Q3 | 2015

THE SIGFIG INSIGHTS REPORT

Rich Investor, Poor Investor

SIGFIG

Even among those with the means to invest, an unequal balance of wealth exists among the investment community.

INTRODUCTION

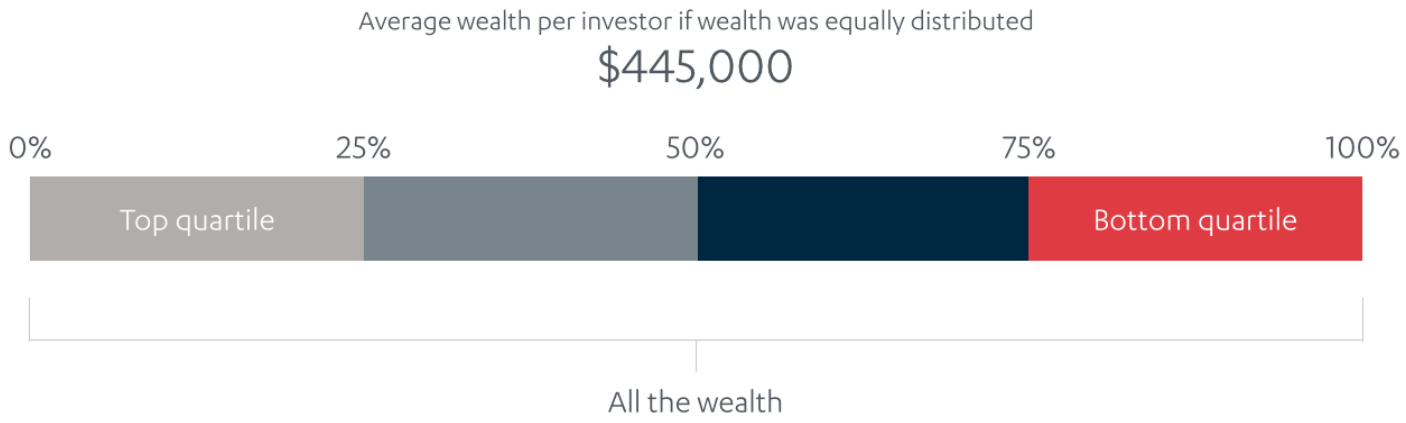
The unequal spread of wealth is by no means a new discussion topic. The debate has brought to the surface tough conversations that range from gender prejudices and income equality to socioeconomic status and ethnic background. While the reasons for the inequality are personal and complex, the one thing we know for sure is that the gap is increasing. Even among those with the means to save and invest, an unequal balance of wealth exists among the investment community.

In this quarter's SigFig Insights report, we examined inequality among investors and how their investment behaviors differ depending on their level of wealth. Specifically, we dug into how the wealthiest 25 percent of investors invest versus the least wealthy 25 percent of investors and explored the differences in strategy, preferences, and habits.

