# Betterment's Consumer Financial Perspectives Report: 10 Years After the Crash


Betterment

# It's been 10 years since the collapse of Lehman Brothers triggered a chain reaction that produced a major recession.

In 2008 after decades of steady upward growth in the economy and asset prices, America suddenly faced the worst financial crisis in 70 years.

Starting in October of 2007 the S&P 500 dropped 56% over 516 days, bottoming out in March of 2009. It then took 1,011 days, until March 2013 to bounce back to pre-recession levels. In October and November of 2008 the federal government implemented the Troubled Asset Relief Program to reduce the chance of bank failures, and started Quantitative Easing to encourage investment.

Since March 2013, the S&P 500 has grown 80% or 11.5% per year on average. If you include dividends, that increases to 106% or 14.3% per year.

In a new report, Betterment examines how the 2008 financial crisis is still relevant to consumers today, affecting everything from their attitudes toward finances and the financial industry to their hopes for a secure financial future.

Regardless of age, income and gender, the research finds that the scars of 2008 are still very raw for millions of people today.

Ten years after the crisis, most consumers remain deeply distrustful of Wall Street and are still working to recover financially. But there's hope in the youth: despite graduating into one of the toughest job markets in decades and seeing the real-time effects of the crisis, as well as being first-time or new voters amid controversial government involvement in bank bailouts, younger generations are the most trusting of and optimistic about Wall Street's future.

While the effects of the financial crisis went far beyond investment account balances, the data reinforces the power of staying the course. Roughly half of survey participants were already investing in 2008, and nearly all of them lost money as a result. Yet, those who saw those effects on their portfolio and still rode out the storm are more than twice as likely to report feeling like they've fully recovered, and are investing and saving more than their non-investing counterparts.

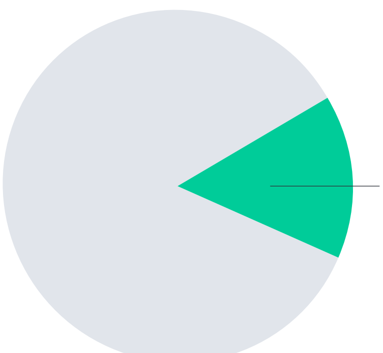
## Methodology

- An online survey was conducted with a panel of potential respondents. The recruitment period was July 31 to August 6, 2018.
- A total of 2,000 respondents 18 years and older, living in the United States completed the survey. Of these respondents, 1,602 were at least 18 years old in 2008.
- The sample was provided by Market Cube, a research panel company. Panel respondents were invited to take the survey via an email invitation and were incentivized to participate via the panel's established points program.

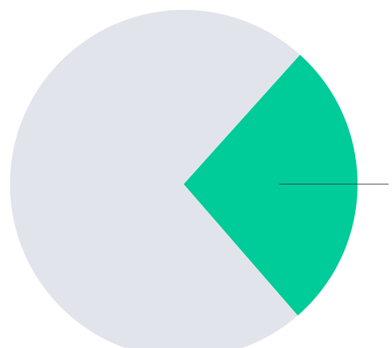
# The road to recovery: Consumers are careful with money, but gun-shy with investing

Ten years after the crash and subsequent recession, many people are still struggling to get their finances back in shape. Of those who said they were affected by the crisis, 65% say they have still not fully recovered.

While the markets have corrected, the crash may have had the most lasting effects on saving and investment habits. Betterment's data found that in 2008, 59% of respondents had a retirement savings strategy in place. These respondents report that the market crash impacted that strategy in the following ways:



15% report their employer either stopped sponsoring or stopped matching their 401(k)

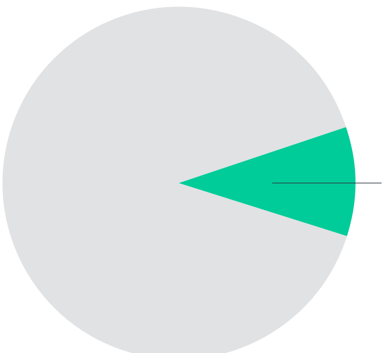


27% either stopped saving for retirement or contributing to their 401(k), and 14% continued to save but only in cash

