Nov 16, 2020

Sixth Annual Advisor Authority Study Reveals Pandemic and Presidential Elections Driving Volatility and Demand for Protection Solutions

Investor/Advisor Alignment Check Gives 360-Degree View on Top Factors Forcing Financial Concerns Up and Optimism Down for Second Consecutive Year

Columbus, OH — Nearly two-thirds of investors (61%) and more than two-thirds of advisors and financial professionals (68%) anticipate market volatility will increase over the next 12 months. They also agree that the COVID-19 pandemic and presidential elections

are among the top three factors driving volatility and negatively impacting portfolios. As a result, investors, advisors and financial professionals are recalibrating their financial outlook, and their optimism continues to decline for a second year in a row, while their concerns are on the rise.

These are among the findings from Nationwide's sixth annual *Advisor Authority* study, powered by the Nationwide Retirement Institute®, reflecting the responses of more than 2,500 advisors, financial professionals and individual investors. The sixth annual study was conducted online from May 27 – June 25, 2020 by Harris Poll.
This investor/advisor alignment check provides a 360-degree view on the top factors driving volatility, impacting portfolios and causing financial concerns—and the top proactive strategies to manage these complex dynamics—to help advisors and financial professionals better understand their clients' needs in times of rising uncertainty.

"2020 has been a year defined by the unprecedented and the unexpected— from the highly contested presidential election to the pandemic's outsize impact on our country's physical, mental and financial well-being—and the fallout is reflected by a less optimistic outlook," said Craig Hawley, Head of Nationwide's Annuity Distribution. "It's important for investors, advisors and financial professionals to remember that there are solutions to protect their portfolios and help provide a more secure retirement—so they can feel more confident and stay focused on their long-term financial plans."

Financial Outlook and Optimism on the Decline
Investor optimism about their financial outlook has fallen 19 percentage points this year, to just 36% in 2020 from 55% in 2019, after dropping 7 percentage points last year. Likewise, advisor and financial professionals' optimism has declined 12 percentage points this year, to just 38% in 2020 from 50% in 2019, after declining 14 percentage points last year.

Concerns are growing about the health of the economy. Three-fourths of investors (75%) in 2020, compared to roughly six in 10 (58%) in 2019, expressed concern about a U.S. economic recession over the next 12 months. Likewise, more than three-fourths of advisors and financial professionals (77%) in 2020, compared to six in 10 (61%) in 2019, shared these concerns about a recession.

Outlook for the market is also on the downswing. Roughly two-thirds of investors (65%) in 2020, compared to roughly half (54%) in 2019, expressed concern about an ongoing U.S. bear market over the next 12 months. Meanwhile, nearly three-fourths of advisors and financial professionals (74%) in 2020, compared to six in 10 (61%) in 2019, said that they are concerned about an ongoing bear market over the next 12 months. While only 26% of investors feel pressure to revise their investing strategy over the next 12 months, 50% of advisors and financial professionals feel this pressure—with 81% of them likely to invest more conservatively and 85% likely to use a more actively managed strategy.

Pandemic and Presidential Elections Drive Volatility
This year, investors, advisors and financial professionals alike continue to expect volatility to increase. Roughly two-thirds of investors anticipated market volatility would increase over the next 12 months in both 2020 and 2019 (61% vs 66%). Notably, those investors who anticipated volatility would increase substantially have more than doubled this year, to 20% in 2020 compared to just 9% in 2019.

Meanwhile, far more advisors and financial professionals anticipated volatility would increase in 2020 compared to 2019 (68% vs 54%). Likewise, those advisors and financial professionals who anticipated volatility would increase substantially also doubled this year, to 23% in 2020 compared to just 11% in 2019.

Placing downward pressure on the economy and the job market, the COVID-19 pandemic is considered the number-one driver of volatility over the next 12 months, cited by nearly two-thirds of investors (63%) as well as nearly two-thirds of advisors and financial professionals (62%). U.S. economic performance also tops this list, cited by 42% of investors and 40% of advisors and financial professionals. Presidential elections are squarely positioned among the top three drivers of volatility, cited by 41% of investors and 41% of advisors and financial professionals.

