is not the case that robo-advised investors are looking to reduce the amount of professional time they also receive. As such, there's a difference between the non-advised who use self-directed brokerage platforms and the robo-advised and younger investors who in fact also want time with professional advisors. So, while this data clearly suggests robo-advice services will grow, it suggests they could still make up a small share of the market (1 in 5 investors) in five years' time and not necessarily come at the expense of professional advice delivered by humans. The market may evolve differently or more rapidly, of course, as current intentions are not indicative of future intentions of young Canadians who will join the ranks of investors.

It is possible that the market for robo-advice will resemble the average investor marketplace rather than the early adopters. But current usage suggests robo-advice services tend to interest savvier and financially secure investors. This raises the possibility that investors who are less savvy will be comfortable starting out with robo-advice services per se. Those investors may instead prefer in-person, professional advice to get started, both with investing generally and then with robo-advice platforms. For most investors, advisors have been critical to helping

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investors start investing and building portfolios. They are not simply complementary to robo-advice platforms (as they currently are) but fundamental.

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