

Motivation Study Australia Snapshot

Discovering Phi: Motivation as the Hidden Variable of Performance

Center for Applied Research and CFA Institute
November 2016



CFA Institute



STATE STREET.

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Motivation Study

Center for Applied Research (CAR) and CFA Institute

- Building upon the success of CAR's *Folklore of Finance: How beliefs and behaviors sabotage success in the investment management industry*, this 18-month flagship study sought an answer to the pressing question: **How can motivators produce better financial outcomes** in the investment management industry?
- Developed in partnership with the CFA Institute, *Discovering Phi: Motivation as the Hidden Variable of Performance* is based on input from nearly **7,000 survey respondents** across 20 countries, interviews with more than **200 global industry leaders**, as well as extensive secondary research and quantitative modeling.
- **"Phi"** is derived from the motivational forces of purpose, habits and incentives that direct our behaviors and actions. It drives behaviors and attitudes among investors to reach higher levels of engagement and progress towards long term goals.
- This presentation covers the study's **Australia individual investor** results specifically. Please visit www.statestreet.com/CAR, www.cfainstitute.org or email centerforappliedresearch@statestreet.com for more information.

Confronting
controversial
topics

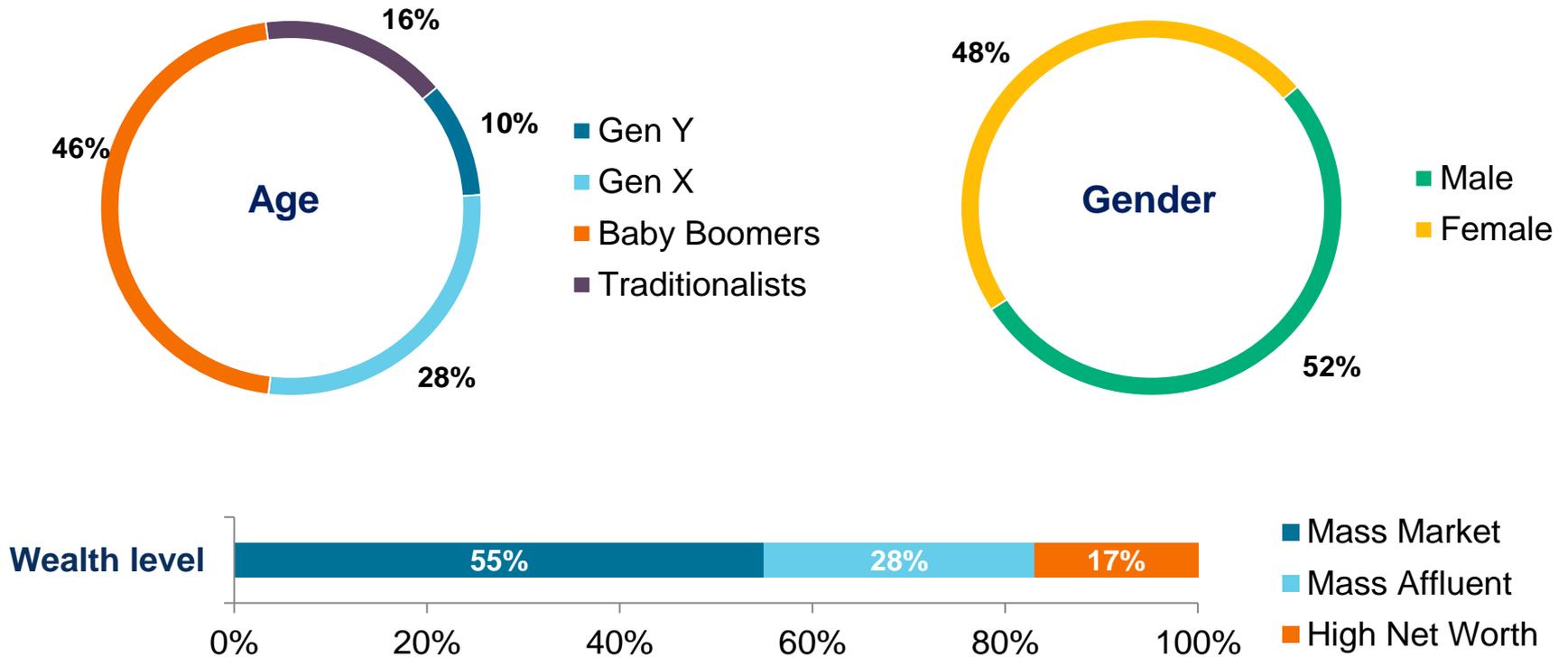
Providing
solutions

State Street / CFA Institute

Australia Respondent Demographics

Demographics

We Surveyed 180 Individual Australian Investors

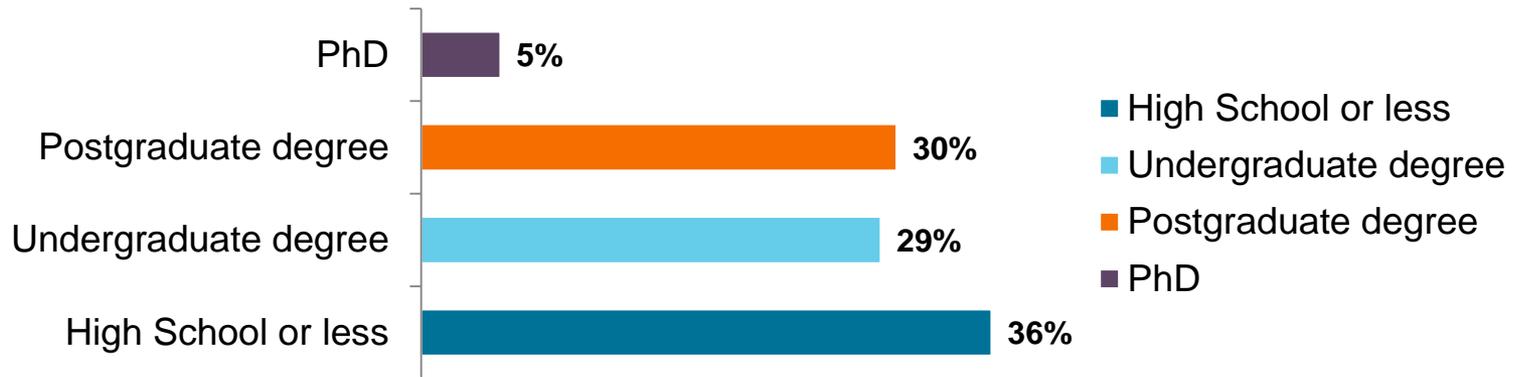


Note- wealth level is defined as the value of personal assets (excluding fixed assets); MM = \$0-250k, MA = \$250k-\$1m, and HNW = >\$1m.

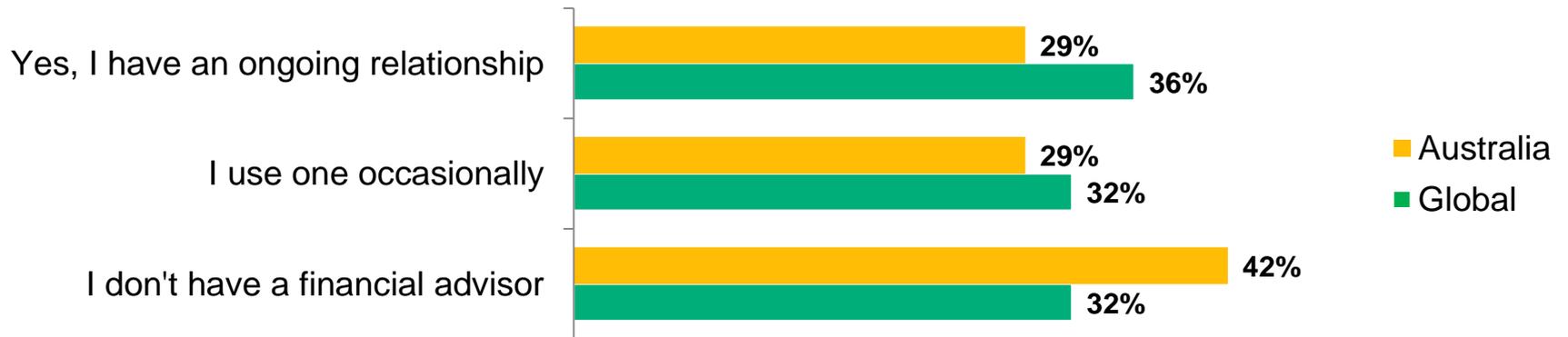
Australia Respondent Demographics

Demographics

Education Level



Do you use a Financial Advisor?



