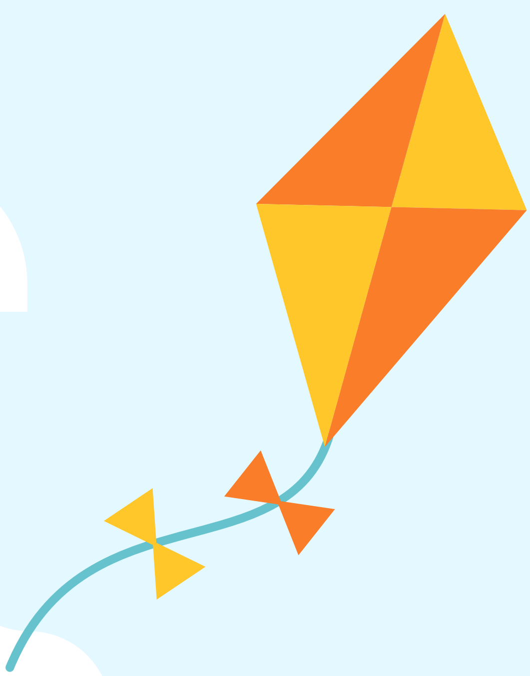
Betterment

Betterment Retail Investor Survey 2023:

Assessing the "New Normal"

The term "normal" has been redefined more times than we can count over the last few years, in all facets of life – and the way people invest is no exception.



At first, the pandemic ignited a flurry of new investment activity driven by boredom and curiosity; but with memestocks in the rear view mirror, we're moving past that chapter and into one shaped by market uncertainty.

Investing normalcy is being redefined once again in the face of rising interest rates and volatility; and amid this continued economic uncertainty, many are questioning what "normal" now means for them, their investments, and their overall financial picture.

With that in mind, we wanted to get a better understanding of investors' current mindsets, investing behaviors, and expectations for the future. The result is the inaugural Betterment Retail Investor Survey, in which we surveyed 1,200 investors across four generations (Gen Z, Millennials, Gen X, and Boomers). The survey also explores the nuances of how they receive their financial information and act on those insights.

Overview

Betterment surveyed 1,200 investors across four generations (Gen Z, Millennials, Gen X, and Boomers) to examine their current mindset, investing behaviors, and expectations for the future, as well as the nuances of how they receive their financial information.

Contrary to headlines focused on market instability and select instances where investors are making decisions that will impact their long-term savings, our data found that retail investors are faring surprisingly well for the most part, and remain optimistic about their financial future. But market fluctuations and inflation still impact investors' everyday decisions, and there are distinct differences in outlooks and actions based on age brackets and gender.

Here's what we found about investors' ability to weather economic headwinds:

Doom-and-gloom headlines aren't penetrating: Despite rocky markets, most investors have a positive personal financial outlook for 2023, and that perspective has become more optimistic over the last six months – particularly for younger investors.

Priorities are shifting back to longer-term planning: Across the country, more investors report having or starting an emergency fund, reversing a trend from the last few years as people find their financial footing again.

Playing it safe – to some degree: While personal financial outlooks may be up and some investors may be considering increasing risk in their portfolios, many are still wary of trying out new asset classes.

Cash as a priority: Habits didn't change dramatically across saving, spending, and portfolio makeup, with one notable exception – cash. Across the board, investors increased their holdings, with Millennials leading the pack.

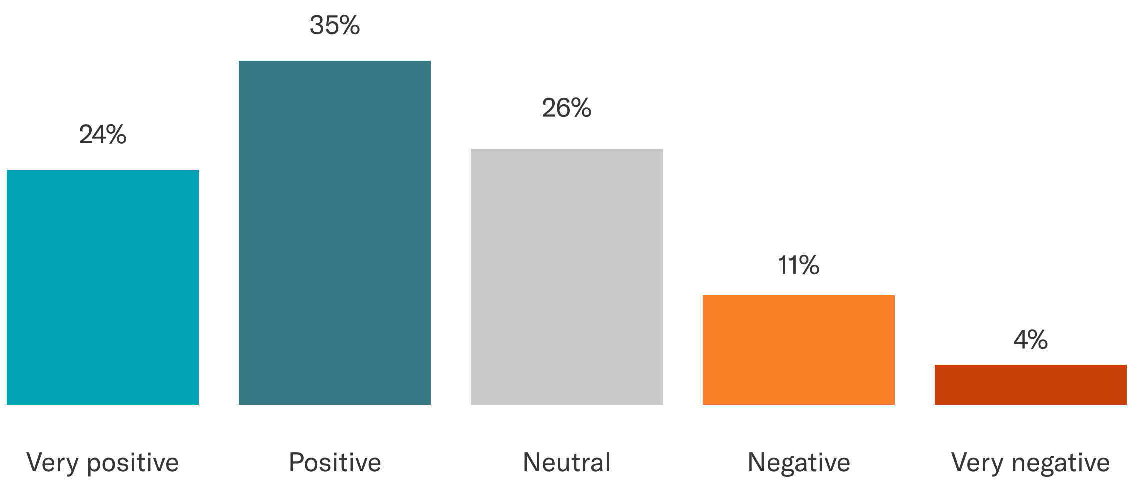
Income streams are diversifying: Whether due to inflation driving up living costs or the flexibility of remote work generating more options, a growing number of people are taking up side gigs and freelance work to supplement their primary income.

SECTION 1

Investor mindset

Overall, the financial outlook for most retail investors isn't as negative as headlines might suggest. They see brighter days ahead – in fact, over half (59%) of those surveyed said their personal financial outlook for 2023 is positive.

Which of the following best describes your personal financial outlook for 2023?

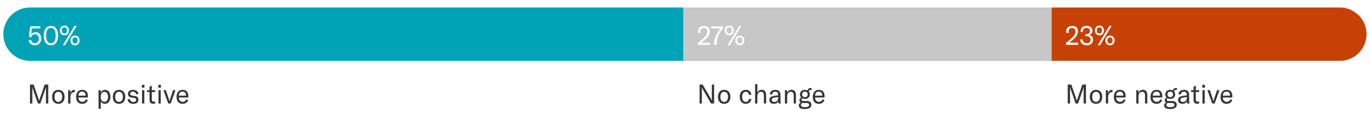


However, that positive outlook is not universal, as generational cohorts see things differently – particularly in how their perspective has changed over the last six months. Younger investors are more optimistic than their older counterparts: 73% of Millennials have started feeling more hopeful over the last six months, by far the most of any generation (with Boomers at only 17%).

Professional help may play a role here. Investors with financial advisors are significantly more optimistic about what's to come than those that do not have a financial advisor. Almost three quarters (72%) of investors with financial advisors have a positive outlook for 2023, and 67% of them have even higher hopes than they did six months ago. By comparison just 42% of those without financial advisors have a positive outlook, with only 29% reporting that their financial outlook has improved over the last six months.

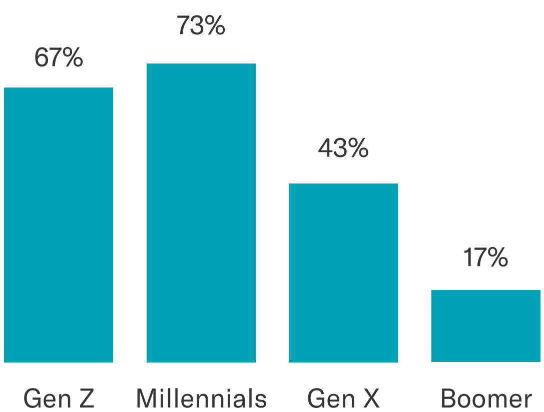
How has your personal financial outlook changed in the last 6 months? (Oct 2022 - March 2023)

ALL RESPONDENTS

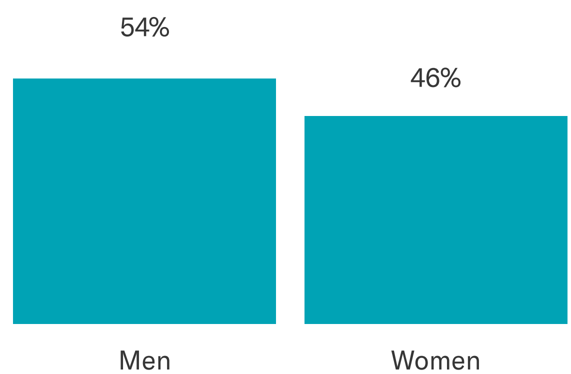


Who is feeling positive?

