AXS INVESTMENTS INSIGHTS

FINANCIAL WELLNESS

Financial Literacy: A Challenge and Opportunity for Money Managers

Financial Health Takes Key Seat at the Wellness Table

Greg Bassuk is Chief Executive Officer of AXS Investments and an early pioneer in Financial Wellness, Literacy and Inclusion

Pandemic pressures over the last year have driven more individuals and families to focus increasingly on physical and medical wellness. At the same time, a vast range of outcomes flowing from Covid-19 triggered significant financial wellness issues, such as loss of jobs, skyrocketing medical expenses, and the reduction or elimination of business revenues, particularly for small business owners in the U.S. and indeed throughout the world.

Resulting from the unprecedented financial hardships experienced in the pandemic-fueled economy, it's not surprise that one of the latest national financial wellness reports found that more Americans now focus on financial planning.

Before Covid-19, 20% of Americans over 18 years old lacked a financial plan. By contrast, the study found that 32% of Americans now believe their financial discipline improved over the last year amid the pandemic environment. In a marked positive sign of an improved financial wellness outlook going forward, approximately 95% of respondents indicated strong conviction that their improved financial habits will remain.

Northwestern Mutual's study shows that 83% of respondents adjusted their financial behavior due to COVID. These respondents either modified, revisited, or created financial plans in the last year. New habits included increased financial investment (33% of respondents), debt reduction (34%), and more disciplined spending habits (45%).

The Challenge – The Vast Impact of the Crisis

Notwithstanding these positive financial wellness trends exhibited by individuals as a means of overcoming pandemic-sparked financial hardships, the Covid-19 outbreak and lingering economic and personal finance pressures have meaningfully impacted the timeline for Americans to reach "long-term financial security." While roughly 15% of respondents said that the pandemic set them back by less than one year, the survey results show that 18% believe it set them back by 12 months to 24 months; 9% said it set them back by three to five years; and 3% said it would impact them by at least five years from a personal finance standpoint.

Retirement planning is another major area of individuals' financial health that was hit hard by the pandemic. Roughly one-third of Americans said that Covid-19 shifted their retirement strategy, while 20% said they plan to delay retirement given the various impacts of the pandemic on their longer-term financial health.

Millennials and Generation Z were the groups that indicated they were set back the most. About 63% of Gen Z respondents said they were set back, while 65% of millennials said the same.

Finally, 35% of Americans said they delayed a major financial or life event due to the pandemic. Nine percent said they delayed buying or building a home; 10% delayed accepting or seeking a new job; and 17% said they would wait to fund a major purchase like a new car or home renovation.

The Opportunity – Trust In Financial Advisors Increases

While the 2021 Planning & Progress Study found the challenging data referenced above, it also showed a notable uptick in trust in financial advisors among the broader investing public. As a baseline, 2020 research indicated that 30% of respondents had said the "most trusted" source of financial advice was the respondent (yourself). Just 22% had said a financial advisor, and only 13% had said a family member, was the most trusted source of financial advice.

By contrast, in this latest 2021 study, 26% said that financial advisors were the most trusted source of financial advice. The percentage of people who said "yourself" dropped by 10 points to 20%. Similarly survey results highlighted that 38% of people work with a financial advisor in 2021, which is up meaningfully from 29% in pre-pandemic America.

When asked for their top financial priorities in 2021, respondents said the following:

- Paying bills/expenses (48%)
- Saving for retirement (39%)
- Paying off debt/loans (38%)
- Taking care of their family (37%)
- Investing (32%)

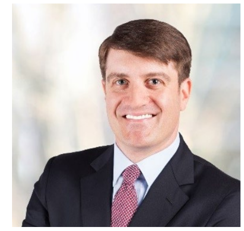
The opportunity, therefore, is multifold. First, Americans already are indicating a growing trust in working with financial advisors, who can provide well-informed and seasoned advice to individuals and families across a range of prioritized financial topics, such as those noted above. Moreover, that growing trust comes at a critical time during which the impact of the global pandemic has created a tremendous need for sound advice, guidance and support to best help individuals navigate the tough and uncertain personal finance and financial wellness roads ahead.

Improved financial literacy and financial wellness will no doubt enable individuals and families to be best prepared and more strongly positioned for the New Normal we're entering as we move through and beyond 2021.

Financial Wellness: Filling the Gap for Young Americas

By Greg Bassuk, Chief Executive Officer, AXS Investments

Financial Advisors Give a Boost to the "Next Generation" and Their Financial Goals



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Americans over the age of 70 have stockpiled roughly $35 trillion over the last few decades, according to the Federal Reserve. This figure represents roughly 27% of all U.S. wealth, and an uptick from about 20% from the 1990s.

While the Fed projects that older Americans will hand down roughly $61 trillion to heirs between 2018 and 2042, the recipients of this money disproportionately lack financial literacy and a structured understanding of personal finance.

Despite all this potential wealth, most U.S. schools, from elementary school through college, have largely not delivered financial education to younger Americans. Recent data from the Nation's Report Card on Financial Literacy showed that 66% of U.S. states earned a grade C or worse on this critical area of education.