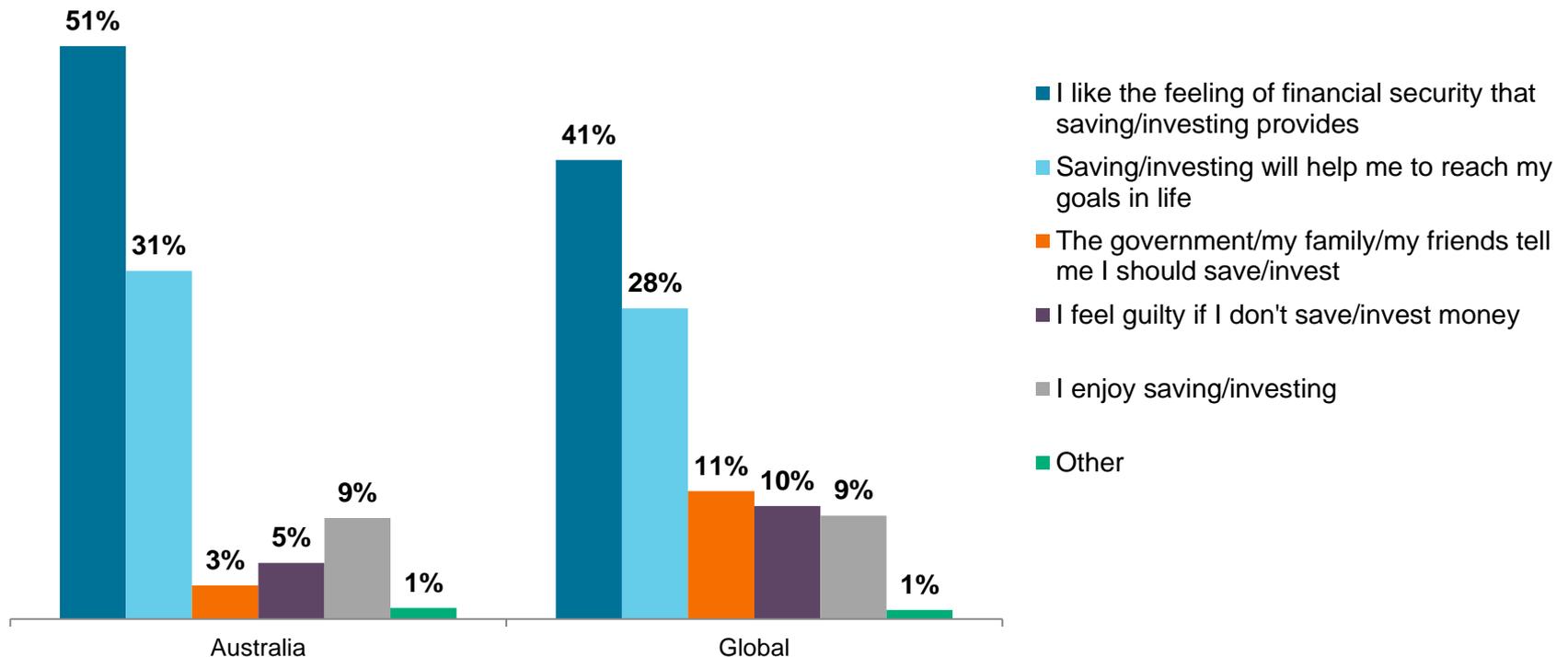
Motivation for Saving, Perceptions and Access

- For more than half of the Australian investors, the feeling of financial security drives their motivation to save.
- Nearly 20% of Australian investors admit they do not have the ability, knowledge, and/or access to use a retirement plan. Furthermore, they are behind the global and regional average on usage of employer and government sponsored plans.
- Almost two-thirds of Australians aren't familiar with government incentives, think they have no effect, or believe they discourage saving for retirement.

Savings Motivation

What is your primary motivation for saving?

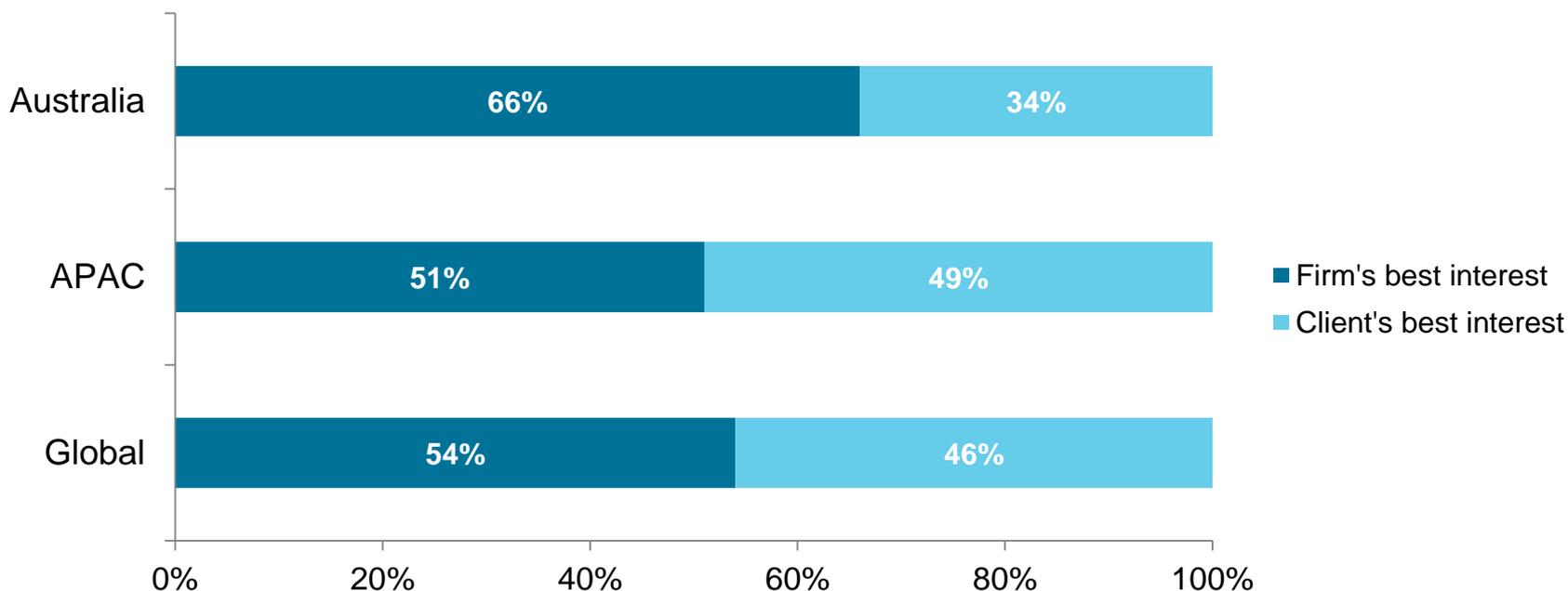
For more than half of the Australian investors, the feeling of financial security drives their motivation to save



Perception of the Industry

Do you believe financial institutions offer products and services in the investment firms own best interest or the clients' best interest?