AN UNEQUAL DISTRIBUTION OF INVESTMENT WEALTH

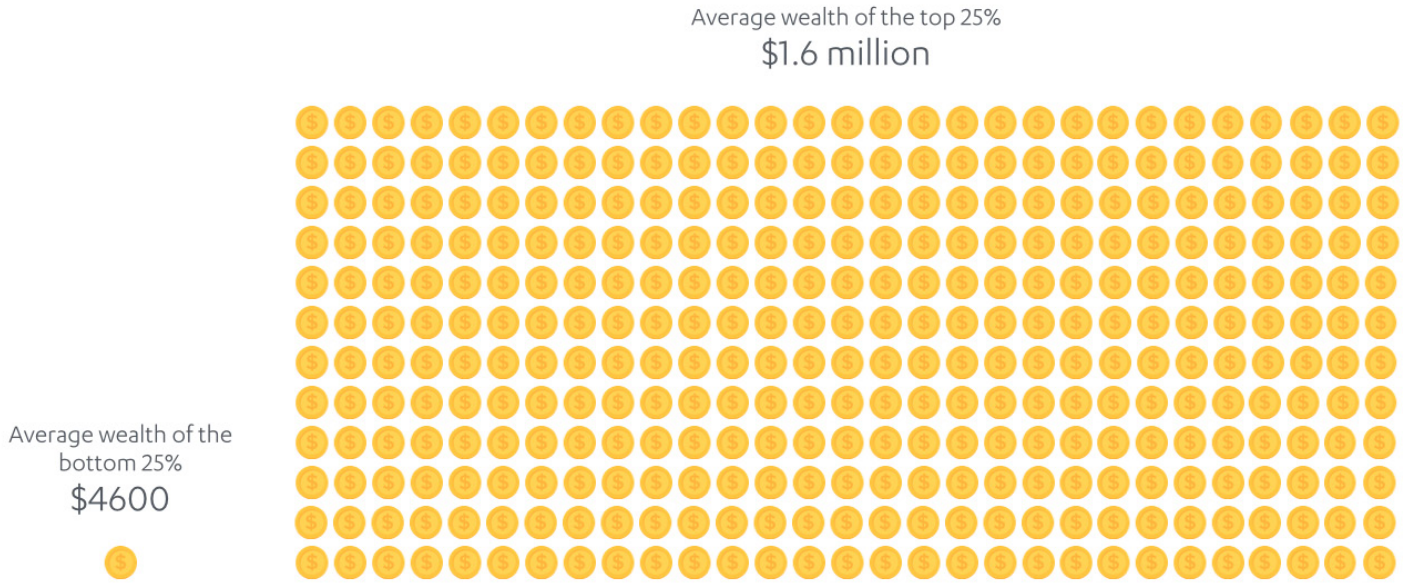
To start our analysis, let's take a look at how wealth is distributed among the investors. In our sample size of 330,000 investors, the total amount of assets held is $146,850,000,000—almost $147 billion. If that wealth was evenly distributed among the 330,000 investors, the average investor's portfolio size would be $445,000 (Figure 1).

Figure 1. If wealth was distributed equally among all investors, the average wealth per investor is $445,000.



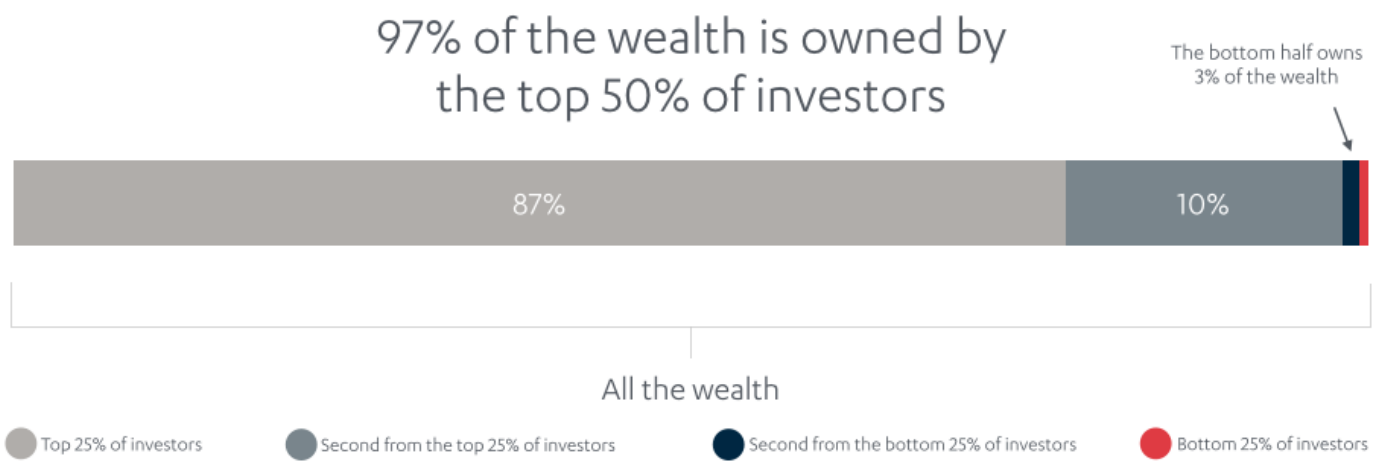
However, the distribution of wealth is highly skewed. If you calculated the average investment size by quartile, the data tells a much different story. On average, the bottom 25 percent of investors have $4,600 in assets, while the top 25 percent have $1.6 million (Figure 2). In other words, the average investor at the top 25th percentile has 348 times more wealth than the average investor in the bottom 25th percentile.