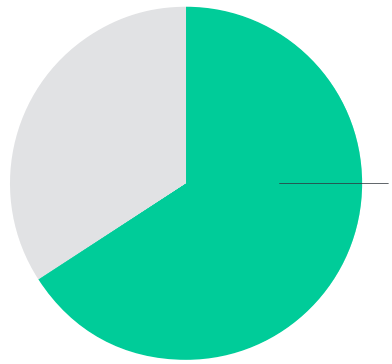
"Despite the hit to retirement accounts, we're happy to see roughly 70% of people were still able to keep saving. But what does worry us is that 41% of people didn't have a retirement savings strategy in place at all. Another reminder that for many people, figuring out how to save more is the higher priority."

–Dan Egan, Betterment's VP of Behavioral Finance and Investments

A full 29% of respondents said they are making a concerted effort to save more today than in 2008, as consumers apply lessons of thrift and financial caution as a result of the crash. However, that increase in savings does not necessarily translate into higher investments.

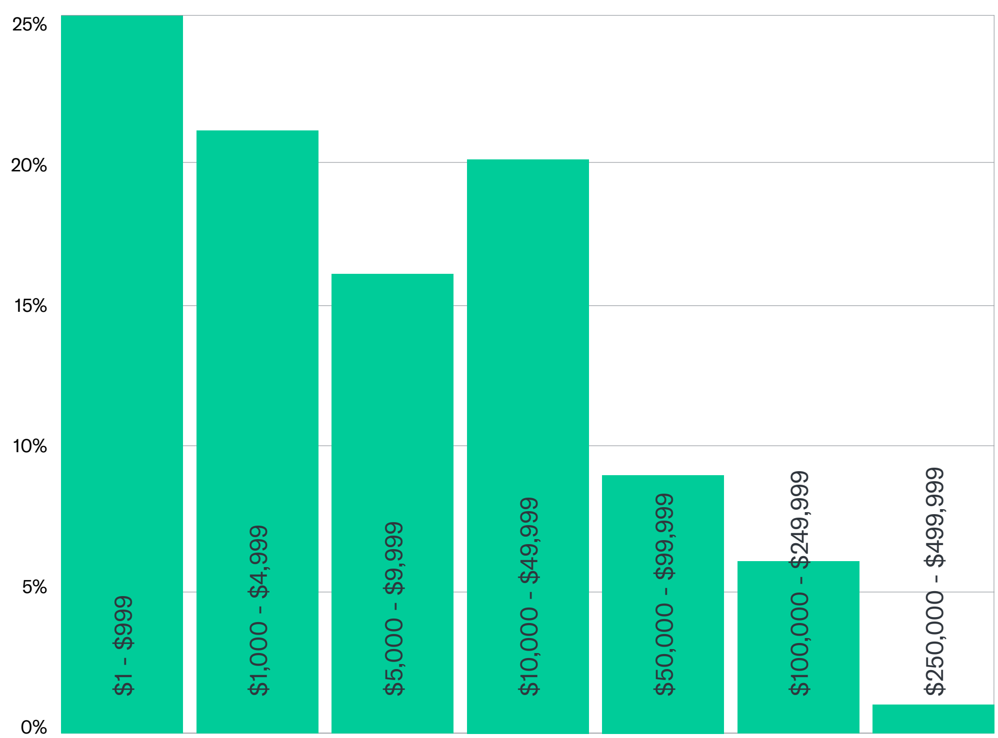


Only 10% of total respondents said they invest more today than in 2008



Compared with 66% who said they invest less.

Just how much did people lose in the stock market during the financial crisis?




Survey respondents' reported best estimate of money lost in the stock market as a result of the 2008 financial crisis

# People largely don’t understand what caused the financial crisis; fail to understand where markets are today.

The fear surrounding markets is clouding the facts: stock market indices are largely much stronger than they were 10 years ago, but most people have no idea.

The pain of the financial crisis is reflected in the inflated housing markets, delayed retirements and anti-Wall Street sentiment among many Americans. But for all the media coverage, books written and political debates dedicated to making sense of the crash, very few people actually understand what happened.