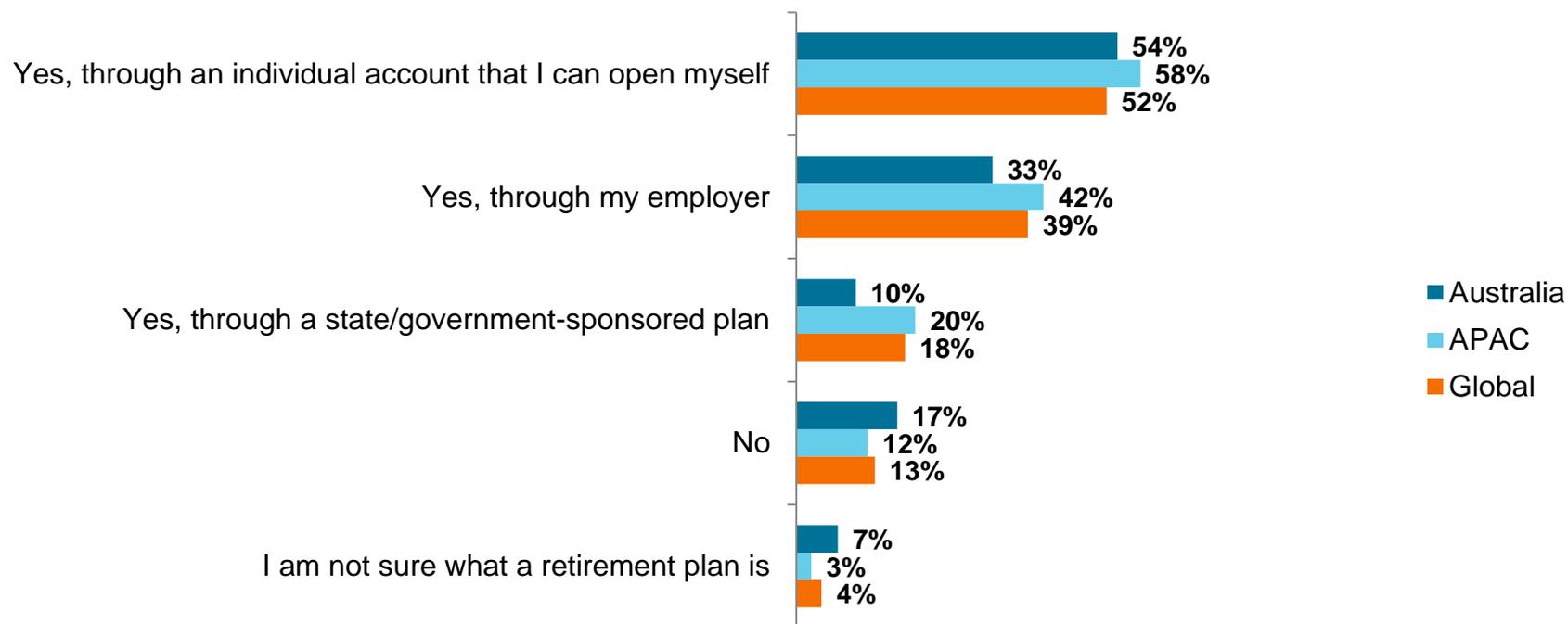
Two-thirds of Australian investors believe that financial institutions offer products and services in the best interest of the firm



Retirement Plan Access

I have the access, knowledge, tools and ability to utilize a retirement fund / plan if I choose to do so.

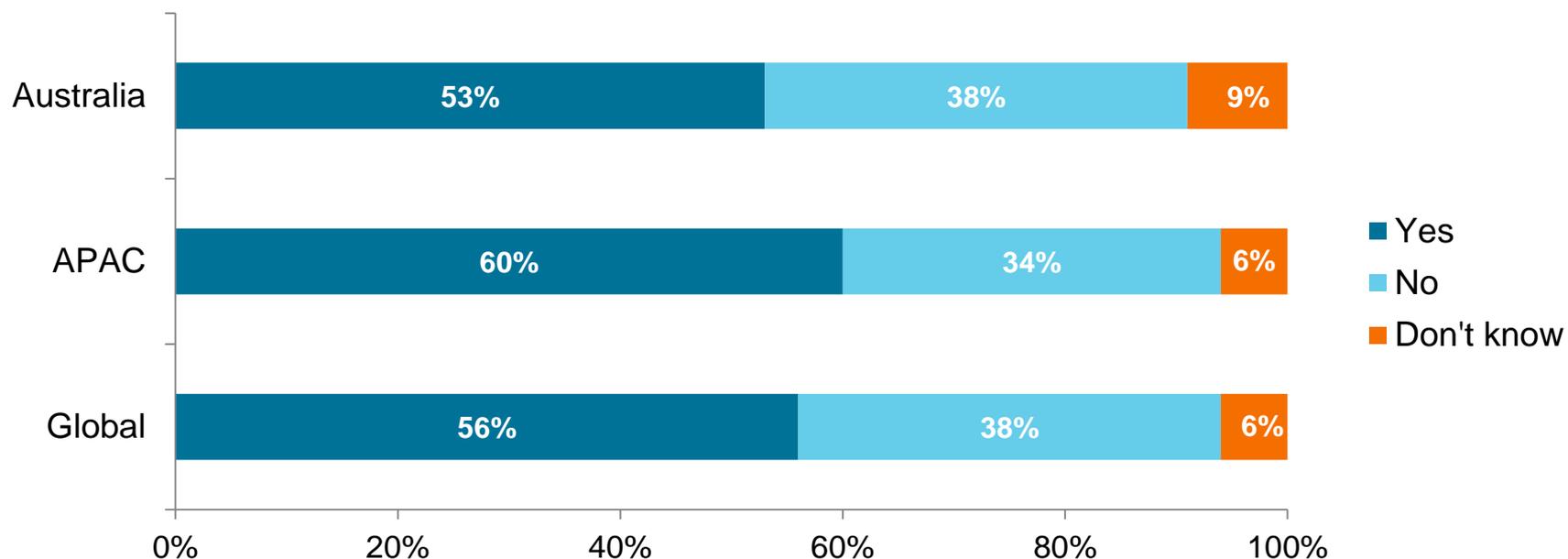
Nearly 20% of Australian investors admit they do not have the ability, knowledge, and/or access to use a retirement plan. Furthermore, they are behind the global and regional average on usage of employer and government sponsored plans



Employer Retirement Plan Utilization

Is there an amount that you or your employer put into a retirement / pension fund out of your gross income (i.e., before tax and other deductions)?

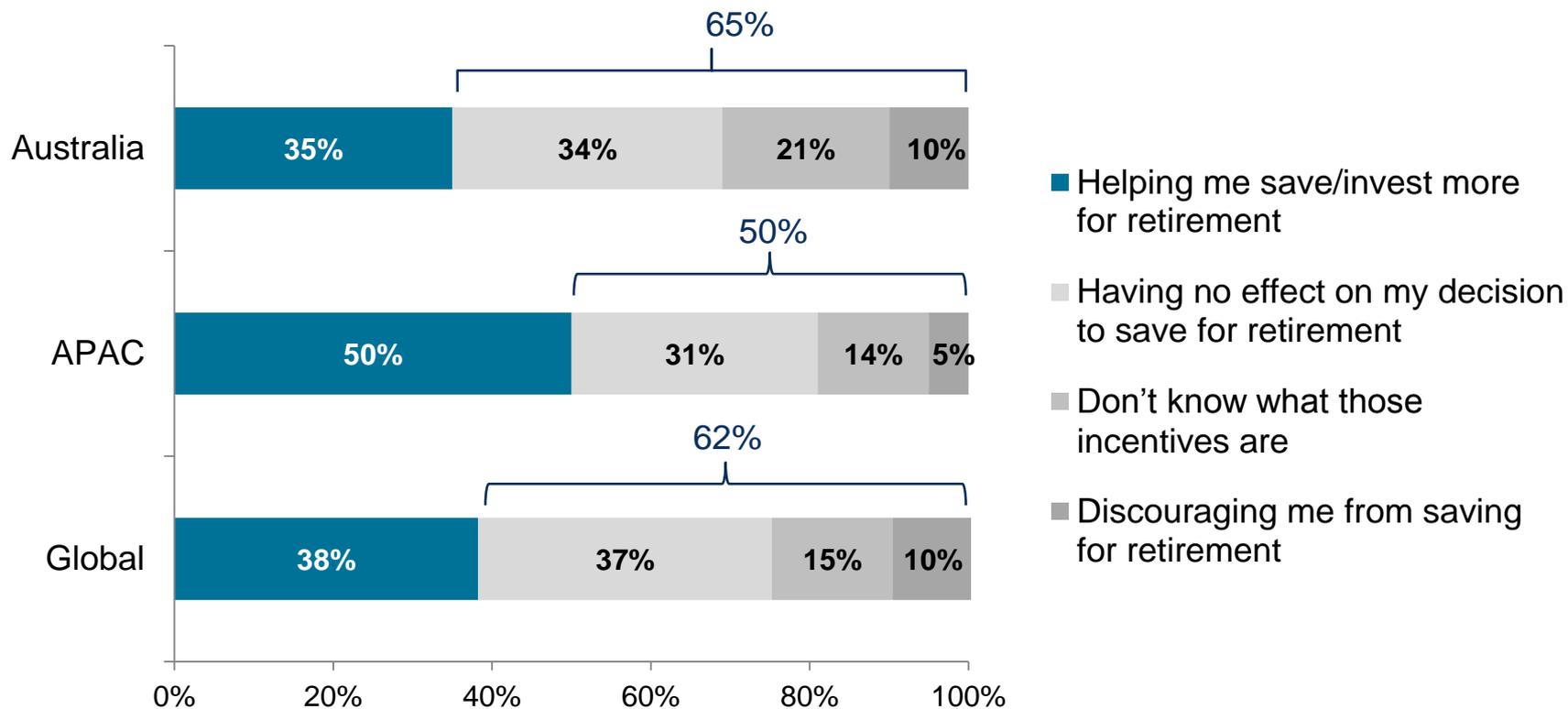
Australian investors' use of employer sponsored retirement plans is on par with the global and regional averages