AGE



Gender



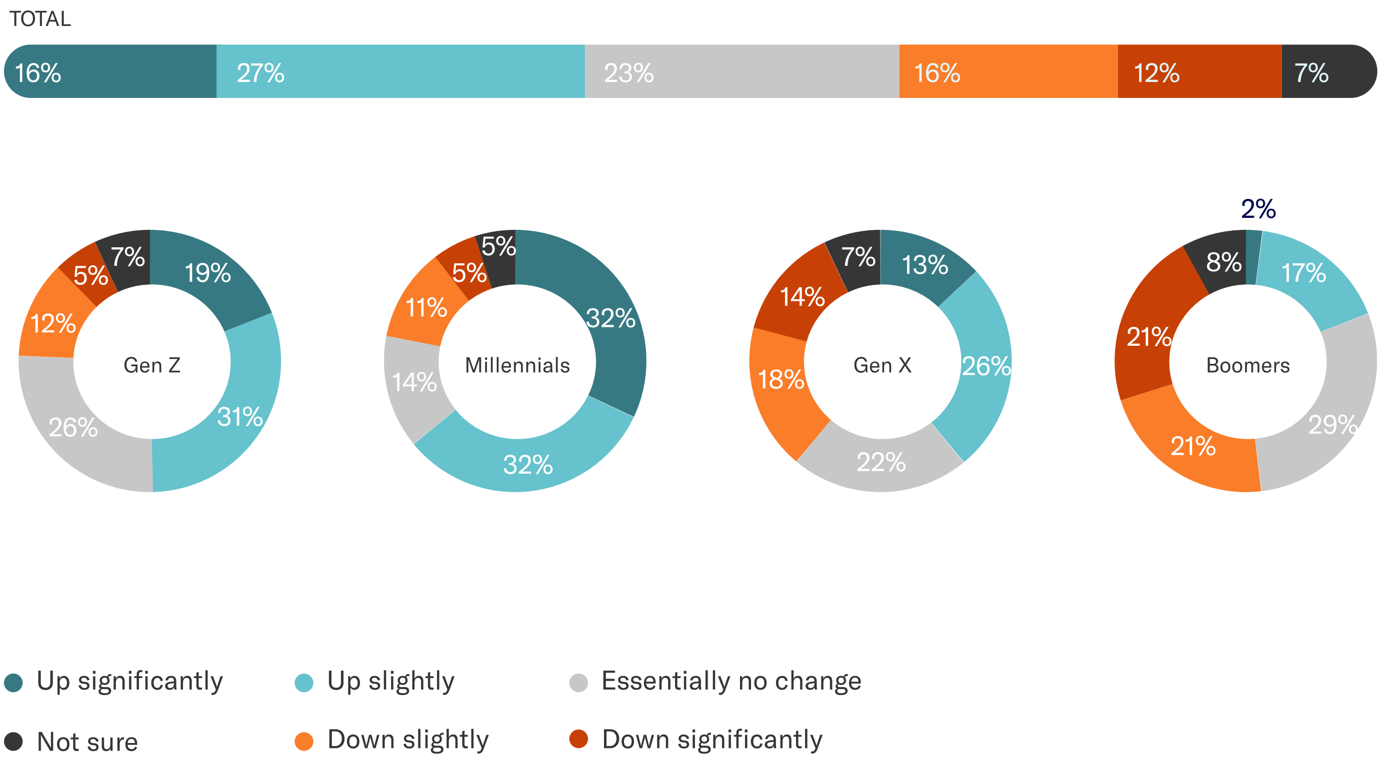
POLITICAL AFFILIATION

ADVISOR

Investors’ portfolios are also doing well despite rhetoric about market losses, with 66% either reporting no change or positive change in their portfolio performance over the last year.

Echoing their more positive financial outlook, younger generations are also outpacing their older counterparts in portfolio performance. Millennials report they are performing the best, with 64% seeing some positive change in their returns, compared to 50% of Gen Z, 39% of Gen X, and 19% of Boomers.

How has your investment portfolio performed over the last year?



"In general, headlines often drive investor sentiment, but our survey shows there is a contrast between how the market is doing and how investors are feeling. It's hard to say exactly what's driving this split, but when it comes to how younger generations perceive their financial performance, a few things could be at play: younger people often focus on nominal changes and are more likely to be in higher-risk investments (which are performing relatively well right now). What's more, they aren't 'feeling' inflation quite as much as older generations (pre-retiree, retirees), who are in bond-heavy portfolios that have taken a beating, and are concerned with retirement sustainability and inflation."

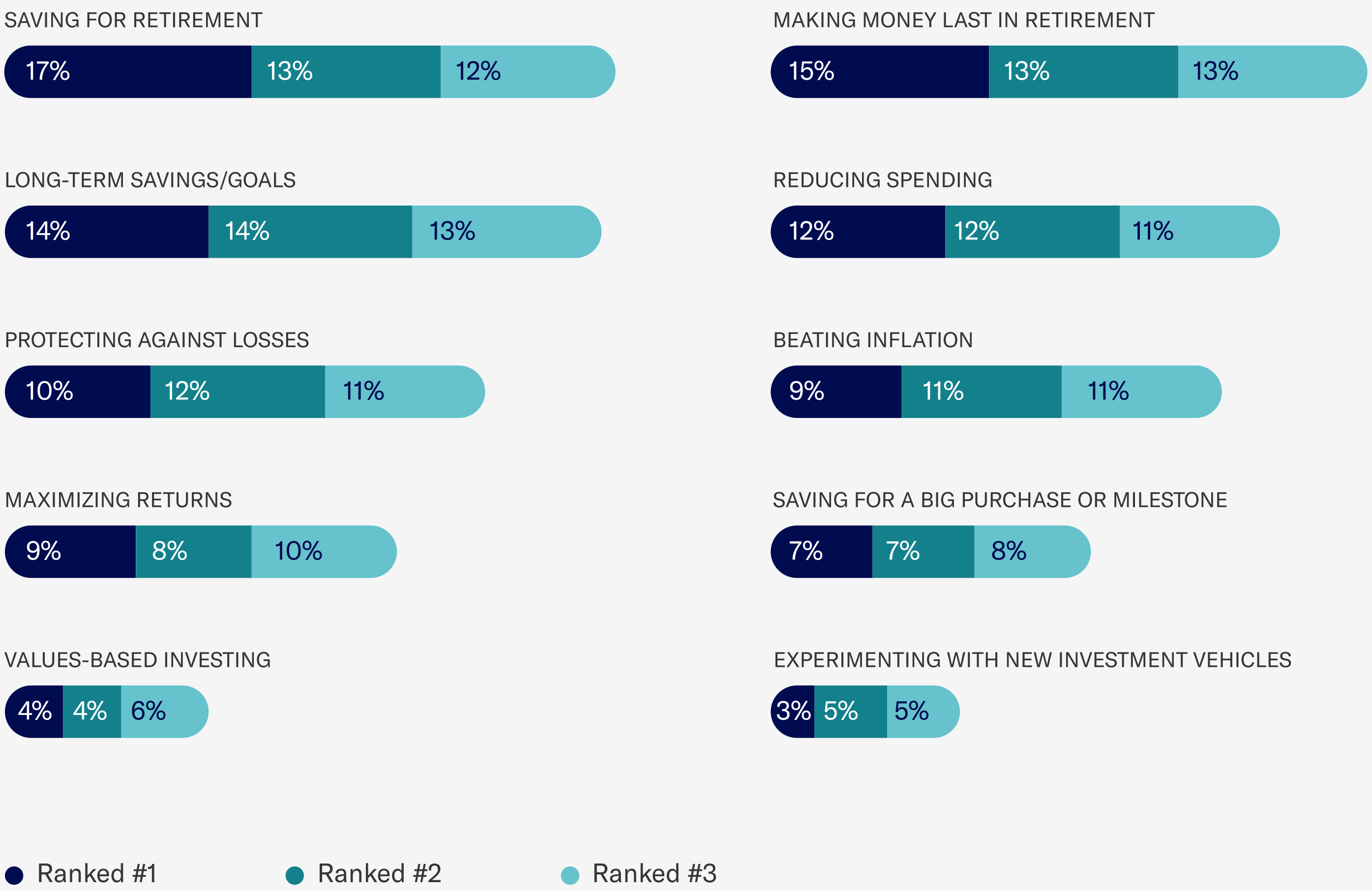
Dan Egan
Head of Behavioral Finance

BREAK OUT

Priorities and preparedness

There is still cross-generational agreement when it comes to investment priorities: Top goals include saving for retirement (and making it last), followed by increasing long-term savings.

What are your top 3 investing priorities over the next 12 months (2023-2024)?



When asked if those priorities will change in the next 12 months, it's a fairly even split: 58% plan to stay the course, and 42% plan to make some changes. Of those that expect to redirect:

- **75% expect to save 'slightly' or 'much more'**, indicating that investors are starting to feel more secure.
- **67% expect to rebalance their portfolio to increase risk**, with men more likely to take that path – 73% of men expect to increase risk significantly or slightly, compared to only 62% of women.
- **Only 13% of people selected investing in new vehicles** as a top three priority, reflecting that investors are sticking to what they know.

