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# The Online Investing Knowledge Gap

## 2013 Investment Literacy Survey

**investingnerd**  
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## Introduction and Executive Summary

It is widely documented that many Americans lack knowledge of critical high school level personal finance principles, but what about when it comes to the basics of online investing?

The 2013 InvestingNerd Investment Literacy Survey shows an alarming knowledge gap when it comes to basic investing concepts and strategies among adult Americans. InvestingNerd's basic investing concepts survey, conducted in February 2013 among a nationally representative sample of 869 American adults, finds that general knowledge is worse here than previously known, with Americans remaining in the dark about several basic concepts in online investing.

While many recent surveys<sup>i</sup> have been conducted around save-and-spend issues in consumer debt, credit, mortgage, budgeting and financial planning,<sup>ii</sup> far fewer have been conducted around investment practices.<sup>iii</sup> To add to the conversation, InvestingNerd investigated whether knowledge around investing online was also contributing to this rising epidemic.

### Key Findings:

InvestingNerd's 2013 Investment Literacy Survey revealed these 5 critical findings about the way Americans today think about online investing:

1. **Poor Understanding of Investing Accounts:** 4 in 5 Americans (18.6%) surveyed could not correctly identify the type of account to open in order to trade stocks online.
2. **Severely Underestimated 401(k) Fees:** 9 in 10 Americans (92.6%) dramatically underestimated the total 401(k) fees the average household will pay over the course of a lifetime. More than half thought under \$50,000 in fees would accrue, but the reality is upwards of \$150,000+ per household.
3. **Mixed Messages on Price from Current Investors:** Although half of current online investors (50.3%) cited low prices as the most important factor to them in choosing an online broker, only 1 in 10 current online investors (11%) followed their own advice by comparing costs across accounts.
4. **Fear of Investing Among Non-Investors:** Just over a quarter of those not currently investing online say they don't invest because of either uncertainty on how to get started (13.6%) or risk aversion (12.8%).
5. **Paying Too Much for Trade Execution:** Though most respondents (82.9%) said they would not pay extra to have trade execution speed reduced by 1 second, the fact is that many already do without realizing it. A recent InvestingNerd study found that investors could be receiving quality execution at a fraction of the cost at a discount brokerage.<sup>iv</sup>

## Survey Methodology

The InvestingNerd 2013 Investment Literacy Survey examined investor knowledge, assumptions, and confidence from multiple angles to gain insight into how retail investors think about online investing accounts. Results from respondents polled showed major holes in these 5 key areas of financial knowledge, understanding and comprehension:

1. Grasping basic investing concepts and strategies
2. Knowing how to pick a brokerage account
3. Navigating hidden fees and trading costs
4. Understanding trade execution speed
5. Planning for Retirement and 401(k) lifecycle fees

The survey polled a nationally representative sample of 869 American adults from February 9 - 12, 2013 in order to assess understanding of basic investing concepts among the adult American public. The survey polled adult Americans aged 18 and older, asking each respondent 10 questions concerning brokerage accounts, asset classes, investing strategies, stock trading costs, trade execution, and 401(k) plan fees.

# Results: Breaking Down the Survey Data

This section provides a breakdown of survey data by question.

## 1. Poor Understanding of Online Brokerage Accounts:

*Just under 1 in 5 Americans (18.6%) surveyed could correctly identify the type of account to open needed to trade stocks online, with a full 27.3% saying they didn't know, and the rest identifying the wrong types of accounts.*

The survey posed this question to gain a sense of basic investing terminology: "If you wanted to trade stocks online, which of these of accounts could you use to do so?"

The correct answer is 'brokerage account.'

Responses as follows:



Full response breakdown:

<b>Answer Option:</b>	<b>%</b>	<b>Response Count:</b>
<i>Savings account</i>	8.2%	69
<i>Certificate of Deposit (CD) account</i>	2.1%	18
<b><i>Brokerage account</i></b>	<b>18.6%</b>	<b>157</b>
<i>Money market account</i>	6.2%	52
<i>All of the above</i>	7.6%	64
<i>None of the above</i>	13.3%	112
<i>I don't know</i>	27.3%	230
<b><i>Total</i></b>		<b>844</b>

## 2. Severely Underestimated Lifetime 401(k) Fees:

*Roughly 9 out of 10 Americans (92.6%) dramatically underestimated the total 401(k) fees the average household will pay over the course of a lifetime. More than half thought under \$50,000 in fees would accrue, but the reality is upwards of \$150,000+ per household.*

InvestingNerd’s survey posed this question to gain understanding of how much Americans know about the full fees associated with 401(k) plans: “How much will the average American household with 2 working adults pay in 401(k) fees over the course of their lifetime?”