Government Incentives

Are government incentives helping you save for retirement?

Almost two-thirds of Australians aren't familiar with government incentives, think they have no effect, or believe they discourage saving for retirement



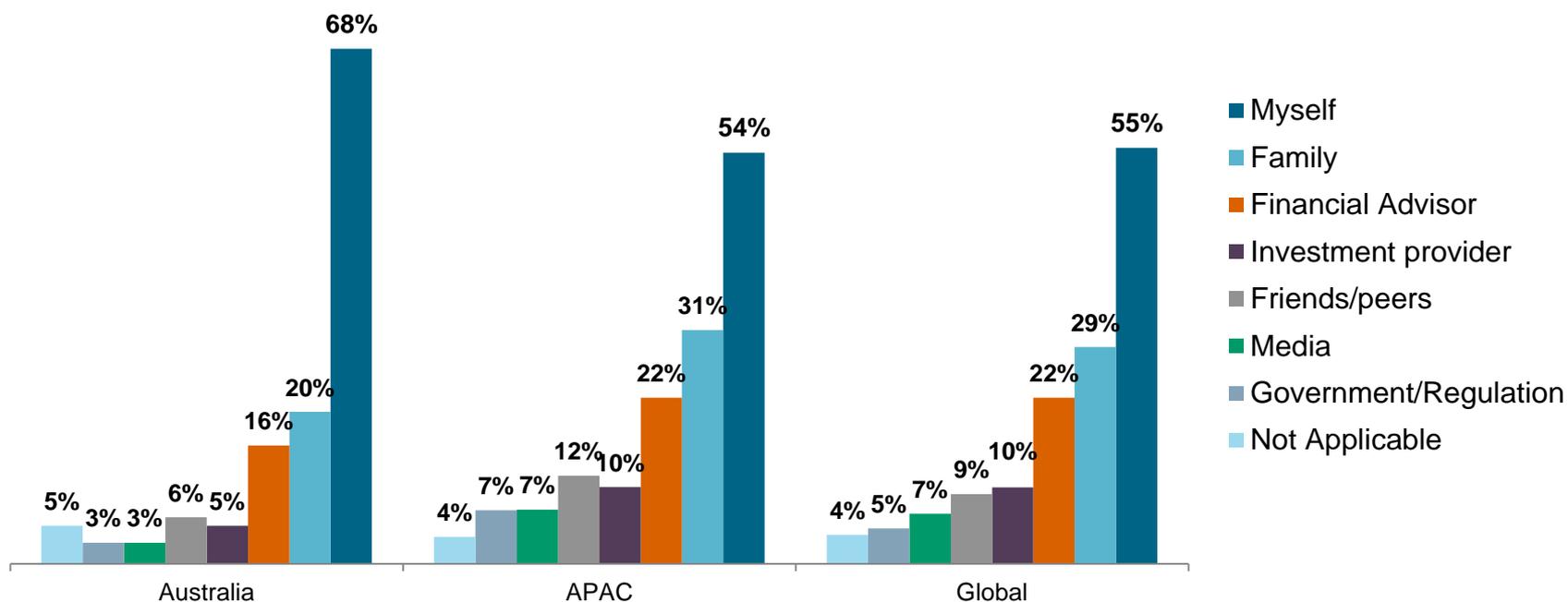
Financial Planning, Asset Allocation and Fees

- Australian investors primarily credit themselves for their financial successes. Their dependency on (see slide 5), and crediting of, financial advisors is lower than the global sample.
- Equity and real estate investments constitute more than half of the investable assets of Australian investors.
- More than two-thirds of Australian investors do not take ESG into consideration while making financial decisions.
- More than half (51%) of Australian investors are not aware of the fees they pay.

Financial Planning

Who do you credit most for your successes in planning your long-term financial goals?

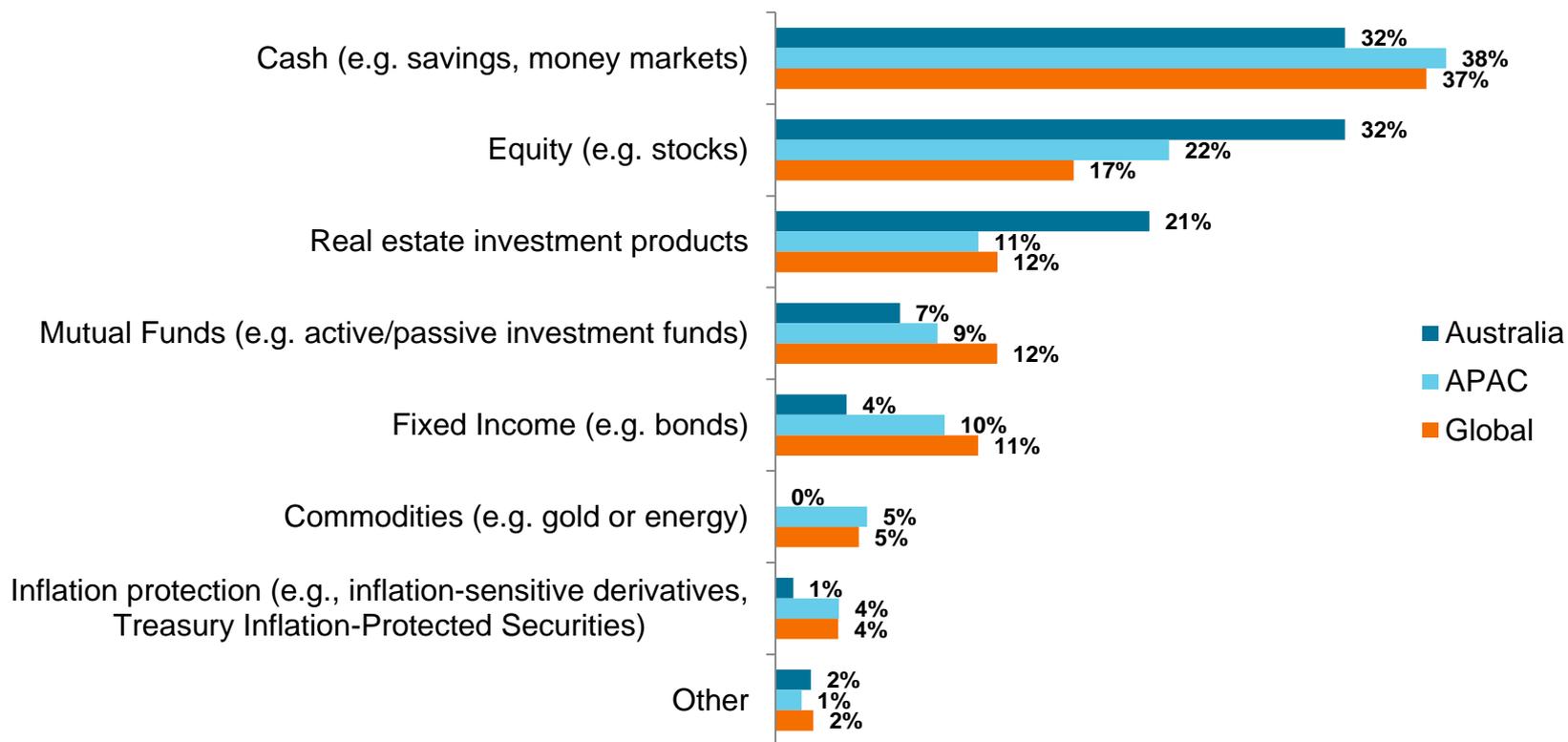
Australian investors primarily credit themselves for their financial successes. Their dependency on (see slide 5), and crediting of, financial advisors is lower than the global sample