The S&P 500 is up 200% since 2008, yet nearly half of people surveyed **(48%) thought that the S&P 500 had not gone up at all** in the past 10 years, and **18% thought it had gone down.**

Of respondents 18 and over in 2008, 79% say they don’t fully understand what caused or happened during the financial crisis, and nearly a quarter say they don’t understand at all.

Most people blame big banks and mortgage lenders (30%) and political leaders and policies in place in 2008 (21%) for the crash. However, there is divergence depending on income level, with higher earners more likely to blame financial institutions and respondents with lower income more likely to blame the government.

**Those making $100,000 or more a year**

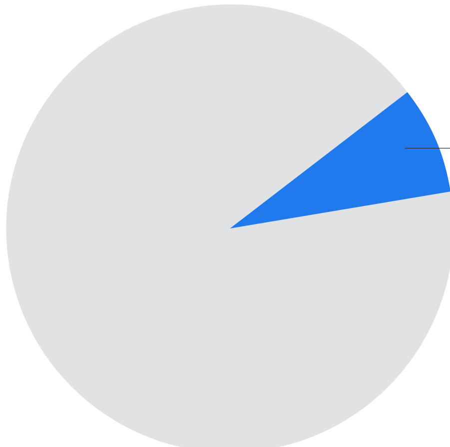
- 54% blamed big banks and mortgage lenders above all else
- 15% think political leaders are most at fault

**Those making $50,000 or less**

- 42% blamed big banks and mortgage lenders above all else
- 22% think political leaders are most at fault

Citation 1
Citation 2

Almost nobody blames the consumer:



Only 8% of those surveyed said that borrowers who overextended themselves were the primary culprits of the financial crisis

"The news reports about markets are biased towards fear and negativity: crashes are newsworthy, but steady growth isn't (unless it's to stoke fear of another crash). It's no wonder most consumers feel anxious and like they're in the dark."

–Dan Egan,
Betterment's VP of Behavioral Finance and Investments

Despite the outrage bank bailouts and subsequent policies provoked in political circles, Republicans (38%) and Democrats (42%) largely agree that the government did not take enough action to protect consumers. Fewer than 1 in 6 (13%) said the government went too far to protect consumers following the crisis, and even among Republicans, barely 1 in 5 (21%) said the government overreached its boundaries.

Knowledge is power. Among those who report they fully understand what caused the financial crisis:

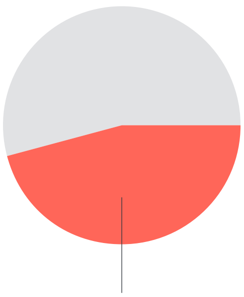
22% trust Wall Street institutions more than they did in 2008

21% invest even more now than they did in 2008

5x

more likely to have increased stock investments than those that don't understand the crisis

# Most people don't think Wall Street has cleaned up its act, but young adults are willing to be convinced



This age group was under 18 and not investing in 2008, but just 10 years later nearly half (46%) now have money invested in the stock market.

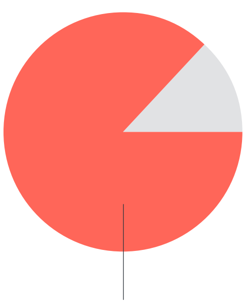
The financial crisis and subsequent bailouts dealt a body blow to consumer trust of Wall Street. Most people still mistrust Wall Street's practices and policies:

- 83% say they don't think Wall Street is more ethical today than it was in 2008
- 22% say they think Wall Street is less ethical than it was 10 years ago

However, younger adults are the one bright demographic for Wall Street's branding, and twice as likely than those 55+ to think banks are more ethical now than before: more than a quarter (28%) of those aged 18-27 say that Wall Street banks are more ethical now than they were in 2008. While adults now ages 18-27 were children during the crash, it's not necessarily pure naiveté: 57% believe they understand what caused the financial crisis.