Emergency preparedness: In line with those priorities, we're seeing a marked change in people's focus on emergency funds. We compared this against what we heard from employees in Betterment at Work's 2021 and 2022 Financial Wellness Barometer surveys: Altogether, emergency funds are up.

Do you have an emergency fund?

78%	**59%**	**66%**
2023 Retail survey (investors)	2022 FinWell barometer (employees)	2021 FinWell barometer (employees)

> "Having an emergency fund isn't just important for short-term planning. It's also a long-term strategy that ensures you'll have funds to cover unexpected expenses and won't need to dip into accounts like your retirement fund, which should be a last resort. As investors continue to become more comfortable and optimistic about the future, they're looking ahead and focusing on ways to protect their financial stability."

Nick Holeman
Director of Financial Planning

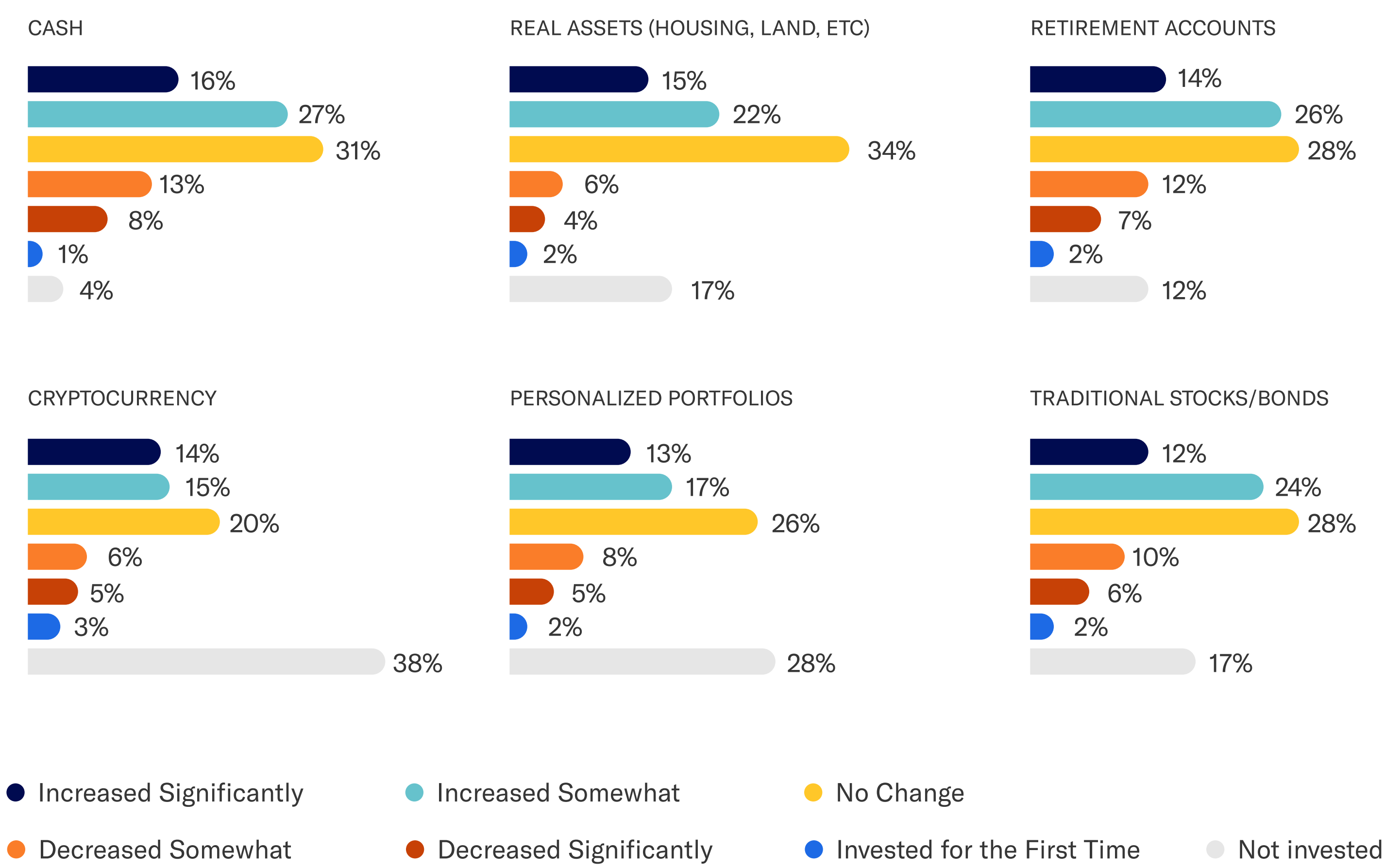
Investor behavior

How investors feel about investments and what they actually do can be very different stories. We asked investors how they actually acted over the last year, and how they plan to over the next.

Despite unpredictability in the markets over the last year, investors are largely staying the course. Over the last 12 months, investors haven't drastically changed their habits and are not pulling out of the market. About 50% of those surveyed are either not changing or slightly increasing most of their holdings.

Cash is the biggest growth trend, with 75% of those surveyed either increasing or holding steady in their cash holdings. Generationally, Millennials are the biggest fans of cash, with 83% increasing or holding steady in their cash holdings last year.

How have your investments changed over the last 12 months (2022-2023)?

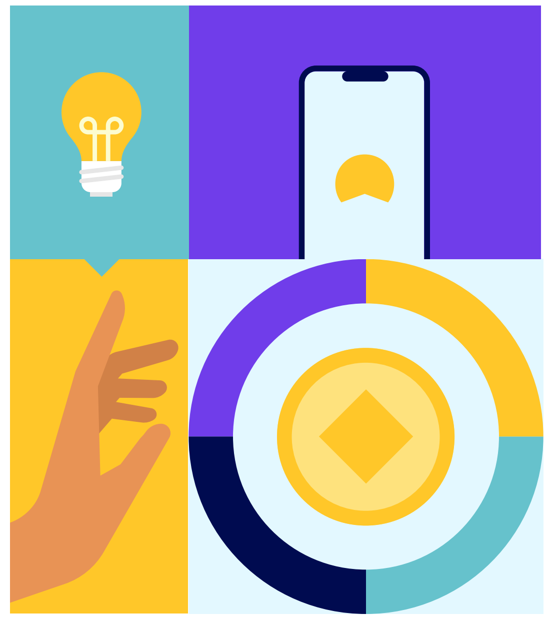


Investors are also sticking with what they know: if they were not already invested, less than 5% of them ventured into any of the above categories for the first time last year.

Despite “crypto winter,” in which inflation triggered high interest rates, and later, the sale of riskier assets like cryptocurrency, **63% of those surveyed are still invested in crypto. Plus, nearly a third (29%) of that group increased their holdings over the last year.**

“It’s encouraging to see that investors haven’t lost faith in cryptocurrency as an asset class, and are treating it as a long-term investment by avoiding reactionary selling amid volatility. This is in line with Betterment’s philosophy that crypto can constitute a portion of a responsible, diversified portfolio as a long-term investment, not a quick-turn way to make a profit.”

Jesse Proudman
VP of Crypto Investing



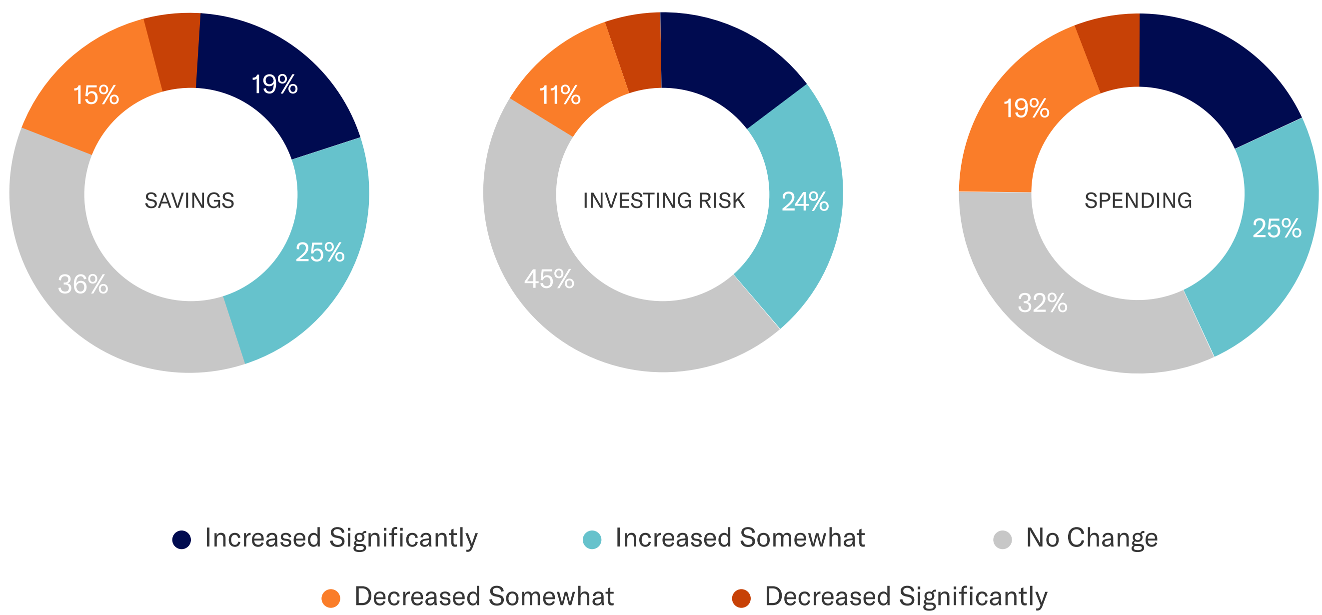
Beyond portfolio allocations, how have investors changed their financial behaviors in the last year? A look at some other shifts we noticed:

Inflation: When asked if inflation has impacted their timeline for major purchases in the last year, over a third of Gen Z (39%) and nearly half of Millennials (43%) indicated they sped up their timelines, compared to only 2% of Boomers and 15% of Gen X.