These factors are also taking a toll on portfolios. Over the next 12 months, investors believe the top macro issues that will most adversely impact their portfolios are the COVID-19 pandemic (41%), presidential elections (15%) and ongoing volatility (9%). Advisors and financial professionals agree, saying that the COVID-19 pandemic (43%), presidential elections (10%), global instability (10%) and ongoing volatility (9%) are the leading challenges to clients' portfolios.

In fact, investors this year say their number-one financial concern over the next 12 months is losses to their portfolio due to the impact of the COVID-19 pandemic (32%), followed closely by protecting assets (31%), while managing volatility (22%) is a distant third. Advisors and financial professionals are in tune with clients when it comes to their top three financial concerns, also citing losses due to the COVID-19 pandemic (36%), followed closely by managing volatility (31%) and protecting assets (29%).

For investors, the pandemic has been a financial wake-up call. Many of their other leading concerns declined considerably this year as compared to last year, including cost of healthcare (20% vs 33%), taxes (15% vs 31%) and saving enough for retirement (16% vs 23%). In the midst of a pandemic, 85% of investors say they could do all the right things to manage their finances, and still be blindsided by outside events. Likewise, 70% of investors say the pandemic has had an impact on their financial decision making.

Protecting Portfolios Against Market Risk

In the face of rising uncertainty and ongoing volatility, the number of investors who say they have an advisor is on the upswing, increasing sixteen percentage points in five years, to 67% in 2020 from 51% in 2016. Investors say the number-one reason for working with an advisor is to feel more confident in their financial future (33%). Asked to identify the most important benefit of working with an advisor when markets are volatile, investors with an advisor say that the top reasons are protecting their assets against market risk (21%), helping them stay focused on long-term goals (21%) and helping them make more informed decisions (17%).

Yet, while expectations for volatility are high, and protecting portfolios against losses outranks all other financial concerns, only 64% of investors have a strategy to protect their assets against market risk, compared to the vast majority of advisors and financial professionals (91%), who have a strategy to protect their clients' assets against market risk.

Among those who have a strategy to protect assets against market risks, more than half of investors (57%) compared to nearly two-thirds of advisors and financial professionals (62%) agree that diversification is the most prevalent solution. Meanwhile, advisors and financial professionals are much more focused than investors on using a diverse range of risk management solutions—including fixed annuities (50% vs 36%), fixed index annuities (48% vs 19%), non-correlated assets (42% vs 12%), hedging strategies (42% vs 16%) and liquid alternatives (39% vs 23%).

Likewise, more than three-fourths of advisors and financial professionals (76%) compared to less than half of investors (48%) say they would likely choose an annuity in the next 12 months to protect against market loss as part of a holistic financial plan. Notably, nearly three fourths of Millennial investors (72%) and nearly two-thirds of Gen X investors (61%) say they would likely choose an annuity to protect against market loss in the next 12 months, compared to only 36% of Boomer investors.

Protecting Retirement Against Outliving Savings

In spite of ongoing pressures, investors have not lost sight of their long-term retirement goals. In fact, more investors in 2020 than in 2019 have a strategy in place to protect against outliving their savings (81% vs 70%). Likewise, even more advisors and financial professionals this year than last year have a strategy in place to protect their clients from outliving their savings (94% vs 88%).

To protect against outliving savings, investors are more likely than advisors and financial professionals to rely on Social Security (68% vs 59%) and both groups are almost equally likely to rely on defined benefit plans/pensions (44% vs 43%). On the other hand, advisors and financial professionals are more likely than investors to use a more diverse range of solutions, including dividend yielding stocks (55% vs 39%), variable annuities with living benefit riders (55% vs 27%), fixed income/bond ladders (53% vs 21%) and yield/income generating ETFs (51% vs 18%).

