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Half of investors confused; is the other half lying?

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Think investing is confusing? We wondered whether others think so, and so focused our monthly poll on this topic. Highlights of our findings:

Some investors aren't aware they are confused

- Half of Americans find the investing process confusing, and women confess to having a harder time with it than men.
- At least four out of 10 investors admit that several aspects of investing are difficult.
- Very few investors really know how much they are paying in investment fees.

Bankrate commissioned GfK Roper to conduct a random survey of America's investing behavior as part of our yearlong Financial Literacy series. Over a thousand people were asked where they invest their money; some 669 respondents actually own investments (other than CDs or money market accounts), so we polled them more in depth.

Confusion widespread

Even as Americans are increasingly forced to save for their own retirement, half of current investors (47 percent) admit that investing is confusing. While 38 percent of men admit to feeling confused, that number jumps to 56 percent for women.

John Bogle, founder and former CEO of Vanguard, suggests the possibility that women are just being more honest.

"First, I'm just guessing that a lot of people who say they don't find investing confusing are lying through their teeth," he says. "We've created an investment system that places the focus on complexity rather than simplicity."

The confusion created helps drive big profits to the financial industry, he says. But the creator of the index fund has a simple solution: Buy the entire market at a cheap price.

Influencing factors

While age and income differences factor into the way Americans invest, the biggest disparity across the board exists between the sexes. By a significant margin, women tend to find investing more difficult and to rely more on others for advice.

John Grable, associate professor in personal finance planning at Kansas State University, says the poll confirms what the research shows: Women are more likely to avoid financial risk taking, in part because they feel hampered by a lack of knowledge. Differences are likely rooted in socialization and education, he says.

"Women, in general, are not encouraged or trained to take risks," he says.

It's true that women in general are more risk averse than men, says Alicia Munnell, professor at Boston College's Carroll School of Management and the director of its Center for Retirement Research. However, she cautions that the pattern may be more complicated than the findings suggest.

"Investment decisions seem to be driven more by a combination of gender and marital status. Single women and married men are most likely to invest primarily in stocks. Married women are more likely than single women to choose interest-earning assets. Thus, women as a group may not be more conservative and cautious than men."

Grable says the risk-tolerance difference between men and women is evident in their investment styles. "Men are more likely to embrace investments that have inherent volatility. A similar observation can be made in terms of income. Lower- to middle-income Americans appear to view volatility as loss rather than opportunity."

The data clearly illustrate that the lower- to middle-income respondents find investing difficult to understand.

"This confusion is leading some to avoid risky asset investing, which, in turn, helps explain lower levels of wealth accumulation for these households," says Grable. "In short, it is the

lower- to middle-income segment of American society that is in the greatest need of financial planning and investment advice; however, the industry is simply not equipped to deal with this population of underserved people," he says.

Bankrate senior financial analyst Greg McBride points out the high confidence level of younger investors: 83 percent of 18-24-year-olds don't find investing confusing and 79 percent don't find it difficult to understand the different types of investments.

"Those kids, they think they know everything," he says.

Stumbling blocks

John Pallaria, CFP and adjunct professor in the CFP program at Boston University, says: "Once again we are looking at approximately 50 percent of people experiencing a hard time with all aspects of investing."

Which aspects of investing, if any, do you find difficult?

	Total	Men	Women
Understanding the different types of investments, such as stocks, bonds and mutual funds	41%	34%	48%
Making sure you have a diverse mix of investments appropriate for your age	45%	40%	50%
Balancing the need for security by investing in low-risk investments with the need for higher returns by investing in high-risk investments	43%	38%	49%
Investing in stocks or stock funds because of the stock market's volatility	54%	45%	62%
Knowing when to sell	59%	55%	63%

Here are some brief observations, broken down by category:

Diverse mix of investments for your age

"Studies have proven that the allocation of investments determines greater than 90 percent of investors' returns," says McBride. "I'm very skeptical that more than half of investors (53 percent) don't find this key concept to be difficult."

Stock market volatility

"Stock market volatility seems to trouble the 25- to 49-year-olds," says McBride. "If they truly did have asset allocation figured out, they'd understand that short-term volatility should not disrupt long-term financial planning."

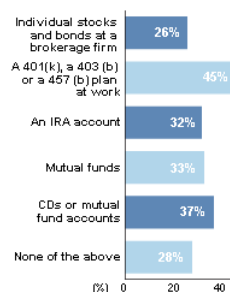
Knowing when to sell

"It is not surprising to find that people, regardless of gender, age or income, find the decision of when and how to sell an investment difficult," says Grable. "The investment industry is built upon getting people to buy something. Very few financial advisers proactively make plans to account for triggers which would cause a client to sell an asset. This is particularly true for people who make their own investment decisions."

Investment choices

Only about a quarter of Americans (26 percent) invest in individual stocks and bonds.

Where are you invested?



"Individual stocks are usually the most underutilized option since investing in them requires

specific company knowledge, from a fundamental and technical standpoint, and most people do not have that the ability and time to monitor these investments," says Pallaria.

"Conversely," he adds, "it's no surprise that the 401(k) plan is the most popular (vehicle in which people invest), since those arrangements tend to be the product most people are familiar with through their company."