- ✓ This may be due to younger generations attempting to lock in terms for major purchases like cars or houses before inflation or interest rates rise further, whereas older generations likely have already made those big milestone purchases.

Interest rates: Higher interest rates are shifting investors' spending, saving and risk-taking habits in both directions - and while the changes are not dramatic in one direction over the other, the trends show some positivity: nearly 1 in 5 increased their savings significantly, while only 5% decreased significantly.

How have higher interest rates affected your finances in the following areas?



Side gig and freelance work: 44% of investors we spoke to picked up additional work in the last year, compared to 26% of employees surveyed in 2022's FinWell Barometer.

- Gen Z is significantly more likely to take on a side gig, with 68% of respondents having done so in the last year. Millennials (56%) follow at a distance, while Gen X (39%) and Boomers (12%) trail further behind.

Retirement planning: This is an area where we've seen less focus from investors in the last few years amid economic uncertainty. Of those who have a 401k or an IRA, most (63%) haven't changed their approach to retirement planning over the last 12 months, which indicates that - despite the uncertainty in the markets - the majority of retirement investors have not deviated from their long-term plans.

- ✓ However, for those that have changed their approach, over a quarter (26%) withdrew money from their retirement account. This is a concerning trend that is in line with what we saw from employees in last year's FinWell Barometer.

We expected this to be heavily weighted towards older generations and, while it was for Boomers (40%), more Gen Z and Millennials withdrew from their retirement accounts than Gen X (30% and 27% vs. 16%).

"While we've seen a number of encouraging metrics, like a high percentage of investors building an emergency fund, it's concerning to see some young investors dipping into their retirement funds. This trend among younger generations may indicate that these investors lack stability in retirement planning (versus their predecessors) or don't fully understand the penalties for withdrawing early. We recommend that younger investors avoid dipping into their retirement funds whenever possible, and prioritize building up emergency funds so that they have other resources to tap into."

Kristen Carlisle
General Manager, Betterment at Work

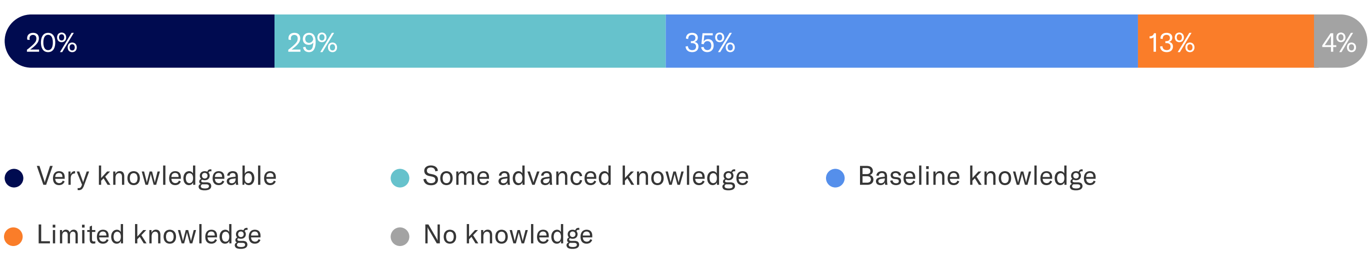
SECTION 3

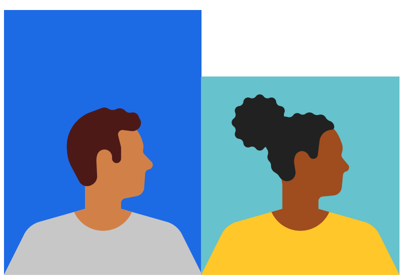
Investor knowledge

For those interested in educating themselves on all things stocks, investments and money management, there's no shortage of financial information and advice available - some high-quality, some less so. With the sheer volume of sources at investors' disposal, we wanted to know where they are getting their news, and how they'd rate their trust in and understanding of it.

Overall, investors consider themselves well-educated: 84% of those surveyed indicated having at least a baseline level of financial knowledge.

How would you rate your financial knowledge?

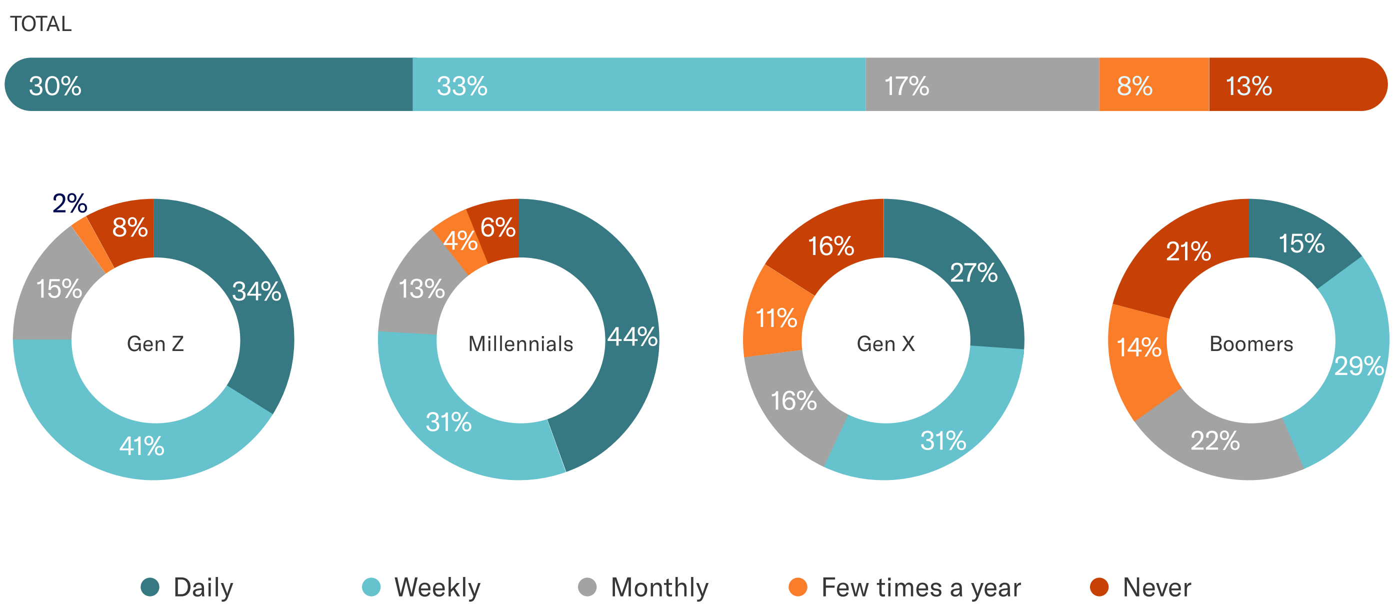




Men are more confident in their financial knowledge, with 58% considering themselves somewhat advanced or very advanced in their knowledge, compared to 41% of women. **However, their portfolios performed similarly well**, with 68% of men and women alike either seeing no change or positive change in their returns over the last 12 months.

The largest concentration of investors (22%) read financial news a few times a week. **Of all generations, Millennials are most engaged** – 44% of Millennials read financial news at least once a day, compared to 15% of Boomers, 27% of Gen X and 34% of Gen Z.

How often do you read financial news?



In general, TV and online media publications were the most common way investors get their financial news, followed by a three-way tie between social media platforms, friends and family, and financial advisors.

Where do you get your financial news?

