

The Strongest Financial Brands Are...

By **Kerry Pechter** *Wed, Jan 27, 2010*

Who has the strongest brands in the financial industry?

According to the Cogent Research Investor Brandscape 2010 survey of affluent investors, the leading names are mostly household names: TIAA-CREF, Vanguard, Fidelity, Schwab, John Hancock, MetLife, The Hartford and American Funds (though not necessarily in that order).

But first place doesn't necessarily mean great. Cogent's survey showed low investor confidence in the financial services industry overall. Less than 40% of affluent investors polled were confident in their mutual fund provider, fund distributor or financial advisor.

Fund Company	Rank		
	2009	2008	2006
Vanguard	1	2	1
Fidelity Investments	2	1	2
American Funds	3	3	3
T. Rowe Price	4	4	6
TIAA-CREF	5	N/A	N/A
Franklin Templeton	6	7	19
Fidelity Advisor Funds	7	6	11
Oakmark	8	29	31
Morgan Stanley Inv. Advisors Funds	9	8	9
Schwab/LaudusFunds	10	5	5

The national survey was conducted among 4,000 Americans over age 18 with household investments of \$100,000 or more between last October 14 and November 4. The Boston-based group released an executive summary of the report, the third of its kind since 2006, late last week. The complete report is available for purchase.

Among 39 mutual fund providers considered, the three highest-rated brands were Vanguard, Fidelity and American Funds. Franklin Templeton rose to 6th in 2009 from 19th in 2006, and Oakmark vaulted to 8th last year from 31st in 2006.

The three highest-ranked brands among 20 fund distributors were Charles Schwab, Fidelity and Morgan Stanley Smith Barney. Edward Jones jumped from 14th place in 2006 to fourth in 2009.

Among six exchange-traded fund (ETF) providers considered, Vanguard was ranked highest in all performance criteria. Among 14 variable annuity issuers, TIAA-CREF earned the highest level of customer loyalty, followed by Ameriprise Financial and Allianz Life. (See RIJ's Data Connection for top 10 VA issuers).

Risk-aversion rises

Aside from canvassing investors about specific providers of mutual funds, variable annuities and other products, the survey also registered trends in the risk appetite and financial product purchasing preferences among affluent investors, who represent only about 17.5% of U.S. households.

Distributor	Rank		
	09	08	06
Charles Schwab	1	2	3
Fidelity Investments	2	1	4
Morgan Stanley Smith Barney	3	N/ A	N/A
Edward Jones	4	8	14
Merrill Lynch	5	4	1
Raymond James	6	5	10
UBS	7	9	2
Vanguard	8	6	6
Wells Fargo Advisors/Wachovia Securities	9	N/ A	N/A
Ameriprise	10	11	12

Affluent investors have become more cautious since the 2008 financial crisis, the survey showed. Interest in guaranteed income or principal-protected products has grown while rates of ownership of mutual funds and participation in employer-sponsored retirement plans have fallen.

Ownership of annuities has risen four percentage points, to 34%, and allocation of assets to annuities rose 3.6 points, to 9.65% since 2006 years, the survey showed. Fixed annuities showed stronger increases than variable. Ownership of fixed indexed annuities remained at 6% of those surveyed.

“Interest in annuities is also on the rise across all age and wealth segments, particularly Silent Generation investors,” the report said. (The survey did not differentiate between deferred and immediate annuities.)

Among variable annuity issuers, all but TIAA-CREF “have more detractors than promoters” and “few VA brands achieve both high awareness and favorability, and firms that are less well known earn the highest impression ratings,” the survey showed. In 2009, loyalty toward VA providers was higher than in 2008, however.

These days, even the comfortable are worried, apparently. The authors of the report were struck by the growing risk-aversion of those surveyed, who had a mean asset level, excluding real estate, of \$740,000.

This was true even for those between ages 28 and 44. “Gen-X has a similar risk profile to the Silent Generation, and we wonder if that mind-set will remain consistent,” said Tony Ferreira, managing director at Cogent Research.

“Even if they're only 40 or 41 years old, they're transitioning to lower risk tolerance products. And more are saying, ‘I want income but also some guarantees,’” he added. “We wonder if they have they been burnt so much in last ten years that they may never become more aggressive. That group is most likely to think they won't get Social Security or that they'll get reduced benefits or that they may have to wait longer or pay higher taxes on benefits.”

Attitudes of Affluent Investors

- Conservative mindset prevails.
- Asset levels back to 2006 marks.
- Confidence in financial institutions low.
- Less than 80% of affluent own mutual funds.
- Principal protection and income guarantees sought.
- ETF usage up.
- Target-date fund usage rate flat.
- More assets go to IRAs than employer plans.
- Participation in employer plans lower, average allocation of wealth to plan flat.
- Distributors have "considerable room" to improve image.
- Satisfaction with and loyalty to advisors low.

Source: Cogent Research Investor Brandscape, 2010.

Affluent investors increased the share of assets they allocate to low risk investments to 34% in 2009 from 26% in 2008 and reduced their allocations to moderate and high risk assets by four percentage points each, to 45% and 21%, respectively.

Ownership of mutual funds and participation rates in qualified plans are both down among affluent investors over the past three years, the report shows. Mutual fund ownership dropped to 78% in 2009 from 94% in 2006, a decline of 17%. Among fund owners, allocation to mutual funds has fallen to 44% from 53% since 2006.

Meredith Lloyd Rice, the project director of the Investor Brandscape study, pointed to several factors driving those trends: a shift to self-employment following last year's widespread layoffs, migration to certificates of deposits and fixed annuities, and asset decumulation by those out of work or already retired.

Indeed, the Urban Institute reported this week that 8.2% of men between ages 55 and 64 are out of work and have been looking for work—up from only 2.7% in November 2007. About 1.3 million 62-year-olds claimed Social Security in 2009, a record number, partly because of the many 62-year-olds and partly because of unemployment.

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