Figure 2. The average wealth of the top 25 percent of investors is 348 times the wealth of the bottom 25 percent.



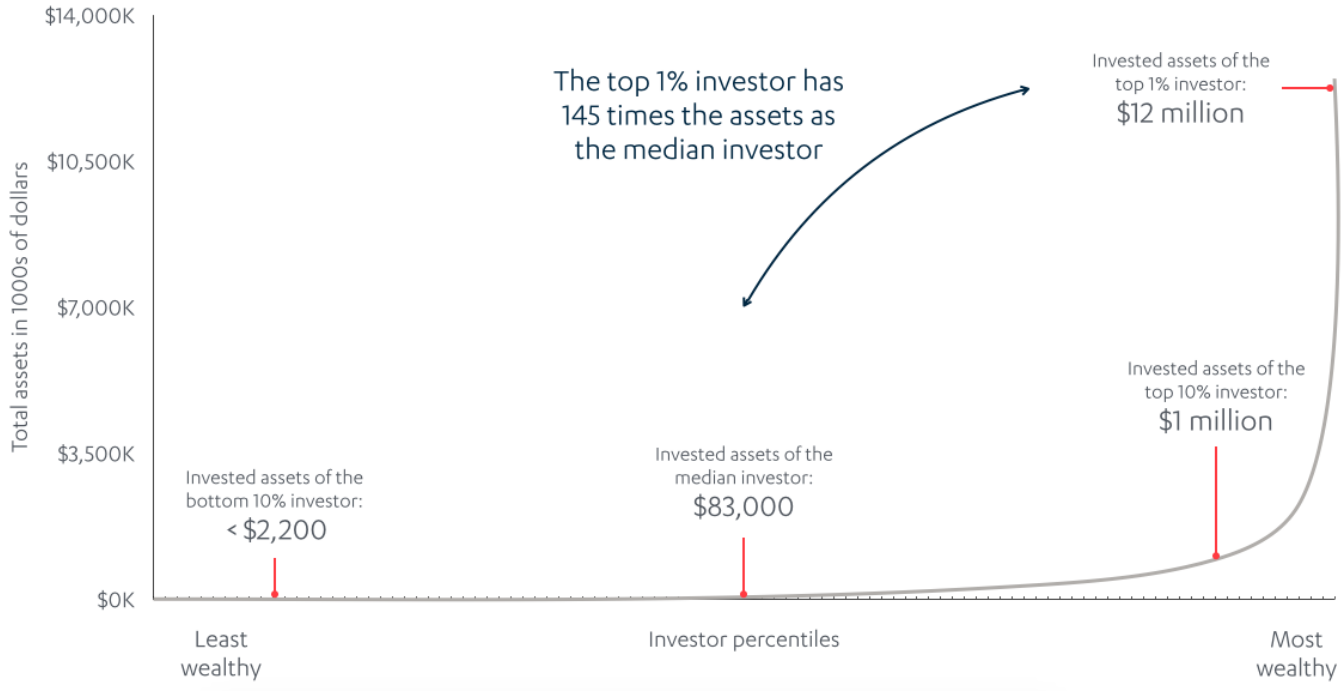
However, this gap in wealth is most apparent when comparing investors based on the percentage of assets owned. When we look at the portion of total assets investors own, the top half owns 97 percent of the wealth, with the bottom 50 percent owning the remaining 3 percent (Figure 3).

Figure 3. The distribution of wealth is highly skewed. The average wealth of the top 25 percent investors is 348 times greater than the bottom 25 percent of investors.



If we hone in on the top 1 percent of investors, the assets owned by these investors is $12 million, which is 145 times higher than the assets of the median investor (Figure 4).

Figure 4. The assets owned by investors increases exponentially the wealthier an investor is.