42%
TV financial shows/news

41%
Online media publications

31%
Social media platforms/influencers

31%
Friends & family

31%
Financial advisor

27%
Print publications

21%
Podcasts

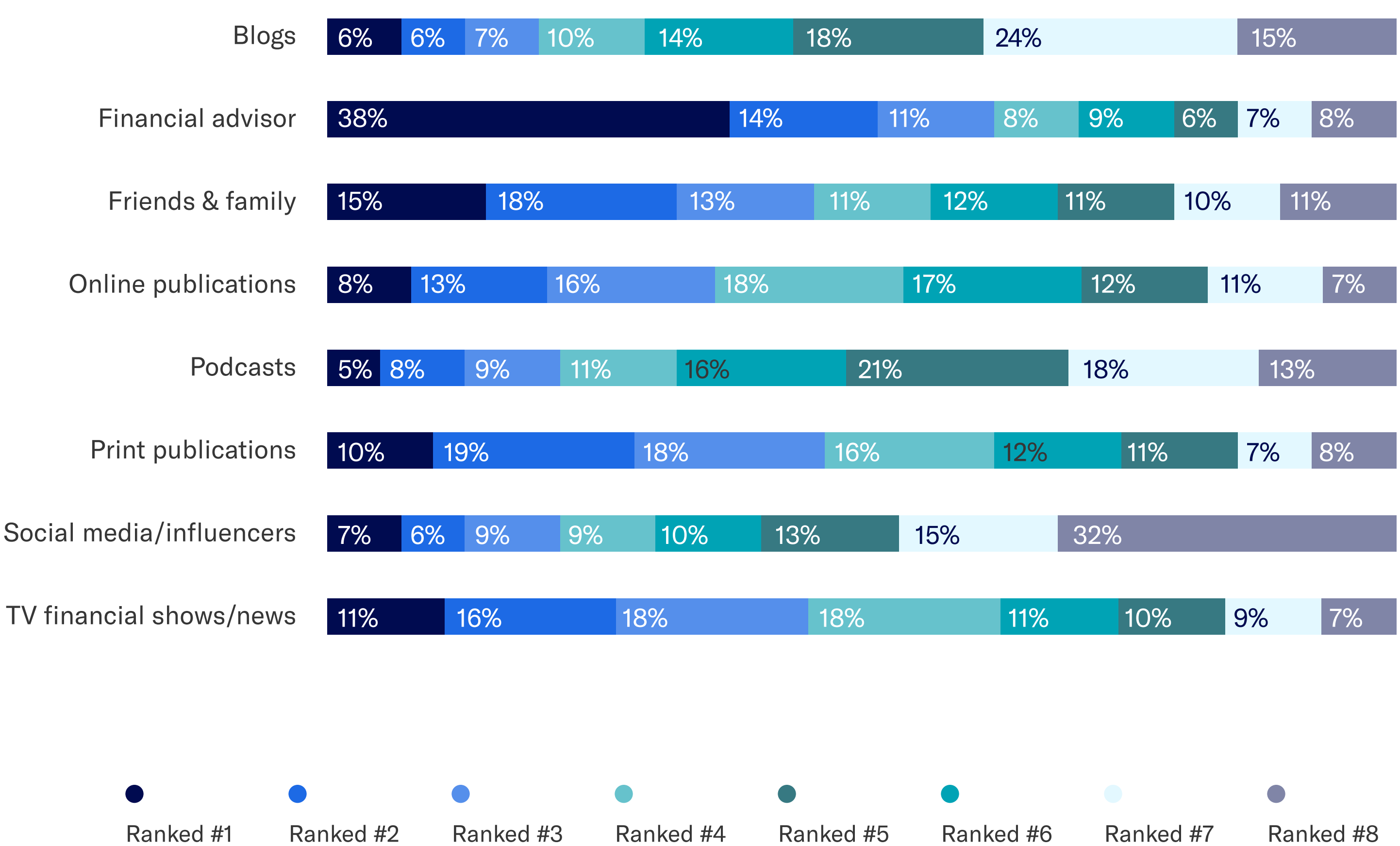
16%
Blogs

2%
Other

Millennials reported using social media for financial news more often than any other generation, including their younger, digital-native Gen Z counterparts (43% vs. 38%). Older generations trailed at 30% (Gen X) and 10% (Boomers).

From there, we gauged investors' trust levels with the aforementioned news sources. **Unsurprisingly, financial advisors are by far the most trusted source across the board (63% ranked in the top 3)**, followed at a distance by print publications (47%) and TV shows (45%). Demonstrating the sway that personal relationships have over investors, friends and family also came in at 46%.

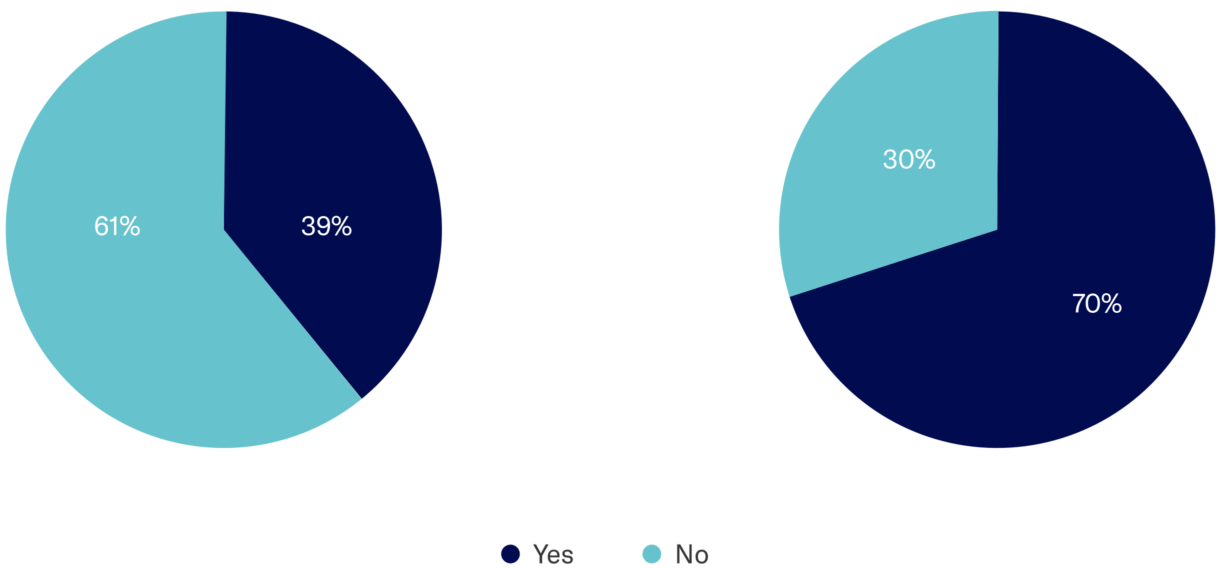
What is the most trustworthy source for financial advice?



We also saw a number of contradictions around social media content. Overall, 39% of investors have taken advice from social media, despite it being the least trusted source (32% ranked it last). Yet, 70% of those surveyed also felt that social media's coverage addressed their needs.

Have you ever taken financial advice from social media/influencers?

Do you feel like social media's personal finance coverage addresses your needs?



Advisors are the most trusted source of information and social media influencers the least – yet, those with an advisor were significantly more likely to take advice from a social media influencer (58%), than investors without an advisor (15%).

And in line with general expectations, more than half of Gen Z (65%) and Millennials (55%) took advice from social media, compared to 31% of Gen X and 4% of Boomers.

For those that have taken advice from social media, YouTube is the top source (64%) – less talked about than other social media platforms but by far the most popular.

What social media platforms have you taken advice from?

64% YouTube

53% Instagram

51% Facebook

51% Tiktok

42% Twitter

28% LinkedIn

25% Reddit

17% Medium/Substack

Interestingly, taking that advice worked out well for a surprising number of investors – of those who listened to advice from social media, 87% reported that the financial move they made fared either very or somewhat well. Only 1% said it worked out badly; the other 11% saw no real impact.