Asset Allocation

What proportion of your liquid / investable assets is currently invested in the following asset classes?

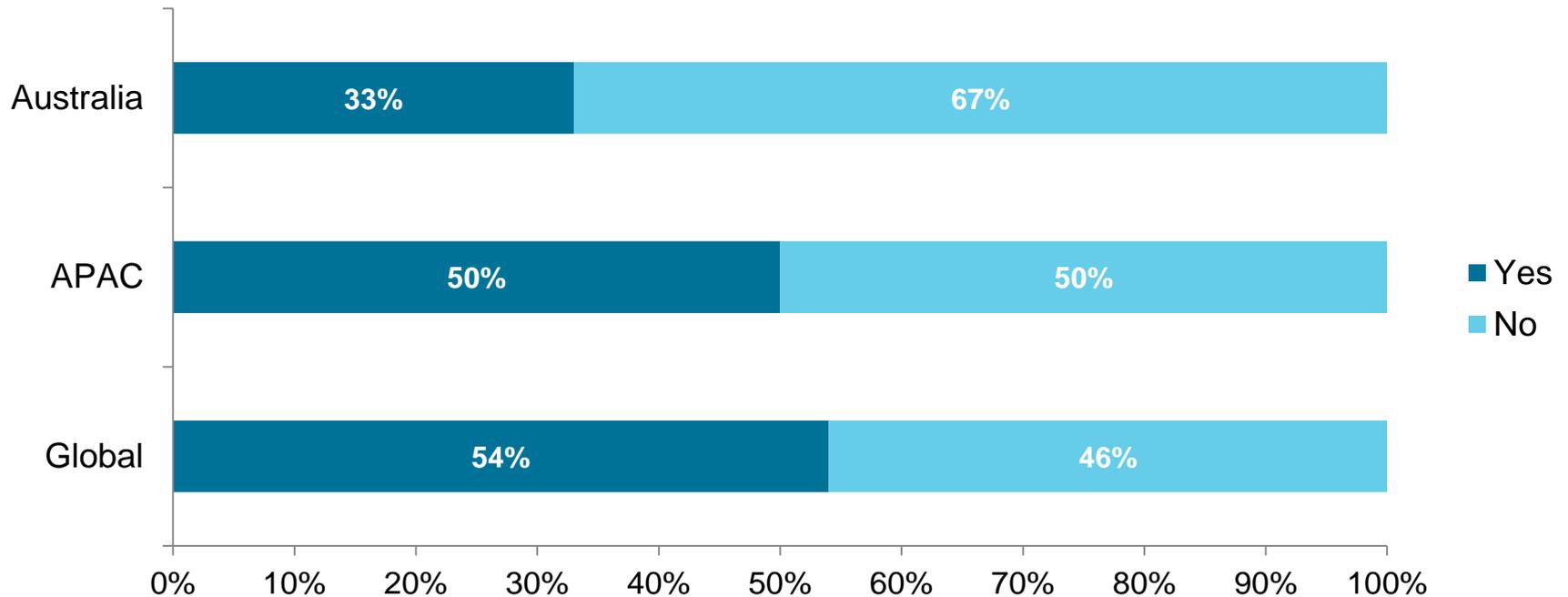
Equity and real estate investments constitute more than half of the investable assets of Australian investors



Asset Allocation

Are you taking ESG into consideration when you make investment decisions?

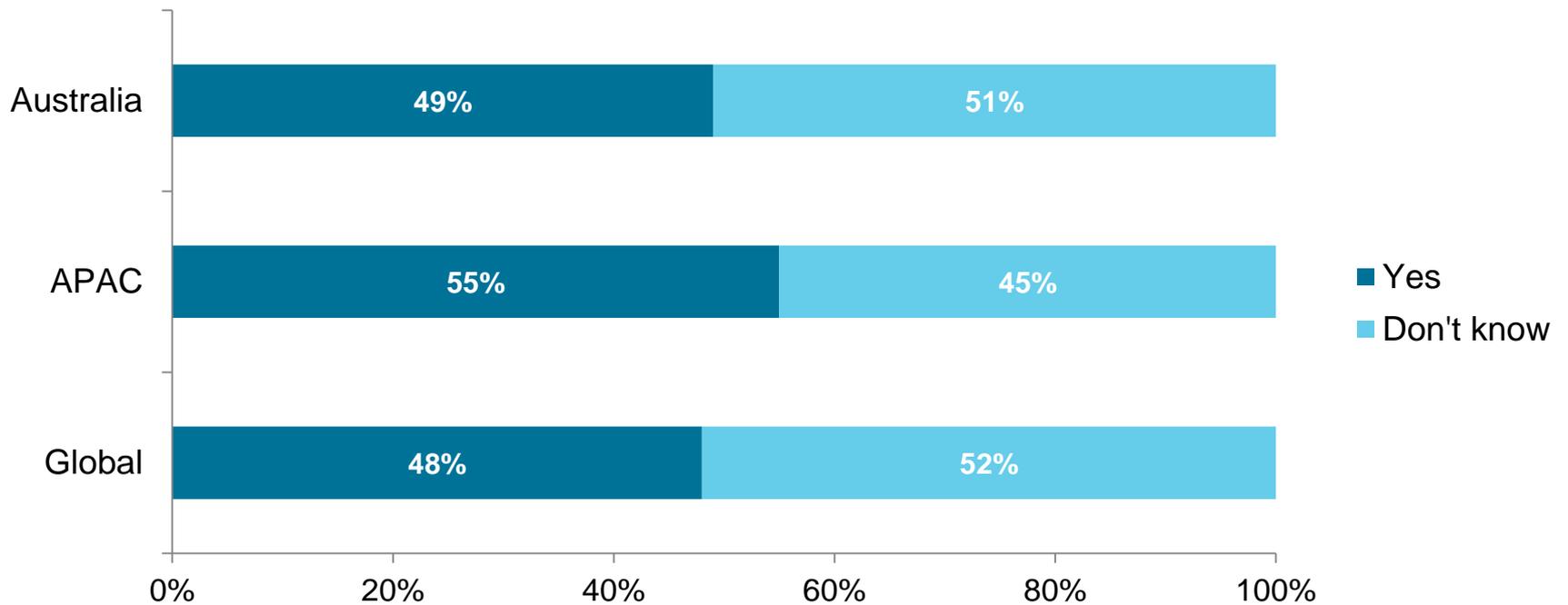
More than two-thirds of Australian investors do not take ESG into consideration while making financial decisions



Fees

Do you know the approximate average annual fees you pay across your investments and savings?

More than half of Australian investors are not aware of the fees they pay



The Biopsychological Theory of Personality

The Merits of BAS Sensitivity

Developed by Jeffrey Alan Gray in 1970, this theory describes two motivational systems that represent individual sensitivities to the environment around us. The first of these systems is the Behavioral Inhibition System (BIS), which represents motivation from fear and negative consequences. The second is the Behavioral Activation System (BAS), which represents motivation from goal setting and attainment.