> "The steady march of scandals from Madoff to Wells Fargo to JP Morgan have hardly given consumers a reason to think large incumbents have changed their ways. In the absence of someone they can trust, consumers have had to take more responsibility for their investments."

–Dan Egan, Betterment's VP of Behavioral Finance and Investments



By comparison, 87% of those 18+ in 2008 who could invest but chose not to, are still not investing today.

As Wall Street slowly regains its reputation, this influx of young investors may change the future of wealth management. When asked who or what they trust most with keeping their investments and retirement savings safe for the next 10 years, 70% said they trust themselves above all else.

The days of handing over the reigns may be over: only 18% say they trust their financial advisor above all else, and of those that currently invest in the markets, only 40% rely on a traditional financial advisor, instead opting for online financial advising platforms or self-directed platforms.

# People who were invested (and lost) in 2008 are the most likely to feel recovered and remain the most optimistic

Roughly half (47%) of survey participants were investing in 2008. People who had money in the market when Lehman Brothers collapsed felt the pain: 93% of investors said they were affected by the crisis, and 80% said they lost money in the market.

But fast forward 10 years: despite losing money and being twice as likely to have been laid off or met with a salary freeze or cut, people investing in the stock market feel more recovered than those who never invested in the stock market. Of people investing at the time of the financial crisis:

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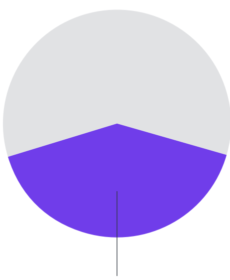
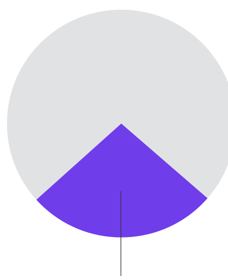
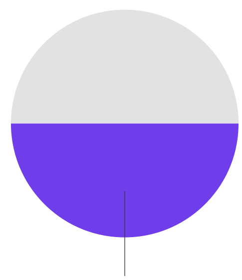


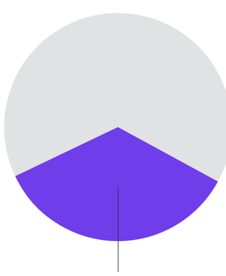
41% feel fully recovered financially



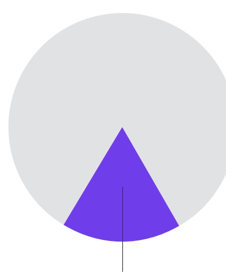
27% feel partially recovered



Half are investing as much or more than they did 10 years ago

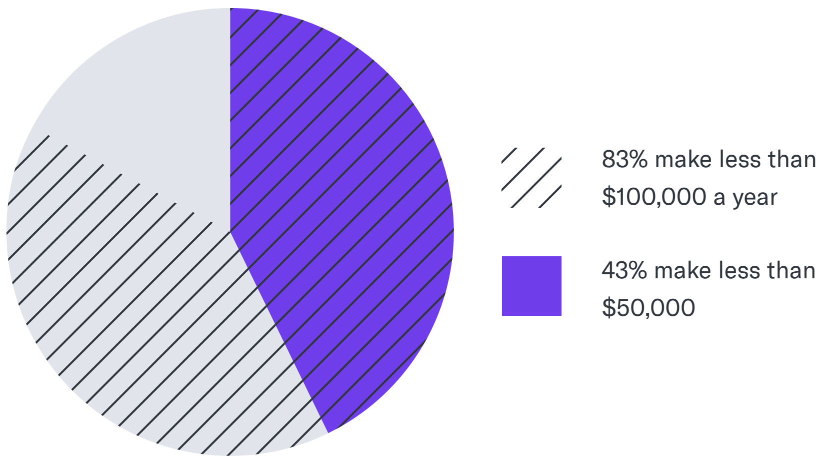


More than a third (35%) have the same investment risk tolerance they did in 2008



17% consider themselves even more risk tolerant today

Importantly, this data shows that recovery and optimism are not just a reflection of socio economic trends. Of this group investing in 2008:

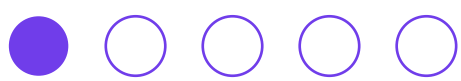



Ready and waiting: Investors and non-investors alike are equally worried there will be another financial crisis in the next 10 years. More than a quarter (27%) of investors who saw their portfolios dip 10 years ago think it will happen again soon, yet 61% of this group **still have more than $10,000 invested in the market today.**

**Awaiting a crypto crisis?**

An overwhelming majority (85%) said they expect another financial crisis in the next 10 years, and people are still wary of big banks: 39% saying they are the most likely to be the primary cause of the next crisis.