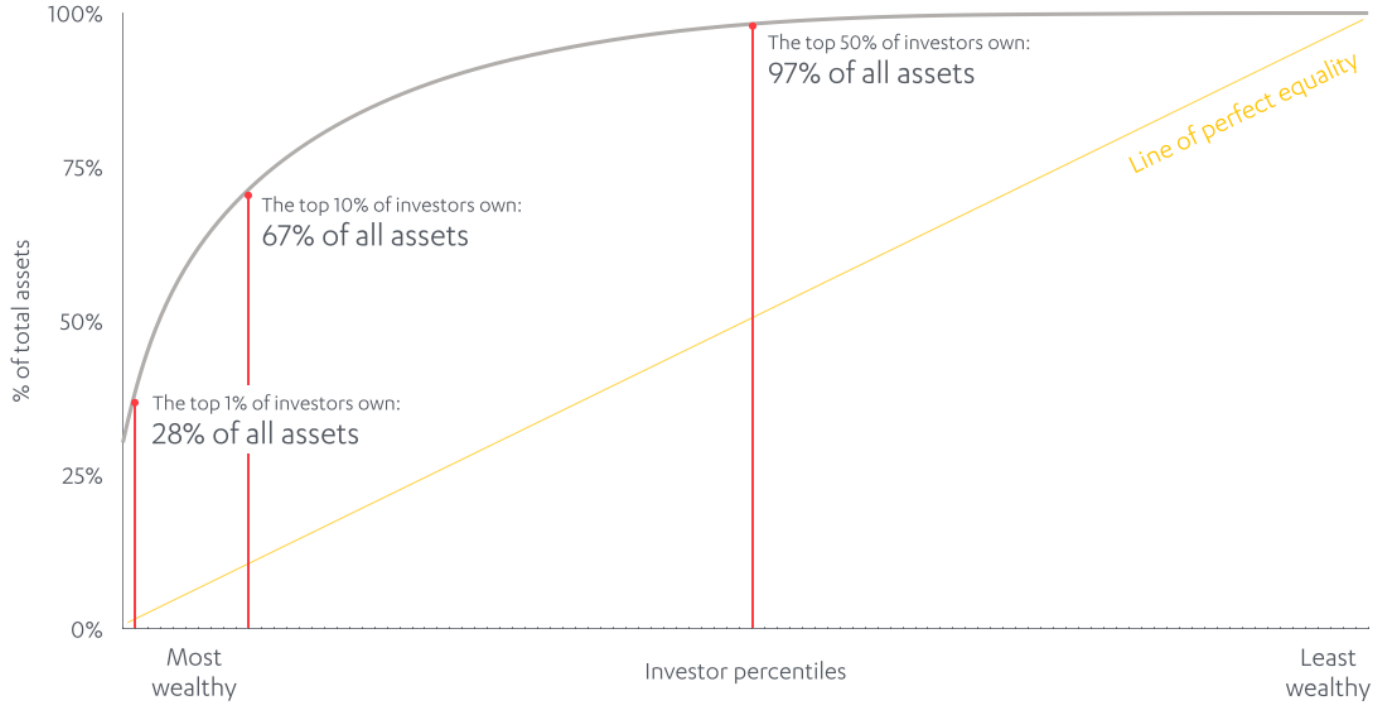


In a perfectly equal world, the bottom 50 percent of society would always have 50 percent of the income. This equality is depicted by a straight line y = x.

However, our society is not perfectly equal but rather unequally distributed. This unequal distribution is derived by using the Gini coefficient, a mathematical concept developed Italian statistician and sociologist Corrado Gini in 1912. As illustrated by the curve line, the coefficient essentially calculates the true distribution of wealth and the spread between perfect equality and reality (Figure 5).

Accordingly to the line of imperfect inequality, the top 1 percent of investors own 28 percent of all the assets, with the top 10 percent owning well more than half.

Figure 5. True wealth distribution is far from the line of perfect inequality.



BEHAVIORAL DIFFERENCES BETWEEN THE MOST AND LEAST WEALTHY OF INVESTORS

Why do we see such an unequal distribution of investment wealth? Could it be that wealthier investors are more skilled and have sounder strategies, or is it simply luck of the draw?