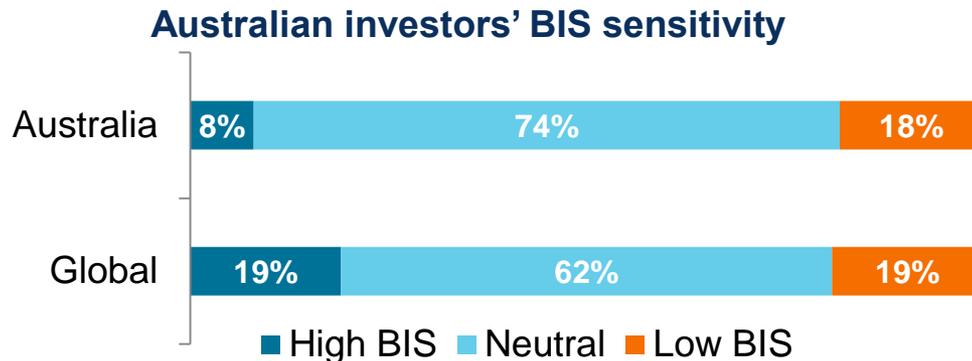
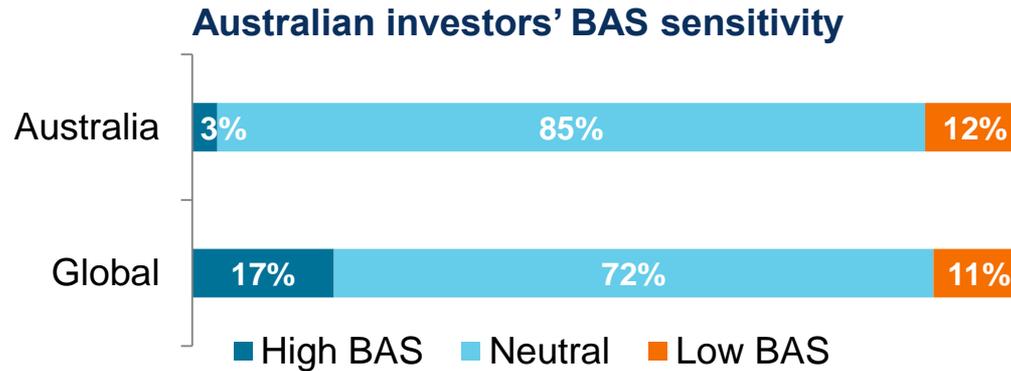
Australian investors have significantly lower BAS and BIS sensitivity than the global average

In our research, we found that a one-point increase in BAS sensitivity is associated with:

- **22%** greater odds that an investor believes the industry acts in its clients' best interests
- **42%** greater odds an investor knows what they pay in fees
- **37%** greater odds that an investor does not reject using a financial advisor
- **38%** greater odds that an investor considers ESG factors
- **79%** greater odds that an investor avoids potentially excessive trading (i.e., more than quarterly).

The Biopsychological Theory of Personality

Australian investors' BIS and BAS sensitivity



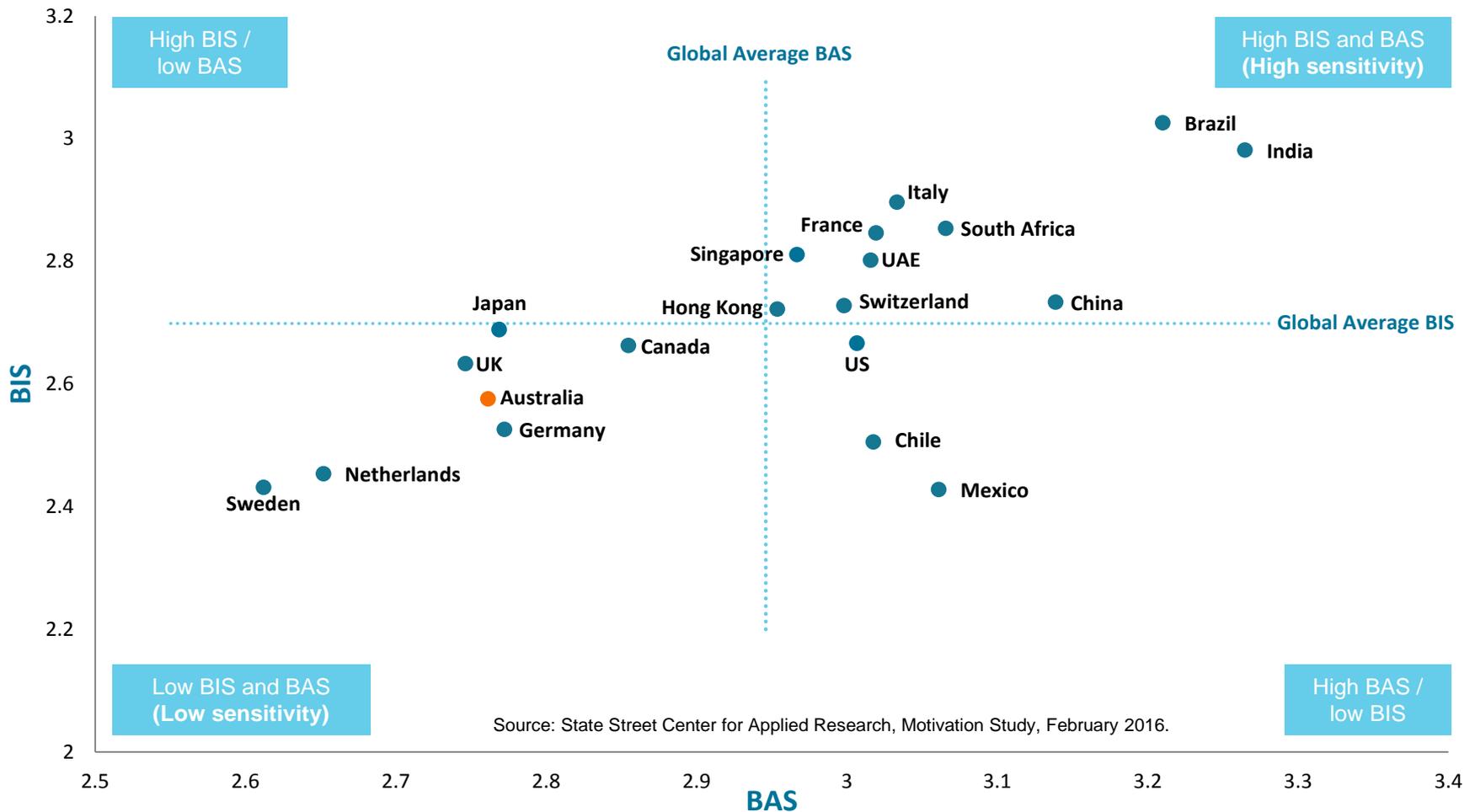
High BAS sensitivity is rare among Australian investors*

*Refer to appendix for BIS/BAS sensitivity methodology.