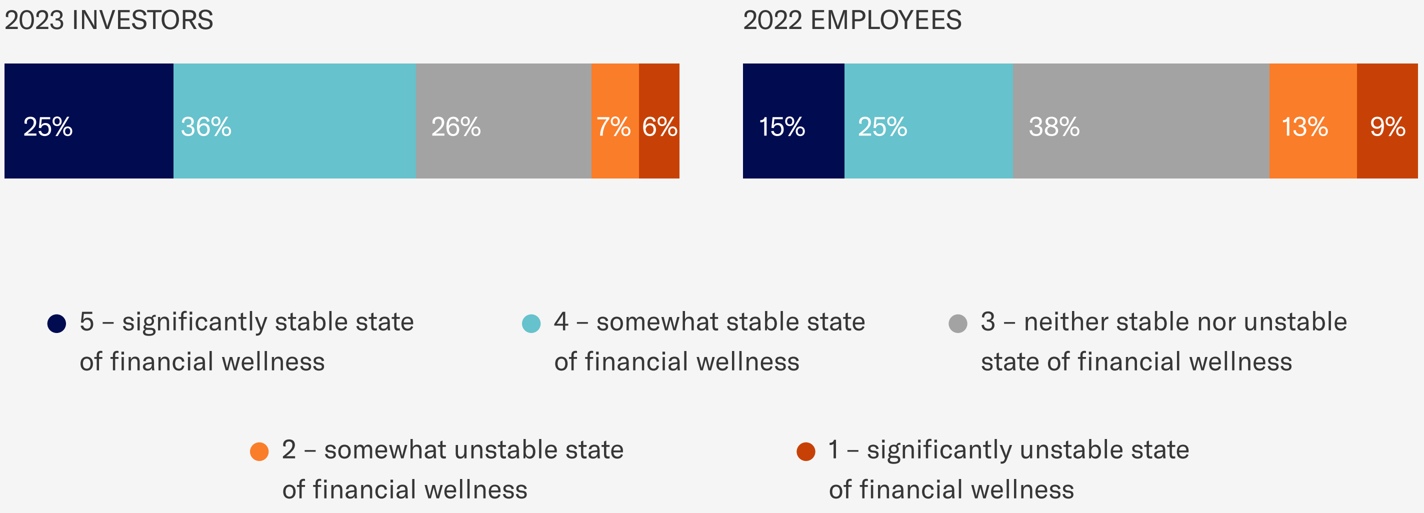
"While it may seem counterintuitive, I'm not surprised to see that social media ranks high as a source of advice alongside advisors. Investors often canvas social media for ideas then run them past their advisor. Social media can make them feel more financially literate and provides them a basis for a more informed conversation with their advisor."

Dan Egan
Head of Behavioral Finance

Investors vs. Employees: How does their financial wellness stack up?

For the last two years, Betterment at Work has examined the changing nature of financial wellness and the relationship between companies and workers through our Financial Wellness Barometer. We wanted to apply this same lens to investors to uncover any trends or differences with a broader retail segment.

Nearly two-thirds (61%) of investors indicated being in a stable state of financial wellness, which is encouraging given recent market instability. In contrast, only 40% of employees in 2022's FinWell Barometer and 49% of employees surveyed in 2021's FinWell Barometer rated themselves as financially stable – an interesting divergence that stems from the varying economic conditions at those times. This year, only 13% rated themselves somewhat to very financially unstable, compared to 22% of employees last year – another encouraging trend as people navigate their new normal.



Overview

According to the Consumer Financial Protection Bureau (CFPB), financial wellness is defined as: "A state wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow them to enjoy life."

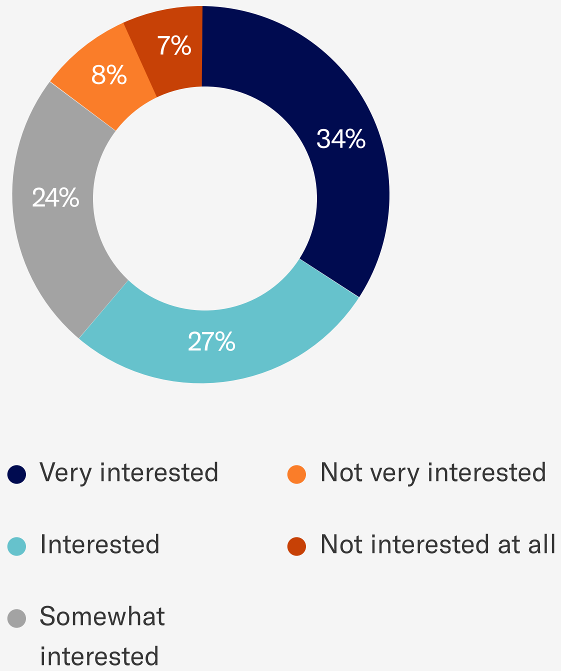
Zooming in on a few splits, 67% of men rated themselves a 4-5 in financial wellness, compared to 56% of women – last year, just 48% of male employees and 35% of female employees rated themselves the same in our FinWell Barometer. Generationally, Millennials are faring the best, with 71% rating themselves a 4-5, followed by 60% of Gen Z, 58% of Boomers and 55% of Gen X.

> "It's reassuring to know there is continued interest in engaging third parties and finding external resources to partner with on investors' financial journey, rather than going it alone."
>
> 
>
> **Mike Reust**
> President

Regardless of how well investors feel they're currently doing, almost all respondents (85%) are interested in increasing their financial knowledge to some degree and the biggest perceived barrier is cost.

The most common way respondents expect to increase their financial knowledge is via news (51%), followed by literacy classes (37%) and hiring an advisor (34%).

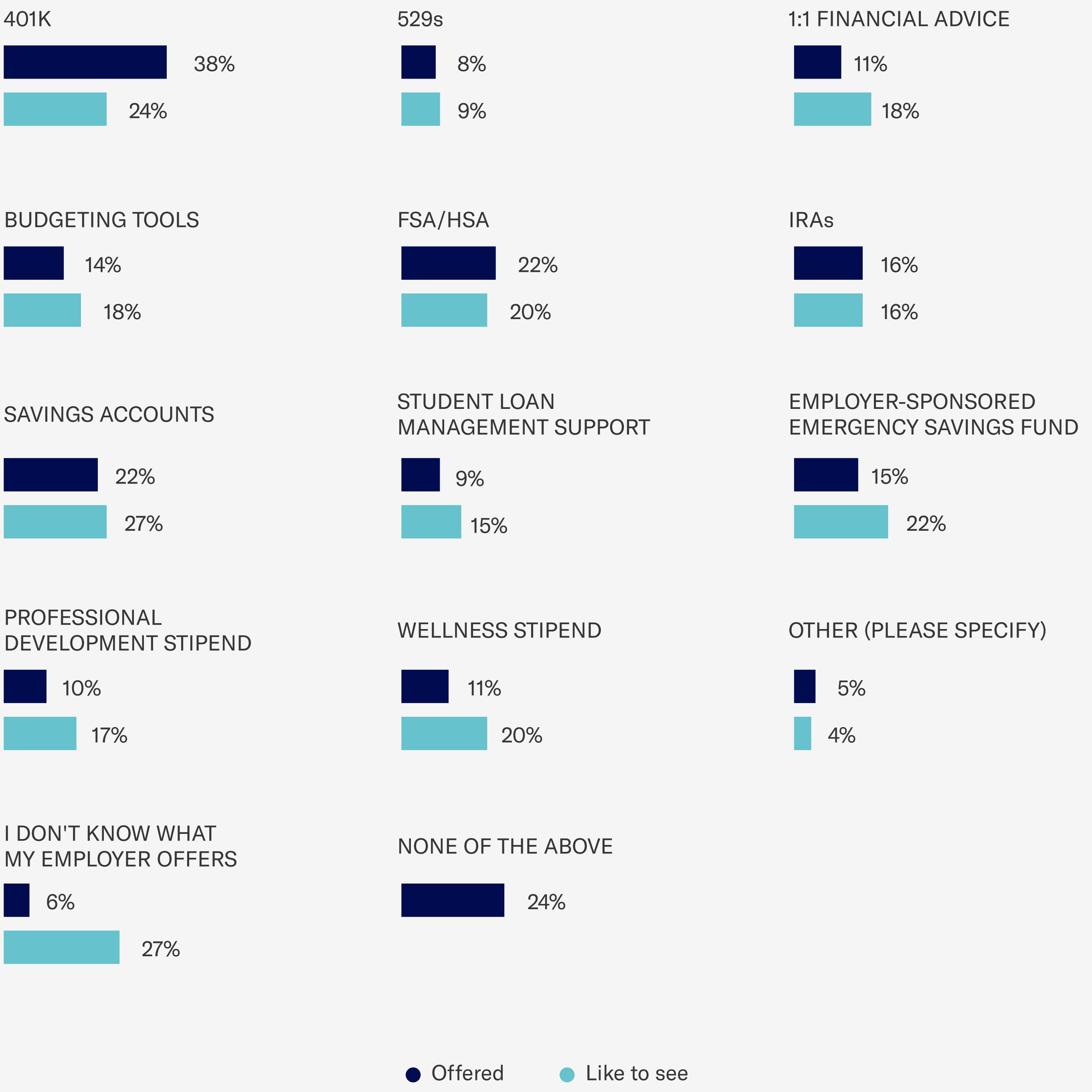
How interested are you in increasing your financial knowledge?



How are you planning to improve your financial knowledge?

Benefits have also come into sharp focus over the last few years and have become closely linked with financial wellness, particularly as employers look to meet new demands and expectations from employees. Compared to last year's Financial Wellness Barometer, we found interest in employer benefits to be significantly less concentrated, and more spread out across options.

