Retirement Income
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Investors shun full-service firms: Hearts & Wallets

By Editor Test *Wed, Oct 24, 2012*

The percent of investors who cite a financial professional as their primary provider of investment advice fell to 21% in 2012 from 25% in 2011, according to the Boston area research firm. Usage dropped sharply among households with $100,000 to $500,000 and over $2 million in investable assets.

The shift toward "do-it-yourself" investing is gaining momentum at the expense of full-service advisor platforms, according to research firm Hearts & Wallets. Only Vanguard and T. Rowe Price, as well as banks, made sizeable gains from 2011 to 2012.

"Ordinary Americans are frustrated with brokers, financial planners and other advisors because their value proposition is unclear, pricing is opaque, and there is no way to evaluate providers except to measure absolute return," said Laura Varas, Hearts & Wallets principal.

"Even self-directed firms like USAA, which have previously had consistently high scores, saw a drop in their Hearts & Wallets Score," Chris Brown, Hearts & Wallets partner, said. "Some full-service firms had very low scores. Investors just aren't sensing enough value for their dollar."

Banks attract the under-$100,000 crowd

Banks upped their overall share of primary relationships from 43% to 47% in one year. Banks lead in primary relationships among households with under $100,000 in assets, with a 58% share. "Part of this is due to flight to security out of fear of losing principal," said Varas in a release, "But the low interest rates on insured bank products are a serious concern."

Self-service brokerages lead in share across other wealth segments. Full-service brokerages' share of households with $1 million or more fell to 32% in 2012 from 36% in 2011. Banks' share rose to 17% in 2012 from 13% in 2011 for this wealth segment, according to Insight Module "*Focus on Advice: Preferences, Sources and Use of Technology,*" the latest report from Hearts & Wallets' 2012 Investor Quantitative Panel.

This annual survey of more than 5,400 U.S. households tracks specific segments and product trends and is both a proprietary database and series of syndicated reports.

Less than two-thirds of investors now use a financial services professional. The percent of investors who cite a financial professional as their primary provider of investment advice fell to 21% in 2012 from 25% in 2011. Usage dropped sharply among households with $100,000 to $500,000 and $2 million plus in investable assets.

Investors trust those close to them, with 57% relying on family and 47% on friends in 2011. Emerging investors put the most trust in friends (64%) and family (82%).

Investors’ stated process preference and the type of firm they actually select as their primary provider often don’t match. Only 37% of self-described “delegators,” for instance, use a full-service brokerage as the primary provider. “This misalignment demonstrates investor confusion about provider services,” Varas said.

Technology usage for investment information held steady in 2011, conserving 2010’s big gains. Investors across the board use technology. One third of investors use technology to check accounts. One quarter use planning tools or calculators, and 12% use technology to trade securities. Pre-retirees use technology for getting quotes, screening funds and trading securities. Investors ages 43 and under use technology the most.