Global BIS / BAS Distribution

Respondents in countries to the right of center have above average BAS sensitivity

On average, Australian investors have a very low BIS and BAS sensitivity



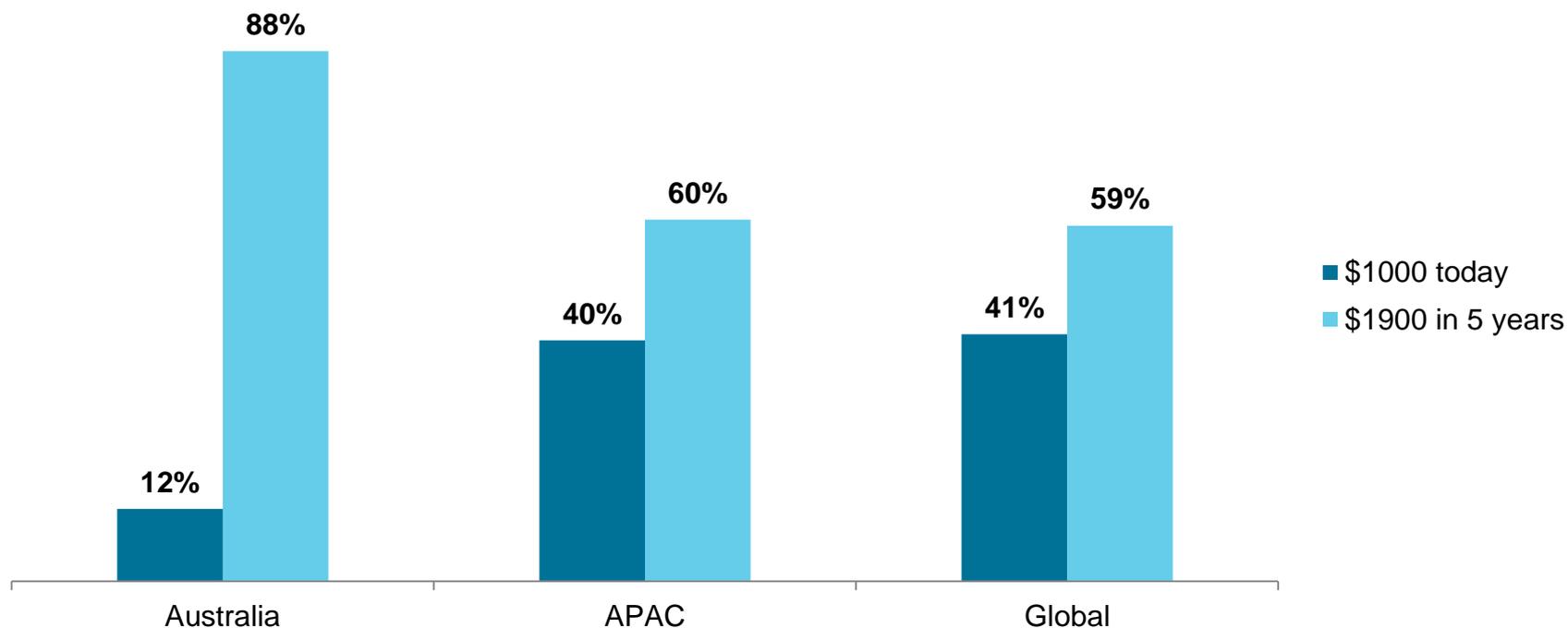
Financial Decision-Making

- Australian investors exhibit a prudent long term approach; nearly 90% would choose to receive \$1900 in 5 years versus \$1,000 today.
- More than half of Australian investors contribute 6% or more to their DC scheme, and perhaps more tellingly, all of them are familiar with their contribution level.
- 80% of Australians trade quarterly or less frequently, and they are not prone to reactive trading based on market highs and lows

Financial Decision-Making

Assuming a low inflation environment (2% or less), would you rather receive \$1900 dollars in 5 years or \$1000 dollars today?

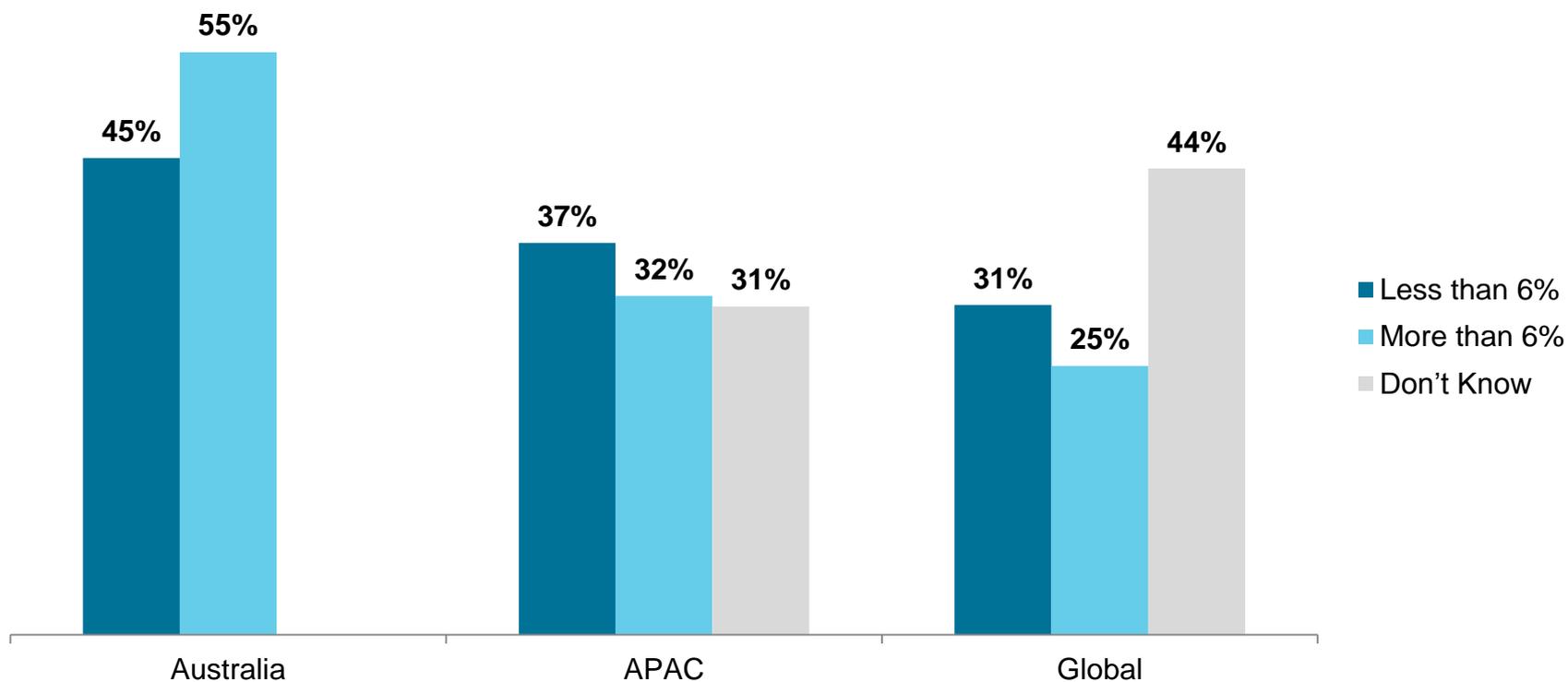
Australian investors exhibit a prudent long term approach; nearly 90% would choose to receive \$1900 in 5 years



Financial Decision-Making

How much of your gross income do you contribute [to your DC plan]?

More than half of Australian investors contribute above 6% or more to their DC scheme, and perhaps more tellingly, all of them are familiar with their contribution level



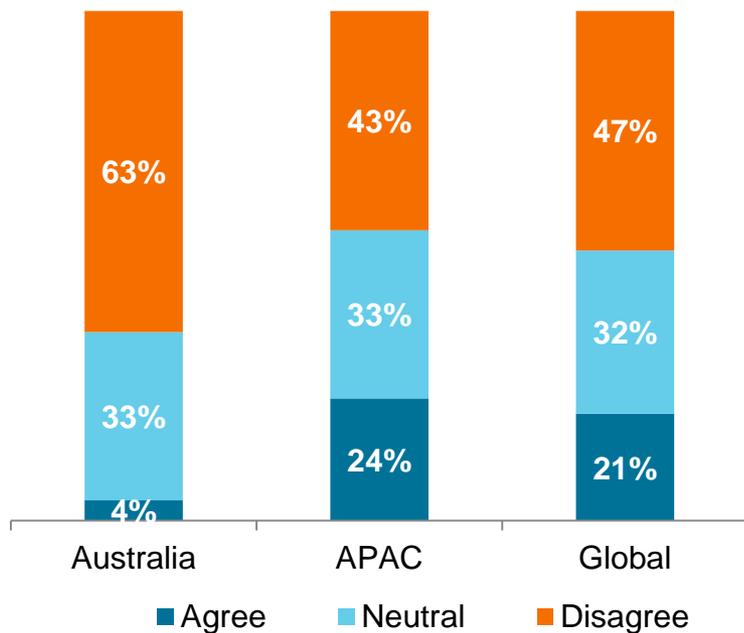
Note- this analysis does not reflect a complete picture of DC savings.