Financial benefits investors have access to vs. benefits they would be most interested in adding to their benefits package

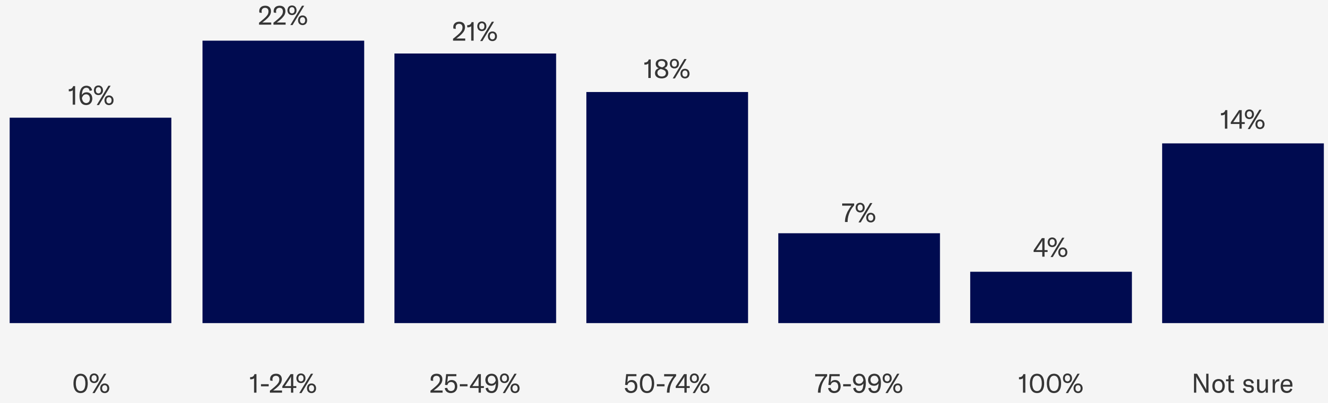


BREAK OUT

Investors and alternative assets

We were also curious to see the specific types of investments that our respondents currently have, starting with individual stocks. Some 59% of respondents have less than half of their portfolio in individual stocks.

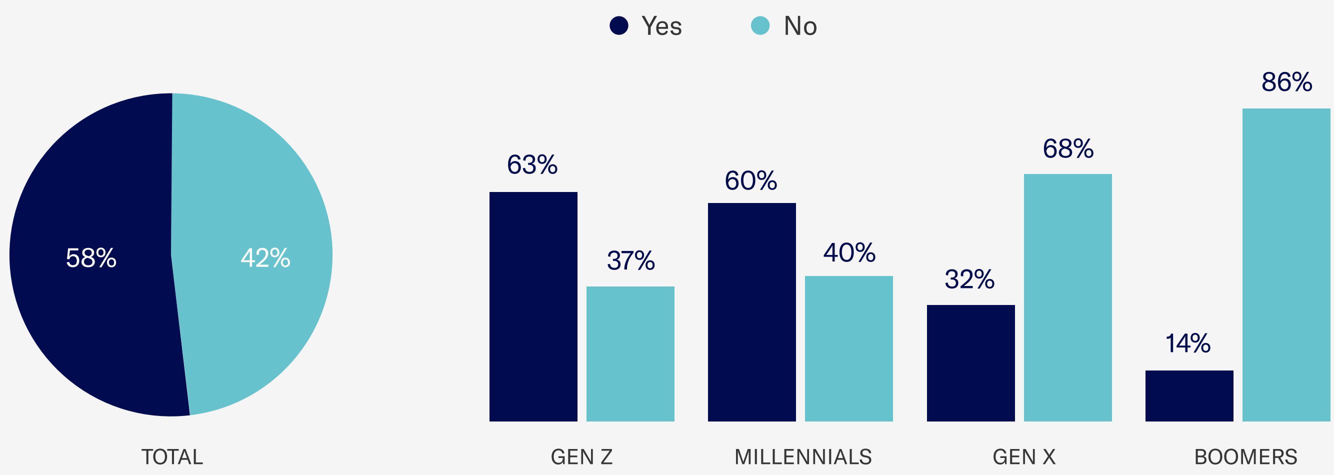
Percentage of investment portfolio in individual company stocks?



Younger generations are more likely to have more than half of their portfolio in individual stocks – 37% and 39% for Gen Z and Millennials respectively, compared to just 25% and 12% for Gen X and Boomers.

We also wanted to get a sense of respondents' understanding of and interest in alternative investments. Sixty-four percent of those surveyed said they have a 'baseline' to 'advanced knowledge' of alternative investments. Despite this, most (58%) do not invest in any, demonstrating that alternative assets are not a priority for many investors right now. **However, younger generations are more engaged** – 63% of Gen Z and 60% of Millennials are invested in alts, compared to just 32% of Gen X and 14% of Boomers.

Do you currently hold alternative investments?



For those that do invest in alt assets, interest is relatively evenly spread across categories.

Sixty-eight percent of respondents invested in alts within the last two years, suggesting that it's still a new trend for many investors. Only 12% started in the last six months, which reinforces the notion that people aren't currently testing new assets. Most investors who are in alts (77%) have these assets consisting of 50% or less of their portfolio.

Additionally, nearly two-thirds (61%) also suggested they aren't interested in learning more about alt assets.

We also examined respondents' familiarity with Environmental, Social and Governance (ESG) investing, and 60% said they are 'somewhat' to 'very familiar' with ESG. This suggests an upward trend, as only 45% of respondents in our 2022 ESG survey said they were familiar with this category.

Which alternative investments do you have?

37%
Real estate

30%
Commodities

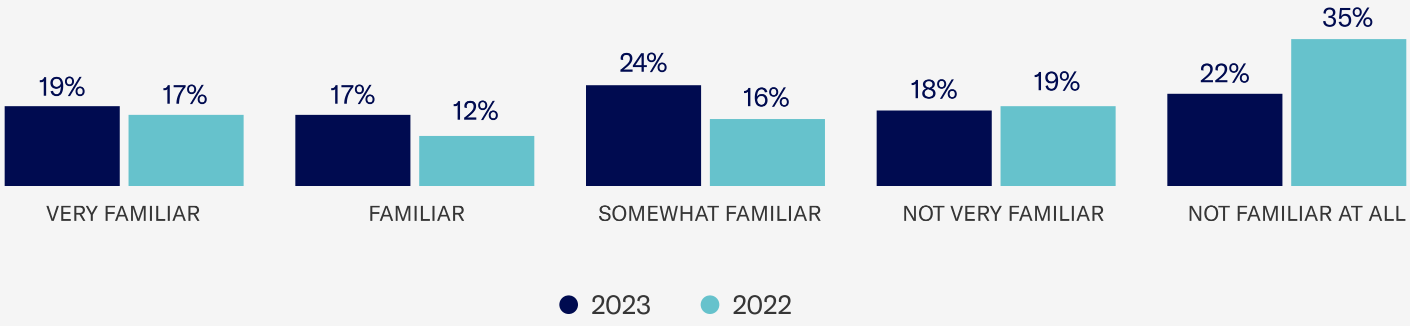
29%
Collectibles

28%
Natural Resources

28%
Private Equity

22%
Venture Capital

How familiar are you with the term Environmental, Social, and Governance (ESG) Investing?



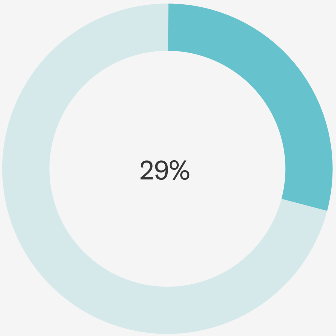
There is a dramatic drop-off with older generations in awareness; 75% of both Gen Z and Millennials were at least somewhat familiar with ESG, compared to the later generations at 52% (Gen X) and 38% (Boomers).

Interest in ESG may be waning though, as only 17% of people are still invested in ESG – a drop from 26% in last year's survey – and only 29% have ever been invested.

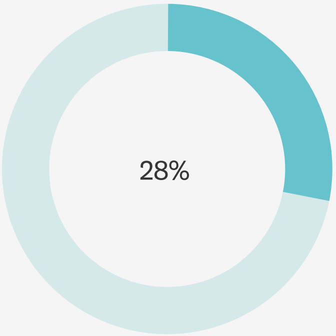
Have you ever sought out ESG investment options?

However, another 22% who haven't sought ESG out indicated they'd be interested in such an investment. Millennials (34%) are most likely to have remained invested in ESG vs. Gen Z (15%), Gen X (14%), and Boomers (4%).

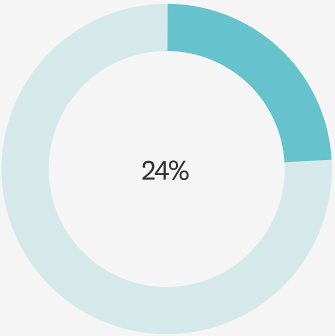
Of those not interested in ESG investments, there were three primary reasons:



SAID THEY DON'T KNOW WHAT ESG IS



SAID THEY DON'T THINK ESG SHOULD HAVE A ROLE IN INVESTING



SAID THEY DON'T BELIEVE IT'LL HAVE AN IMPACT

"The interest from those who haven't yet explored ESG options signals that far more adoption of sustainable investing can be reached through education. At Betterment, we're committed to closing the knowledge gap and driving awareness of ESG investment offerings and what potential benefits they bring to values-based investors."