While we can only hypothesize the causations of the investment wealth gap, we can however look at investment behaviors based on levels of wealth to see trends and correlations. In our analysis of the more wealthy versus less wealthy investors, we looked at:

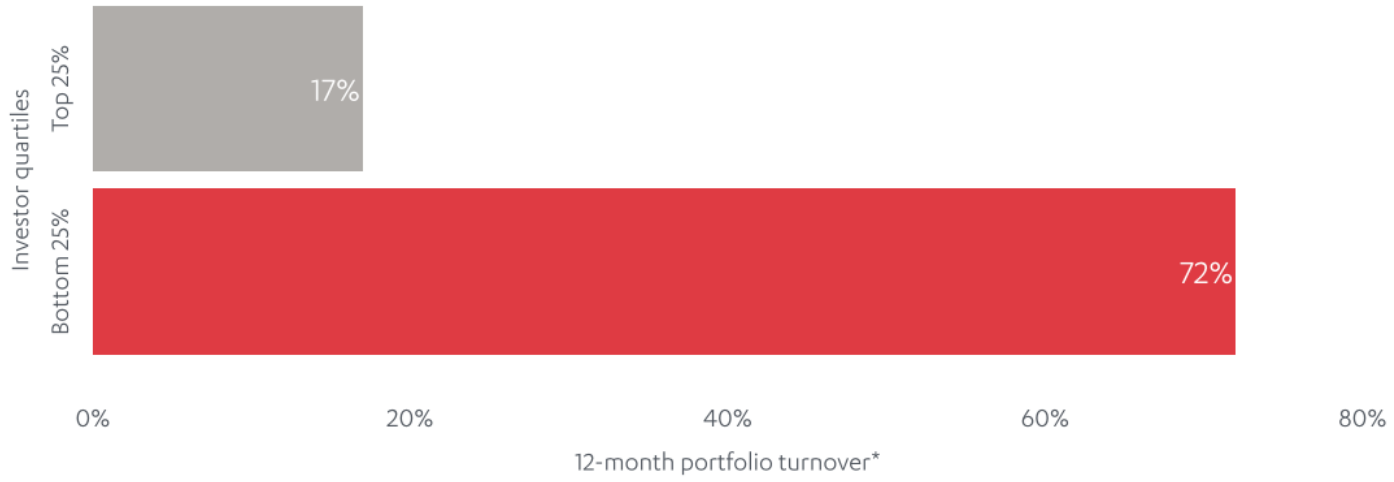
- **Portfolio turnover:** How frequently an investor turns over his or her portfolio;
- **Portfolio performance:** How well an investor's portfolio performed;
- **Investment fees:** How much an investor pays in fees; and
- **Investor patience:** How an investor handles market volatility

Portfolio turnover: How frequently an investor turns over his or her portfolio

Typical investment advice suggests that sticking with your long-term investment plan is the best strategy. However, many investors opt for frequent monitoring and trading of their securities.

When we look at investment portfolio turnover, we see that the bottom 25 percent of investors tend to churn their portfolio at a rate that's more than four times higher than the top 25 percent of investors (Figure 6), if they traded at all in the past 12 months. High portfolio turnover is a marker for timing the market, active trading, panicking, or overconfidence, which typically results in poorer performance and lower returns.

Figure 6. The bottom 25 percent of investors have a higher portfolio turnover than the top 25 percent of investors.



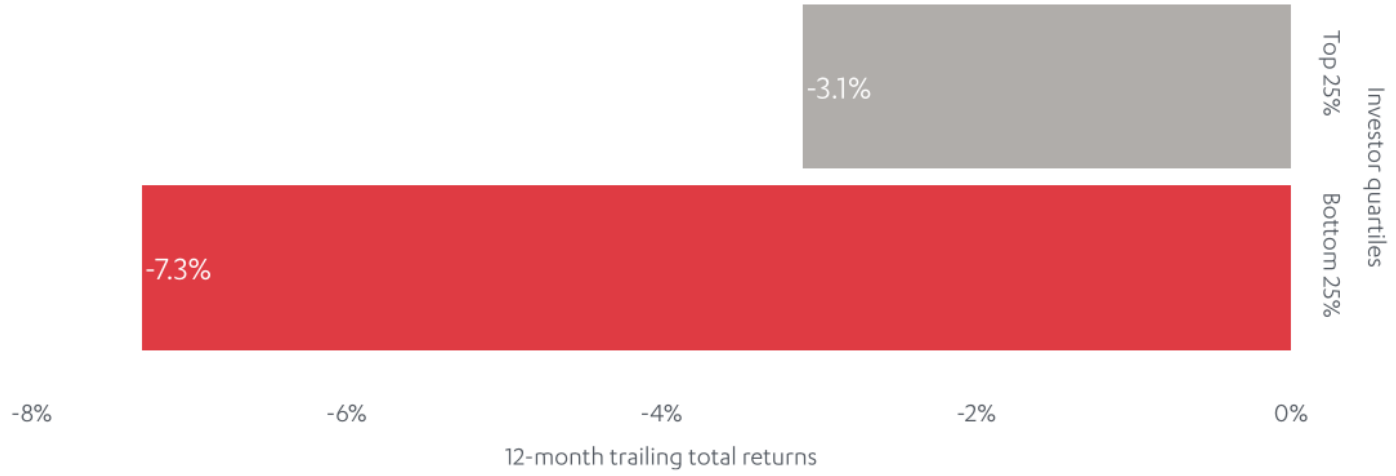
Portfolio performance: How well an investor's portfolio performed

