
Investors Talk the Talk, But Ignore Walk: Allianz Global Investors

By Editor Test Thu, Jul 15, 2010

The majority of investors 65-plus (57%) have less than 25% of their portfolios in bonds and/or bond mutual funds, according to a survey of Americans in households with at least \$250,000 in investments.

Investors may have reduced their expectations for market returns but they still haven't internalized what the "new normal" means for their investment strategies or their retirement, according to a survey of mass affluent investors by Allianz Global Investors (AGI).

Of 1,002 investors surveyed, only 27% expected equities to return 8% or more in the next year and only 34% expected equity returns of more than 8% five years from now. Yet 87% were at least "somewhat confident" they would reach their long-term financial goals.

"If there is an upside to the economic and market dislocation of the last few years, it's that investors seem to have finally ratcheted down their expectations for the market," said Cathleen Stahl, head of marketing for AGI Distributors.

The Allianz Global Investors Get Real™ Survey was conducted online from April 19-29, 2010 by GfK Custom Research. Completed surveys were obtained from 1,002 decision-makers in households with portfolios of at least \$250,000.

Most investors say they understand and know how to manage risk. But one third said they give little or no consideration to the percentage of their portfolio that is invested in cash, 50% believe it's not too or not at all important to invest in inflation-protected securities, and only 27% think it's very important to diversify globally.

Fixed income investments are a mystery to many mass affluent investors, the survey showed. Forty-seven percent of the investors surveyed said they are "not too" or "not at all" knowledgeable about the risks associated with bonds—two and a half times the 19% who say they are "not too" or "not at all" knowledgeable about the risks associated with stocks.

When asked their opinions about where bond returns will be in 12 months, 40% of investors said they didn't know enough to offer an opinion.

While many investors acknowledge the importance of diversification and of protecting their portfolios against inflation in general, 85% do not own Treasury Inflation Protected Securities (TIPS), 30% do not own domestic bonds or bond mutual funds, and upwards of two-thirds don't have any foreign developed or emerging market bonds or bond mutual funds in their portfolios.

"Investors are struggling to understand and incorporate fixed income investments in their portfolios," Sutherland said. "While the majority of investors could correctly cite current mortgage or CD rates, about half of them could not even begin to estimate current returns on investment-grade or high-yield bonds."

Surprisingly, even older investors— who have the most experience with, and need for, fixed income investments—have allocated relatively small proportions of their portfolios to fixed income. In fact the majority of investors 65-plus (57%) have less than 25% of their portfolios in bonds and/or bond mutual funds.

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