Financial Risks & Investor Attitudes Research Report

Public perceptions about risk and its impact on financial decisions
The Financial Risk Spectrum

The word “risk” takes on a different meaning depending on whom you talk to—for some, risk is an exciting new adventure, and others view risk as more of a gamble.

Executive summary

An investor’s tolerance for risk can have major implications for their personal finances and whether they can reach their investment goals. Some investors have a greater tolerance for risk in pursuit of financial growth; while others are more comfortable steering clear of risk altogether. The new Financial Risks & Investor Attitudes study, commissioned by Ameriprise Financial, explores how Americans view risk related to financial decisions and the strategies they take to protect their assets.

We asked for input from 3,000 Americans, ranging from millennials to baby boomers, to examine the financial risks they are currently taking and how those risks influence their investment choices. During the study, we discovered four distinct risk profiles along a financial risk spectrum.
Risk Avoiders

Risk Avoiders make up 31% of those surveyed and report they are cautious in their approach to financial risk.

In fact, this group is so averse to risk—many don’t believe they are taking any risks at all. But, this extreme approach could have unintended consequences as some Risk Avoiders could be increasing their exposure to risk by being too guarded. For example, 29% of people in this group report being underinsured when it comes to life insurance, 14% believe they are mitigating risks by staying out of a volatile market, 10% report saving only in cash, and 20% are only making investments guaranteed never to lose money. Risk Avoiders are also less likely to take risks in their personal lives such as making a career change or moving far away and are less likely to say they feel confident they are saving enough for retirement.

### Decisions which could increase exposure to risk

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<td>Report being underinsured for life insurance</td>
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<td>Only make investments guaranteed never to lose money</td>
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Q: Is being too careful risky in itself?

Even though some are quick to say they’re not taking any risks, other Risk Avoiders report a few of the risks they are taking include investing heavily in the stock market (17%), and simply not saving enough (12%).

### Risk Avoiders: financial tips to consider

- Exercising caution may make Risk Avoiders feel safe about their finances, but in reality they could be missing out on several opportunities for financial growth.

- Keep an eye on inflation. You could be losing money slowly and quietly if your investments are so conservative they aren’t keeping up with inflation.

- If you are skittish about the market, don’t look at your investments every day—instead think of them as decade-long investments. This may help keep emotions in check.
Risk Mitigators

The largest group on the Financial Risk Spectrum, Risk Mitigators, account for nearly half of all investors (42%).

While these investors tend to err on the side of caution, they are slightly more open to exploring financial risk once they feel informed. Risk Mitigators take several strategies to protect their money, such as diversifying their investments (63%), conducting research to feel more knowledgeable (55%), and being covered by health insurance (90%). However, they remain somewhat uncertain about how to approach risk when making financial decisions. The majority of Risk Mitigators still associate risk with loss or uncertainty, which could contribute to their reluctance to move beyond conservative financial choices.

**Strategies Risk Mitigators are taking to protect their money**

- Diversifying investments: 63%
- Conducting research to feel more knowledgeable: 55%
- Covered by health insurance: 90%

**Q: Are you managing risk in the best way possible?**

Risk Mitigators would prefer to not lose money rather than make money. They tend to be timid when it comes to investment risk, as 30% look specifically for low-risk investments, 46% feel it’s best to shift their investments to avoid losses in a volatile market.

**Risk Mitigators: financial tips to consider**

- Don’t let your emotions take over during market volatility. Educate yourself and have someone help you make decisions that aren’t emotionally driven.
- It’s okay to be more aggressive with your investments if appropriate. Know the standard deviation of your portfolio and how your money is allocated.
- Don’t forget about long-term care insurance and disability insurance. Being underinsured can bring on substantial risks in the future, even if they aren’t viewed as risks today.
Risk Managers

Risk Managers, which account for 25% of Americans, have a more confident approach to financial risk and associate risk with opportunity.

This group admits they would regret missing out on an investment opportunity. They pursue a number of well thought out mitigation strategies to offset risk and are confident about their retirement savings. Risk Managers are likely to be well-versed on the details of their 401(k) plans such as knowing the average rate of return (53%), specific investments within their plan (51%), and their overall balance (77%).

Risk Managers are informed about their 401(k) plans

Q: How much do you know about your 401(k) plan?

Risk Managers are prone to research financial decisions to feel more knowledgeable. While many who fit this profile say they are heavily invested in the stock market (45%), more than half (51%) are doing so without seeking advice from a financial professional.

Risk Managers: financial tips to consider

- Feeling optimistic about your finances is good, but be sure to have enough asset protection in the event of a market downturn.
- During market volatility, have a plan for when you may want to take your money off the table versus taking on too much risk in order to make a few extra dollars.
- Continue to keep your portfolio well diversified.
Risk Embracers

On the far end of the spectrum, Risk Embracers account for just 3% of the population, but categorize themselves as the “real risk seekers.”

This group says they are primarily concerned with growing their investments. They are willing to accept a higher level of risk both with their finances and other aspects of their lives. For example, 17% of Risk Embracers say they are more likely than others to borrow too much money when buying a house, 53% take physical risks like not wearing a seatbelt, and 31% would be open to a career change that would reduce financial security. While they tend to gravitate toward high-risk and high-return investments, a big piece of the puzzle could be missing from their portfolios if they aren’t employing enough strategies to protect their money.

Risk Embracers: financial tips to consider

• Get a second opinion on your investment portfolio.
• Don’t put yourself in situations that you may not recover from, such as borrowing too much money for a large purchase.

Q: How much risk are you comfortable with?

Risk Embracers are the least likely to focus on mitigating factors to protect their assets, but more than half (53%) rate themselves as extremely knowledgeable about investing and 85% are highly involved in household financial and investment decisions.

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<th>Risk Embracers are also drawn to other types of risk</th>
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<td>Borrowing too much to buy a house</td>
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<td>Take physical risks like not wearing a seatbelt</td>
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Working with a financial professional

No matter where you fall on the Financial Risk Spectrum, working with a financial professional can help you find a healthy balance of risk with your personal finances, while supporting your financial goals. An advisor can create a customized, tailored approach to coincide with your personal risk tolerance and investment portfolio.

The Financial Risk Spectrum

Q: Who is helping you mitigate financial risk?

A financial advisor can help you:

- Decide how much risk you are comfortable with
- Build and manage a personalized financial portfolio
- Gain financial confidence
Methodology
The Financial Risks & Investor Attitudes study was created and commissioned by Ameriprise Financial, Inc. and conducted online by Artemis Strategy Group.

- 3,000 Interviews were completed online among U.S. adults between June 16, and July 3, 2015.
- The respondents are between the ages of 25 to 70 and have at least $25,000 in investable assets.
- The margin of error is +/- 1.8 percent at the 95 percent confidence level.

For further information and details about the Financial Risks and Investor Attitudes study, including verification of data that may not be published as part of this report, please contact Ameriprise Financial or go to Ameriprise.com/financialriskstudy.

About Ameriprise Financial
At Ameriprise Financial, we have been helping people feel confident about their financial future for more than 120 years. With a nationwide network of 10,000 financial advisors and extensive asset management, advisory and insurance capabilities, we have the strength and expertise to serve the full range of individual and institutional investors’ financial needs. For more information, visit ameriprise.com.

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Artemis Strategy Group (artemissg.com) is a communications strategy research firm specializing in brand positioning, thought leadership and policy issues.