Boris Khentov
SVP Product Strategy & Sustainable Investing

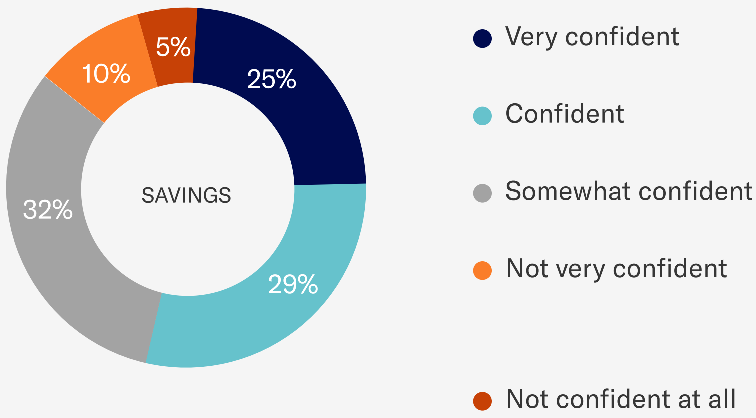
BREAK OUT

FDIC insurance and understanding

In the wake of recent bank failures and the current banking climate, we were curious to get a sense of respondents' understanding of FDIC insurance and if or how they were using it.

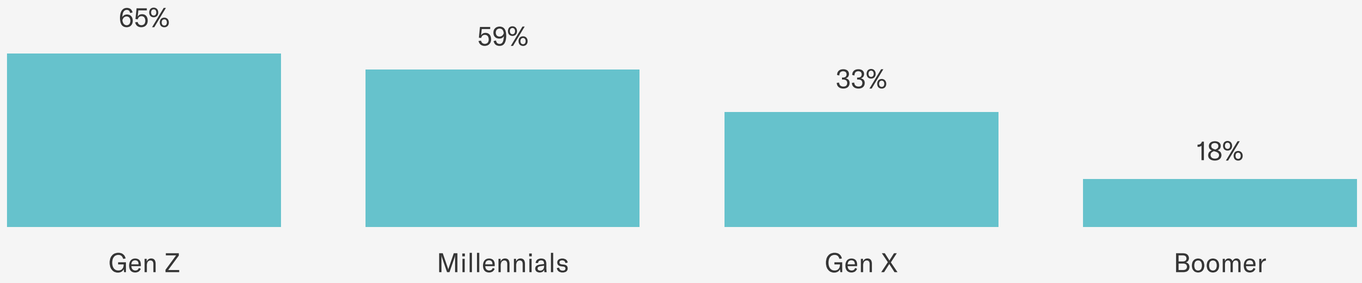
Eighty-six percent said they were ‘somewhat’ to ‘very confident’ they understand FDIC insurance.

How confident do you feel in terms of understanding the details of the FDIC’s deposit insurance policy?



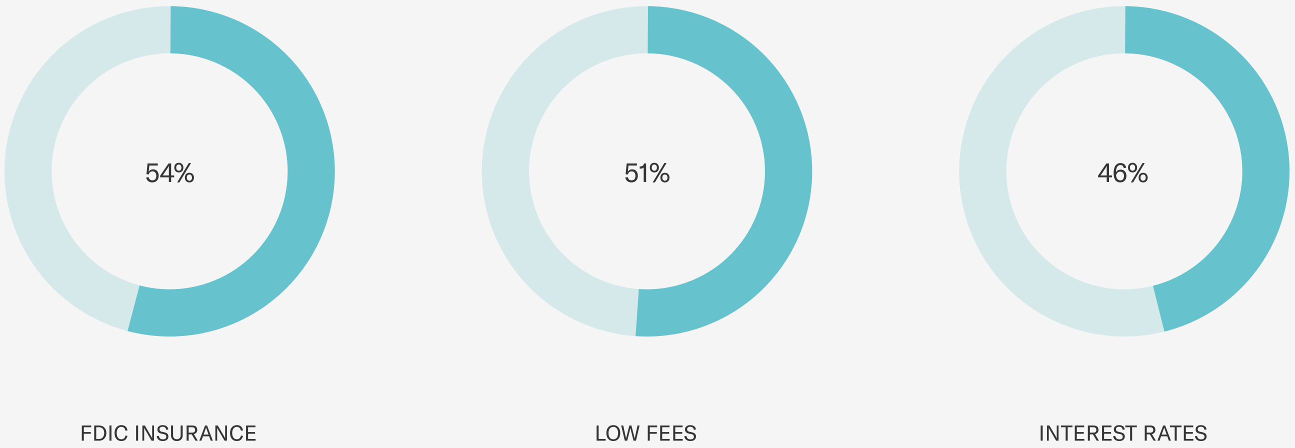
A significant portion of consumers are currently switching banks (44%), which may be partially attributable to the growth of high interest rate accounts, or uncertainty in the wake of the SVB collapse and the current banking crisis.

Younger generations are moving banks at about double the rate of older generations



Wealthier investors (with portfolios of $500K to $1M) are more likely to be moving banks right now – at 58% and 63% respectively, compared to 37% of investors with under $100K.

When choosing a bank, the three most important factors to respondents were:



"High-profile and unpredictable moments with banks are stressful for investors and Q1 was dominated by discussions on how and where to find financial safe havens. One common answer was high-yield cash accounts with FDIC insurance, and that rang true for us at Betterment. Q1 2023 was our highest quarter on record for cash reserve deposits. Customers found both comfort and performance in high interest-rate bearing liquid accounts as they witnessed volatility continue to unfold."

Mike Reust
President

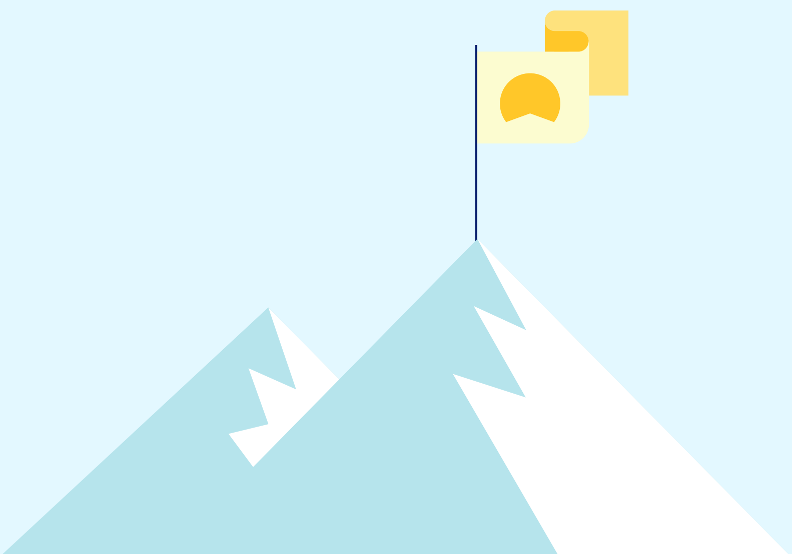
Conclusion

All in all, retail investors are doing an admirable job of staying the course amid market turmoil in 2023. They are feeling positive, prioritizing financial literacy and longer term saving, and building emergency funds. While a bit more conservative in their asset choices, we're seeing investors gravitate towards sound decisions, versus reactive or impulsive choices in response to news of the day.

Moving forward, it will be interesting to see whether these trends continue or shift. We're eager to monitor whether investors increase their exposure to riskier assets if interest rate rises pause and inflation wanes, or whether easily accessible assets like cash are still being actively sought as part of the investment mix.

Each year, we'll review and analyze pressing financial trends affecting investors to dig deeper on the real-world impact of cyclical market patterns and economic conditions on shifting investor priorities and saving habits. As they do, it will be important for investors to not let short-term volatility affect their long term goals and saving priorities.

To get started on investing for your long term goals with Betterment, follow the link here.



Methodology

An online survey commissioned by Betterment was presented to a group of potential respondents. A total of 1,200 respondents completed the survey between March 23rd - March 27th, which was conducted by Schlesinger Group, an independent research company.

The survey collected a representative sample of U.S. respondents who hold investments beyond solely a 401k and was split evenly (300 per group) between the four major generation groups (Boomers, Gen X, Millennials, Gen Z). All were invited to take the survey via an email invitation. Panel respondents were incentivized to participate via the panel's established points program.

Findings and analysis are presented for informational purposes only and are not intended to be investment advice, nor is this indicative of client sentiment or experience.

Website links provided for educational purposes only.

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