This educational gap presents a critical path and opportunity for financial advisers who could fill this vast void.

Challenges on the Financial Front

Today, roughly 51% of Americans lack three months of emergency cash. And about one in four have no emergency fund whatsoever. But even the people who are sufficiently fortunate to tuck some money away are facing increasing personal finance stress in this COVID-19 economy.

Many Americans are still unemployed as a result of the pandemic. Others are wondering if they will ever be able to reach their retirement goals. And for older millennials – now just entering their 40s – the stress of parenthood, college savings, home ownership, and more looms large in their daily lives.

As a result, we a witnessing a renaissance in terms of consumer interest in financial planning and investing. There has been a remarkable wave of first-time investors buying stocks, and even dabbling in options trading. Savvy money managers should consider targeted these potential clients and capitalize on their growing interest and need for financial guidance.

However, this is a much different generation than their parents. The pandemic has fostered a more digital-first environment where prospects are best introduced. This generation has shown increased interest in gamification of financial goals and advanced behavioral tools that help them better identify, manage and achieve their goals.

According to CNBC, 52% of potential investors under 40 are using LinkedIn to locate an advisor. By comparison, just 29% of internet users over the age of 56 even use LinkedIn, let alone other social media.

In addition, younger Americans have uniquely different investment goals than their parents. CNBC reports that 83% of the millennial demographic would be loyal to a company that commits to improving Environmental, Social and Governance (ESG) and other sustainability objectives.

What it Means for Investors

Younger generations are more tech-savvy, ESG-focused, and thirsting for financial education. Financial advisors who spot and embrace these trends should find opportunity and potentially very significant success with this demographic. Digital communications between younger investors and financial advisers can spur intelligent conversations on how to build and manage wealth – whether it is inherited or built during their clients' lives.

Importantly, in addition to traditional stock and bond investing, financial advisors should take the time to educate these investors on alternative investment strategies as well, including exposures that help investors navigate today's "new normal" market environment characterized by historically high equity valuations and low rates. The massive interest among younger Americans in sustainability also represents an opportunity for financial advisors to connect with the younger generation.

These connections between savvy financial advisors and younger individuals can be a key trigger point to forming longtime relationships that pave the path for financial education, investing literacy and overall financial wellness that is much needed as we move out of the pandemic and into the new world of personal finance and investing.

Financial Literacy: More Than Just Numbers

By Greg Bassuk, Chief Executive Officer, AXS Investments

More than half of Americans today (56%) don't think they will have enough money to retire securely, according to the National Institute of Retirement Security. About 73% of the nation says that money is their number one cause of stress, according to Capital One. And 54% of U.S. citizens live paycheck-to-paycheck, with millennials edging closer to the 70% rate.

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On top of those already bleak data points, a fast-growing range of research reports also underscore a lack of strong financial literacy at a time when it's arguably needed most. As a case in point, the Financial Industry Regulatory Authority (FINRA) conducts a five-question test every few years about basic issues like compounding interest, bond prices, inflation, and asset diversification. Only 34% of Americans got four out of five questions correct.

These numbers speak to a different pandemic in the United States. The lack of education around personal finance, and its broad implications on overall financial wellness, must be addressed.

Why Financial Literacy Matters

Financial literacy is critical for many reasons, including because of what it allows people to do: understand and maximize every dollar they earn, regardless of income level. Just a basic understanding of personal finance can transform a person's lift.

There has never been a time during which as many finance companies, credit card firms, mortgage originators, and other financial services organizations are hitting consumers from all directions with new products, aggressive offers and other choices that seem compelling, but have high risks and difficult outcomes about which consumers might not be fully aware. Individuals and families can find themselves in deep water without the proper financial education.

Notwithstanding the low rates of financial literacy across America, financial wellness programs have yet to be embraced by a sufficient number of public and private sector decision-makers. Even traditional school systems have a notoriously bad track record at educating students on financial literacy matters. Today, many more states can move forward with requiring that high school students take a basic finance class to educate them on these responsibilities. While today some states mandate that schools integrate personal finance lessons into other classes, and while some other states require that students have the option of taking a personal finance class, there is more room for states to more aggressively make it a graduation requirement.

What's In It for Investors?

Financial literacy is a transformational gift for individuals and families. Investment education, only one of many components that can improve overall financial wellness, is also at a premium during times, like today, where investment portfolios are under pressure. With stocks hovering around all-time highs, and rates still in the ballpark of historical lows, where can investors find growth or income going forward? Likewise, given the significant uncertainty that rules the markets and continues to spark ongoing volatility, how can investors navigate the unpredictable road ahead?

While no one has a crystal ball detailing with certainty the financial outlook for the markets and for investment portfolios, we can all help to better equip individuals and families with the education, tools and resources that provide greater understanding and enhanced confidence relating to investment decisions that impact not only one's financial health, but also one's overall wellness given the extent to which personal finance decisions overlap with health, housing and other key decisions that need to be made on a daily basis.

For these reasons, financial literacy is more than just about the "numbers." Rather, it's about overall wellness that can drive improved outcomes for individuals, families and the public at large.