If portfolio turnover is an indicator of portfolio performance, did the bottom 25 percent of investors fare worse in terms of returns?

When we look at the 12-month trailing total returns of the two groups of investors, we indeed find that the least wealthy 25 percent of investors saw returns much worse than the wealthiest 25 percent of investors (Figure 7). To be more exact, the wealthier investors' portfolio returns were more than two times higher than the returns of our less wealthy investors.

While this fuels aphorisms like "the rich get richer, the poor get poorer", there could be many reasons that contribute to this divide. We often see poorer performance correlated with higher fees and flighty investment habits, so let's investigate these two factors.

Figure 7. Portfolios of the top 25 percent of investors saw better returns than the bottom 25 percent of investors.



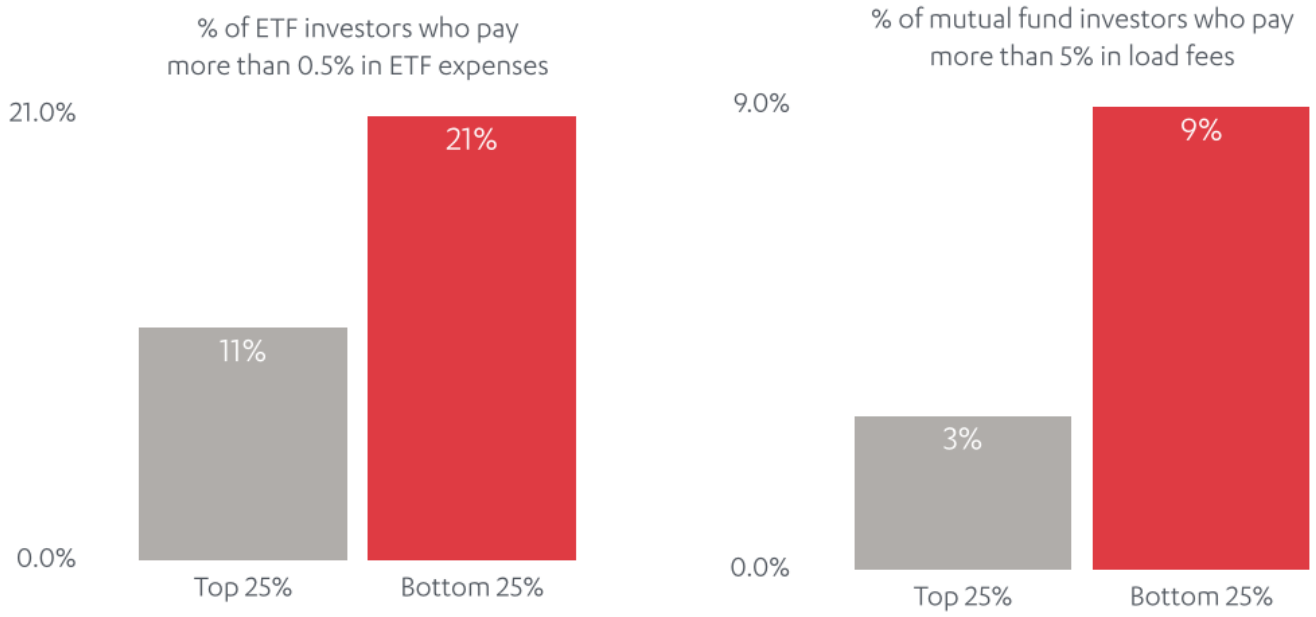
Investment fees: How much an investor pays in fees

Fees can range depending on the type of advisory service an investor opts for, as well as the type of asset classes held. Two of the most common asset classes are ETFs and mutual funds. In our analysis, we looked at the number of investors in the bottom 25 percent versus the top 25 percent of investors who are paying unnecessarily high yet avoidable fees.