Almost 1 in 5 (18%) respondents said they think that crypto-currencies will cause the next financial crisis.



Consumers are cynical about the attitudes of political leaders: 71% think they are more concerned with big banks than individual consumers. Almost half (43%) of consumers think that the government would bail out the big banks again in another financial crisis, but 58% would oppose that move.

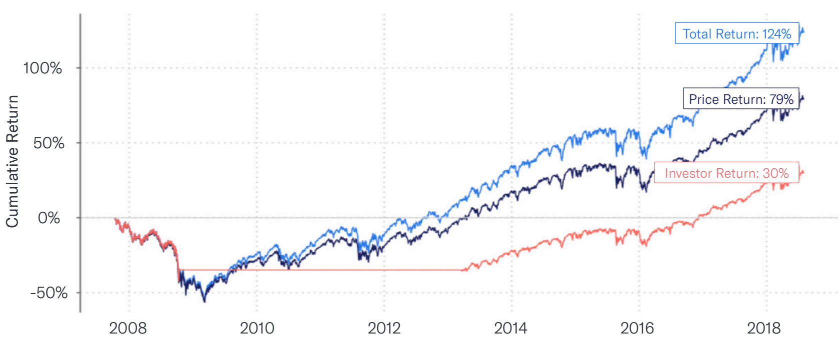
'Tis much (much) better to have invested and lost than never to have invested at all:

The data showed us that 2008's financial crisis had a deeply damaging effect on overall attitudes toward Wall Street and trust in the markets. People are skeptical of Wall Street, anxious for another crash, and investing less than ever.

The significant bright spot is the group of respondents that loved and lost (in the markets) in 2008. But what worries us the most: of those who were not investing in 2008 (roughly half), 87% are still not investing today. What if that other half had started investing? What would their portfolio look like today?

Among those investing in 2008, the chart to the right is an estimate of the amount they had in the market.

| Total $ in market | % of respondents |
|---|---|
| $0 | 0% |
| $1 - $9,999 | 32% |
| $10,000 - $49,999 | 25% |
| $50,000 - $99,999 | 16% |
| $100,000 - $249,999 | 15% |
| $250,000 - $499,999 | 6% |
| $500,000 - $999,999 | 4% |
| $1,000,000 or more | 2% |




The 'investor return' here is simply someone who stopped investing (had zero returns of any kind) from October 15th, 2008 until the previous high recovered in March. This is hypothetical in nature and does not represent the performance of any specific investor.

This chart represents Investable S&P 500 by using the SPY fund. Data from Xignite. Total Return-continuously compounded change in return of the SPY fund considering price and reinvestment of all dividends over time period. Price Return-continuously compounded change in price level in SPY fund adjusting for splits. Investor Return- hypothetical return represented by the Total Return factoring in zero return between October 15, 2008 to March 31, 2013 as a period out of the market. This is for illustrative purposes only and does not represent any specific investor.

Betterment was founded to re-invent the investing industry. We believe there's no better portfolio than a globally diversified portfolio, and we partner with our customers on investing for the long haul. Our advisors reinforce the importance of staying the course, and our platform designed with guardrails and nudges in place to help new and sophisticated investors alike remember the importance of staying the course.

While the financial crisis had a lasting effect on everything from retirement savings to market, we're encouraged to see that the group of people who invested and lost in 2008 are some of the most optimistic, and ready for unexpected bumps ahead. We hope the data shows that the market isn't something to fear, but rather an important tool to help you on your path to smarter savings and a secure financial future. Visit www.betterment.com to learn more and get started today.