Advisors and financial professionals are also more likely than investors to use a broad selection of annuities to protect against outliving savings, including Single Premium Immediate Annuities (or SPIAs, 41% vs 14%), In-Plan Income Guarantee within a defined contribution retirement plan (39% vs 24%), Longevity Insurance/Deferred Income Annuities (or DIAs, 34% vs 11%), Qualifying Longevity Annuity Contracts (or QLACs, 29% vs 10%) and Contingent Deferred Annuities (or CDAs, 27% vs 10%).

Nearly four in five advisors and financial professionals (79%) compared to just over half of investors (54%) say they are likely to choose an annuity in the next 12 months to protect against outliving savings as part of a holistic financial plan. However, it's worth noting that three-fourths of Millennial investors (75%) and more than two-thirds of Gen X investors (69%) said they are likely to choose an annuity in the next 12 months to protect against outliving savings, compared to only 44% of Boomer investors.

Four out of five investors (80%) and advisors and financial professionals (83%) confirm that they have a strategy in place to generate guaranteed income in retirement. However, more than three-fourths of advisors and financial professionals (78%) compared to just half of investors (51%) would choose to protect retirement against running out of income by incorporating solutions that offer a guaranteed stream of retirement income for life.

"Right now, the world is uncertain. But the vast majority of investors say that having a plan for their investments makes them feel in control, even if they can't plan for everything—and those with a financial advisor say the number-one reason for working with an advisor is to feel more confident in their financial future," Hawley continued. "With the right guidance, the right plan and the right protection in place, Americans can move past these challenges and move toward their goals of preparing for retirement, living in retirement and leaving a financial legacy," Hawley concluded.

To learn more about this year's investor/advisor alignment check on the factors forcing financial concerns up and optimism down—and the solutions needed to succeed—advisors and financial professionals can also download the latest *Advisor Authority* infographic at: https://news.nationwide.com/investor-advisor-alignment-check/

Nationwide's sixth annual *Advisor Authority* study powered by the Nationwide Retirement Institute explores critical issues confronting advisors, financial professionals and individual investors—and the innovative techniques that they need to succeed in today's complex market. This is the third in a series of ongoing releases from the sixth annual study.

About *Advisor Authority*: Methodology

The sixth annual *Advisory Authority* Survey was conducted online within the United States by The Harris Poll on behalf of Nationwide from May 27 – June 25, 2020 among 1,768 advisors and financial professionals and 817 investors, ages 18+. Among the 1,768 advisors and financial professionals, there were 758 RIAs, 642 Registered Reps, 500 Wirehouse and 165 other financial professionals. Among the investors, there were 12 Generation Z (ages 18-23), 119 Millennials (ages 24-39), 161 Generation X (ages 40-55), 433 Baby Boomers (ages 56-74), and 92 Matures (ages 75+). And, there were 558 investors with a financial advisor, 259 without. Investors are statistically weighted where necessary by age by gender, race/ethnicity, region, education, income, marital status, household size, investable assets and propensity to be online to bring them in line with their actual proportions in the population. Respondents for this survey were selected from among those who have agreed to participate in Harris Poll surveys. Because the sample is based on those who were invited to participate in Harris Poll online research, no estimates of theoretical sampling error can be calculated.

About The Harris Poll

The Harris Poll is one of the longest running surveys in the U.S. tracking public opinion, motivations and social sentiment since 1963 that is now part of Harris Insights & Analytics, a global consulting and market research firm that delivers social intelligence for transformational times. We work with clients in three primary areas; building twenty-first-century corporate reputation, crafting brand strategy and performance tracking, and earning organic media through public relations research. Our mission is to provide insights and advisory to help leaders make the best decisions possible. To learn more, please visit www.theharrispoll.com.

About Nationwide

Nationwide, a Fortune 100 company based in Columbus, Ohio, is one of the largest and strongest diversified insurance and financial services organizations in the United States. Nationwide is rated A+ by both A.M. Best and Standard & Poor’s. An industry leader in driving customer-focused innovation, Nationwide provides a full range of insurance and financial services products including auto, business, homeowners, farm and life insurance; public and private sector retirement plans, annuities and mutual funds; excess & surplus, specialty and surety; pet, motorcycle and boat insurance. For more information, visit www.nationwide.com. Follow us on Facebook and Twitter.