Financial Decision-Making

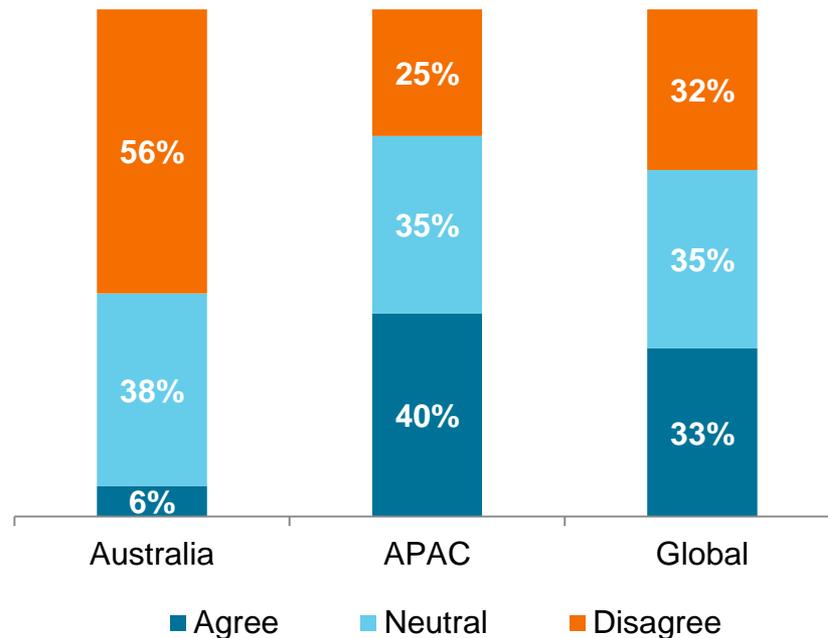
Trading Behavior

Investors in Australia are much less likely to engage in reactive trading behavior

I often sell investments because they have lost significant value



I often buy investments because they have gained significant value

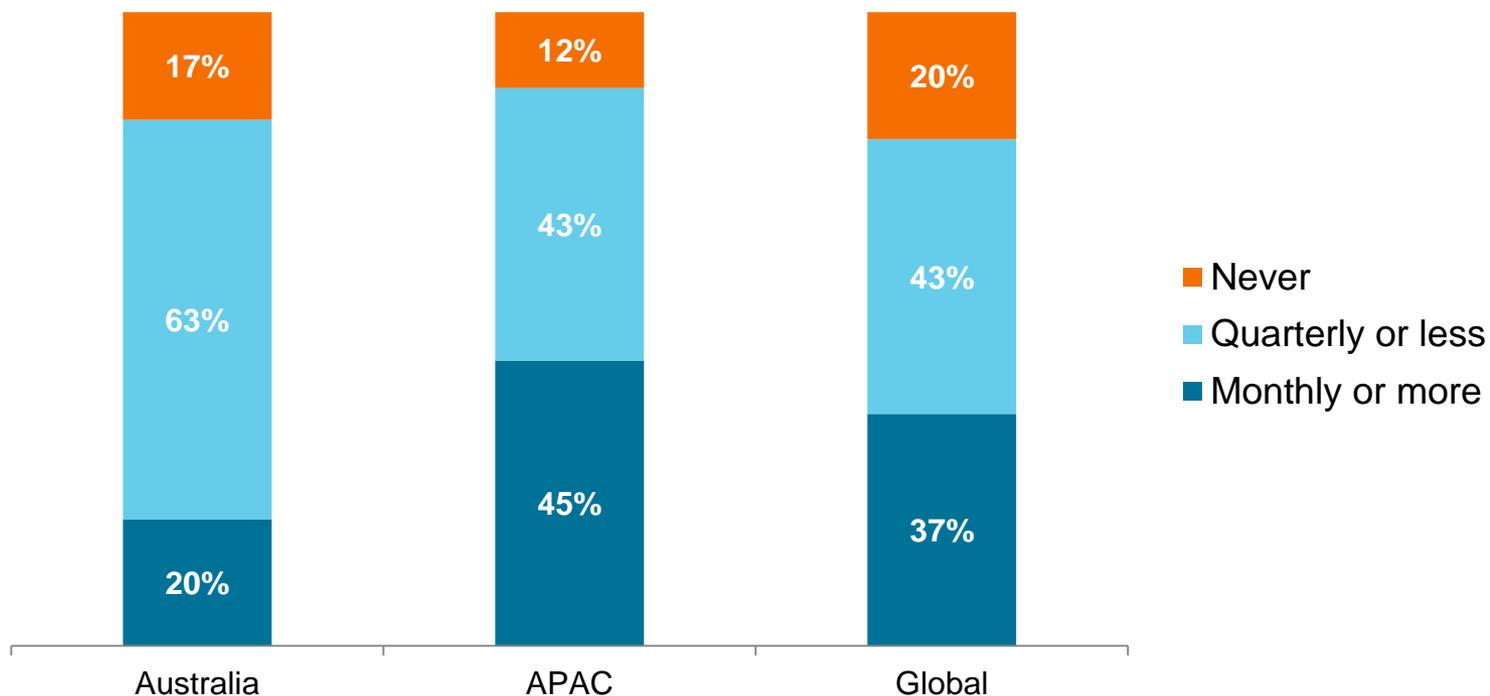


Note: "Agree" represents strongly agree and agree; "Disagree" represents strongly disagree and disagree.

Financial Decision-Making

How often do you trade in financial markets (e.g. stocks, bonds, currency), not including rebalancing?

80% of Australian investors trade quarterly or less frequently



Note: Monthly or more [frequently] represents daily, weekly and monthly; Quarterly or more [frequently] represents quarterly, semi-annually, yearly and every few years.

Appendix



Survey Methodology

Motivation Study

Primary research for this study includes a survey of 6,938 investors, investment providers, and government officials and regulators across 20 countries. These countries are Australia, Brazil, Canada, Chile, China, France, Germany, Hong Kong, India, Italy, Japan, Mexico, Netherlands, Singapore, South Africa, Sweden, Switzerland, UK, United Arab Emirates and the United States. The retail investor component of the survey includes an equal weighting among these countries.

Survey data were collected in two rounds. First, CoreData collected information from 3,600 retail investors* and 985 professionals on behalf of CAR through an online survey platform in May 2016. Second, CFA Institute conducted a survey to a targeted group of its members in these same countries in June 2016, resulting in 2,353 additional professional responses. Quantitative analysis was then conducted through a partnership with the State Street Center for Data Excellence and CoreData. Note that all percentages are rounded. Data were supplemented by more than 200 in-person interviews with executives and government officials.

*The sample size for this survey is 3,600 (of a total of 82,597 invited, a 4.4% response rate) with a margin of error of 1.6% at 95% confidence.

BIS/BAS Sensitivity Classification

Methodology

BIS scores are calculated by averaging the scores of the three following statements, which are based on 4 point Likert scale.

1. If I think something unpleasant is going to happen I usually get pretty "worked up"
2. I worry about making mistakes
3. Criticism or scolding hurts me quite a bit

BAS scores are calculated by averaging the scores of the following six statements, which are based on 4 point Likert scale.

1. When I get something I want, I feel excited and energized
2. When I'm doing well at something, I love to keep at it
3. When I want something, I usually go all-out to get it
4. I go out of my way to get things I want
5. I will often do things for no other reason than that they might be fun
6. I crave excitement and new sensations

BIS/BAS scores are classified into three categories: High, Neutral and Low using the standard deviation method:

	Mean	Std. Dev	Mean-Std. Dev (I)	Mean + Std. Dev (II)
BIS	2.70	0.60	2.09	3.30
BAS	2.95	0.49	2.43	3.43

- Scores above scenario (II) are categorized as “**high BIS/BAS**”
- Scores between scenario (I) and scenario (II) are categorized as “**neutral BIS/BAS**”
- Scores below scenario (I) are categorized as “**low BIS/BAS**”

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