According to our poll, half of American men have a 401(k) or equivalent account, compared to 40 percent of women -- a 10 percentage point difference. Similarly, 38 percent of men own mutual funds, compared to 28 percent of women.

Those results don't tell the whole story, says Dee Lee, author of "Women and Money; Your Personal Finance Guide." Lee, also a CFP who serves on the national board of directors of the Financial Planning Association, explains that the raw data can be interpreted different ways.

"My conclusion is that men did indeed appear to invest more in mutual funds, but when you look carefully at the categories, women are in mutual funds probably if they are invested in IRAs or retirement plans at work. They may have answered that question differently than a man," she says.

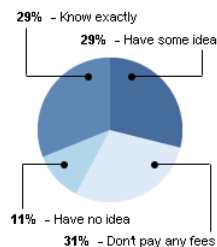
McBride points out that only 32 percent of investors have an IRA and just 23 percent have both an IRA and a 401(k).

"Part of proper planning for retirement means taking full advantage of the tax incentives Uncle Sam provides," he says. "Having both an IRA and a 401(k) or similar plan at work are important to staying on track for retirement. It's not an either-or proposition. Both are important and should be utilized as much as possible."

The fee fiasco

Fees can make a huge difference in return and yet only a third (29 percent) of respondents claim to know what they are paying in fees.

What are you paying in fees?



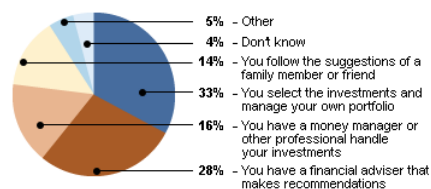
Bogle calls this result "pathetic," yet doesn't believe the true number is even that high.

Pallaria agrees: "Fees are often the most misunderstood part of investment. I am willing to bet that of the 29 percent of those that 'know exactly' what they are paying, maybe only 50 percent of those people actually do since there are so many different fees in the marketplace. And the 31 percent that have 'no fees' ... well, most investments, particularly mutual funds, have a fee. So there is a large block of people that are misinformed on this topic."

The price of advice

There appear to be big differences in how men and women make investing decisions. While men are much more likely to select their own investments, 41 versus 25 percent, women are more likely to turn to other sources. Nearly a third of women (31 percent) enlist the help of a financial adviser versus a quarter of men (25 percent).

Who manages your investments?



But the real difference is who listens to family or friends. Women are nearly twice as willing as men to make decisions based on personal recommendations (18 percent versus 10 percent).

Munnell says investing style differences are caused by other variables. "Again, my hunch is that these results would vary by marital status, with single women looking very much like married men."

There's nothing inherently wrong with listening to the advice of family members, says Pallaria. In fact, it's completely understandable -- just exercise some caution.

"There is a comfort zone for most people when they are doing the same things with their money that people that are close to them are," he says. "The challenge is whether they can look beyond that to determine if the family member's advice is on target with their specific needs or not."

Fees make a big impact

- [Read more about Bogle's views on fees.](#)
- [Paying high fees is one of our top 10 investing blunders.](#)

Investors who manage their own portfolios are likely on the right track, says Bogle, who cites a recent study in his book, "The Little Book of Common Sense Investing."

"Some professors at Harvard found out that investors who invested their own portfolio did substantially better than those who used financial advisers," says Bogle. The study concluded that funds held by investors who listened to advisers, excluding charges paid, averaged just 2.9 percent per year compared to 6.6 percent earned by do-it-yourselfers.

"Professional investors in a professional market are, on average, average," says Bogle. "What else could they be? We're not in Lake Wobegone here where everybody is above average. When you deduct the costs of their services, whether it's money managers, the turnover costs money managers incur, the turnover costs direct investors incur, the cost of financial advice, the cost of management fees and mutual fund advertising which you pay for yourself -- you can't win as a group."

Upshot: simplify, educate

Taken as a whole, Bankrate's poll results point to an increased need for investor education.

"For five out of 10 people to feel like investing is a foreign area to them ... that is a bit alarming and therefore proves that investing knowledge has to be improved at all levels: grade school, secondary schools and by employers that sponsor retirement programs," says Pallaria.

Bogle believes the answer to investment stress lies in worrying less about the latest market-beating angle and relying instead on the time-proven, logic-driven strategy of investing in business while paying lower fees.

"My plea is if we can just get people to think about simplicity, they would do much better. I know the world likes complexity; you want to think you're smarter than everybody else. That's what behavioral science tells us ... But I think we're all average."

This national random-digit-dialed phone study of 1,005 adults 18 or older was conducted for Bankrate by GfK Roper Public Affairs & Media. The surveys were conducted from Sept. 28, 2007 through Sept. 30, 2007. The sample was weighted by demographic factors including age, gender, race, education and census region to ensure reliable and accurate representation of adults in U.S. households. A total of 669 interviews of current investors

were completed among 338 male investors and 331 female investors who hold stocks or bonds through mutual funds or individual investment. The margin of error for the survey as a whole is +/- 3 percentage points. The margin of error for investors is +/- 4 percentage points. For full results and methodology, download this PDF.