November 13, 2012

Caution Lingering Among Long-Term Investors Four Years After 2008 Financial Crisis, T. Rowe Price Survey Finds

Aversion for equity investing among those aged 50 and under could lead to shortfalls in retirement savings

BALTIMORE, Nov. 13, 2012 /PRNewswire/ --

News

Four years after the 2008 global financial crisis, the onset of a severe economic recession, and ongoing market turbulence, a lack of faith in equity investing appears to be lingering, even for long-term investors who say that saving for retirement is their top financial priority. In an online survey of 850 adults in the United States aged 21-50 with at least one investment account, just over six in ten investors (61%) believe that investing in stocks is very important or important to helping them achieve their retirement savings goals. The survey was conducted in August 2012 by Harris Interactive for T. Rowe Price.

And while about half of investors (51%) surveyed say that they have roughly the same tolerance for risk they had before the financial crisis, 37% say they are now refraining from investing in stocks because of current economic or market conditions. Investors' reluctance to invest in stocks is reflected in data from the Investment Company Institute, which shows that net new cash flow into stock mutual funds was negative in 30 of the last 48 months — including 15 of the last 16 — through September 2012.

Investors' aversion for stocks stands despite historical evidence showing that stocks, as measured by the S&P 500 Index, have outperformed other asset classes with an annualized total return of approximately 9.8% between 1926 and 2011[1]. Over the course of a long-term retirement savings program, an under-allocation to stocks could lead to shortfalls in investors' account balances, T. Rowe Price financial planners believe.

Selected survey findings

- Just over six in ten investors aged 50 and under (61%) believe that investing in stocks is very important or important in helping them achieve their long-term retirement savings goals.
- Accordingly, 37% of investors say that they are currently refraining from stock investing. Factors cited include the pace of the U.S. recovery, general market volatility, political uncertainty, rising health care costs, actual or potential unemployment, the pace of the global economic recovery, the pace of the U.S. housing market's recovery, the Eurozone debt crisis, and potentially higher taxes on income, dividends, and capital gains.
- Risk aversion is also prevalent in investors' attitudes toward fixed income investing, with 76% of investors saying they are only somewhat or not at all willing to take on more risk to obtain a potentially higher yield.
- The crisis appears to have ushered in a new era of financial prudence: with respect to their personal savings, 81% of investors say they are saving about the same or more than they were before 2008.

Quotes

Stuart Ritter, CFP®, senior financial planner with T. Rowe Price:

- "The lack of faith in equities, even among long-term investors, is troubling. Historically, stocks have provided more long-term growth opportunities than bonds, short-term investments, or other vehicles that are generally considered to be more conservative. Investors aged 50 and under typically have enough time to overcome market setbacks and can decrease their exposure to stocks as they get closer to retirement age."
- "Investors have experienced a lot of market turbulence and tough economic times over the last several years, so it's understandable from an emotional perspective that many of them — including younger investors — might be reluctant to invest in stocks. But people with decades to go before retirement need to do their best to block out the noise of the day and focus on the long term. For investors with a long time horizon and enough tolerance for volatility, stocks have always been the best asset class for growth potential and for staying ahead of inflation."

- "Younger investors, especially those recently out of college, are used to having short-term goals measured in months. The idea of developing a long-term goal, such as saving for a retirement that might be 40 years away, is new to most of them. It requires patience, discipline, and a new way of thinking."

About the survey

The survey was conducted online within the United States by Harris Interactive on behalf of T. Rowe Price from August 8-20, 2012, among 850 adults aged 21-50 who have at least one investment account. This online survey is not based on a probability sample and therefore no estimate of theoretical sampling error can be calculated. Figures for age, sex, race/ethnicity, education, region, and household income were weighted, where necessary, to align them with their actual proportions in the population.

Harris Interactive is one of the world's leading custom market research firms. Known widely for Harris Poll and for pioneering innovative research methodologies, Harris serves clients in 196 countries and territories through its North American and European offices and its network of independent market research firms. For more information, please visit www.harrisinteractive.com.

About T. Rowe Price

Founded in 1937, Baltimore-based T. Rowe Price is a global investment management organization with $574.4 billion in assets under management as of September 30, 2012. The organization provides a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. The company also offers a variety of sophisticated investment planning and guidance tools. The Retirement Plan Services division currently serves more than 3,500 retirement plan sponsors and more than 2 million retirement plan participants. T. Rowe Price's disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research.

[1] Source: Standard & Poor's. The annualized returns for bonds and Treasury bills over the same period were 5.8% and 3.7%, respectively. Past performance is not a guarantee of future results, and it is not possible to invest directly in an index.

SOURCE T. Rowe Price Associates