When looking at the fees incurred, we see that the top 25 percent of investors typically pay a fraction of the fees that the bottom 25 percent of investors pay. Specifically, a wealthy ETF investor pays half the

amount of fees that a poorer investor incurs; and for investors of mutual funds, the top 25 percent pay just a third of the fees the bottom 25 percent faces (Figure 8).

Figure 8. For both ETF and mutual fund securities, the bottom 25 percent of investors pay higher fees than the top 25 percent of investors.



Investor patience: How an investor handles market volatility

Another critical factor that affects portfolio performance is how an investor reacts to changes in the market, especially during a downturn. Traditional investment advice suggests avoiding the temptation to sell during a market correction, or even adding to positions when prices are low.

However during the recent August 2015 market correction—specifically the week of August 20, 2015, when we analyzed the investors who "panicked" and sold, we see that the bottom 25 percent of investors were four times more likely to sell more than 10 percent of their portfolio (Figure 9). 61 percent of the less wealthy investors sold more than 10 percent of their portfolio, while only 16 percent of the most wealthy investors did so.

Figure 9. When we analyzed the investors who "panicked" and sold, the bottom 25 percent of investors were more likely to sell more of their portfolio during the last market correction.

	Percentage of portfolio sold	Percentage of investors selling
Bottom 25%	< 10% sold	39%
	More than 10% sold	61%
Top 25%	< 10% sold	84%
	More than 10% sold	16%

We can see the impact of this decision if we look at these investors' median 12-month trailing return (Figure 7). The more an investor sold, the worse their portfolio performed.

From this report, we see that the wealthy, top 25 percent of investors tend to hold their portfolio steady, see higher portfolio performance, pay lower fees, and handle market volatility better. While the wealthier investors may be adhering to traditional investment advice, perhaps the less wealthy of investors are more likely to panic as they have less assets and more to lose. While we may not know the exact reasons why, we do know that sound investment strategies, like avoiding unnecessary fees and staying put even when the market dips can be learned and employed by any investor.

- DID YOU KNOW? -

WIDENING IPHONE AND ANDROID PRICE GAP IMITATES INVESTMENT WEALTH GAP

In a recent report, the average price of an iPhone has jumped to $687, while the price of an Android phone has decreased to $254. If we look at the investment profile of these two types of phone consumers, the wealthier iPhone consumer sees higher returns and has an median portfolio size that is two times greater than that of an Android consumer.

If we consider the type of phone we own as an indicator of wealth, we see parallels in the wealthy phone consumer and the wealthy investor.

$49K median portfolio size
-3.6% median return

$25K median portfolio size
-3.8% median return

ABOUT THE SIGFIG INSIGHTS REPORT

The analysis in this report is based on data aggregated and anonymized from 330,000 investors who have synced their portfolios with SigFig.

Results are net of all management fees and expenses unless otherwise noted. Performance data includes reinvestment of dividends and interest unless otherwise noted. Past performance is not indicative of future returns. Direct comparisons between performance and equity market indices are not without complications. The indices may be unmanaged, may be market weighted, and unlike advisory clients, indices do not incur fees and expenses. Technical details are available upon request.

For more information, email insights@sigfig.com or call (415) 558-9611.

ABOUT SIGFIG

SigFig was founded in 2007 to make solid strategies and advice more accessible and affordable to all investors. For institutional partners, our flexible and customizable investment management platform helps them deliver smart and affordable solutions to their customers. For individual investors, SigFig provides an intelligent suite of products that empowers every kind of investor—whether you're an active trader using our portfolio tracker or an investor looking for long-term wealth planning.

Backed by top-tier venture capital from Union Square Ventures, Bain Capital Ventures, Nyca Partners, and DCM, SigFig has helped more than 800,000 investors track over $350B in assets.

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