The correct answer is that 401(k) related fees can cost the average household up to \$155,000 over the course of a lifetime, as found in a recent Demos retirement hidden costs study (the 5<sup>th</sup> answer below).<sup>v</sup>

Responses as follows:

<b>Answer Option:</b>	<b>%</b>	<b>Response Count:</b>
<i>Less than \$10,000</i>	38.1%	298
<i>Between \$10,000 and \$50,000</i>	32.8%	257
<i>Between \$50,000 and \$100,000</i>	13.8%	108
<i>Between \$100,000 and \$150,000</i>	7.9%	62
<b><i>Between \$150,000 and \$200,000</i></b>	3.3%	26
<i>More than \$200,000</i>	4.1%	32
<i>Total</i>		783

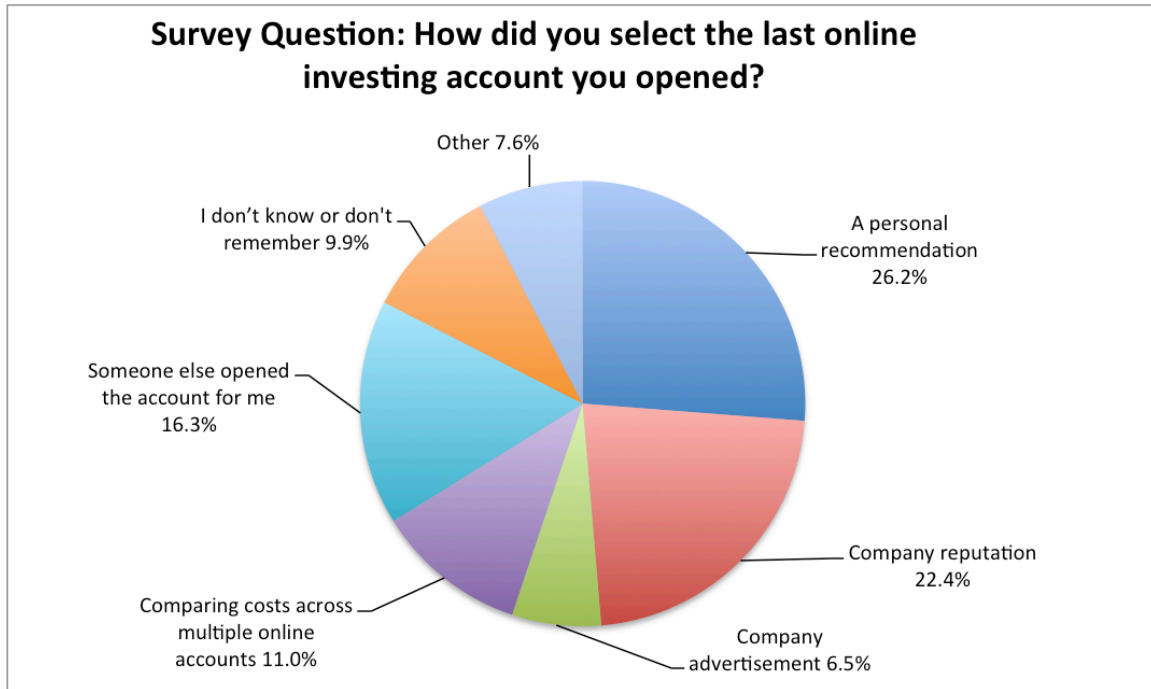
## 3. Mixed Messages on Price from Investors:

*Although half of current online investors (50.3%) cited low prices as the most important factor to them in choosing an online broker, only 1 in 10 current online investors (11%) followed their own advice by comparing costs across accounts.*

This finding combined responses from two unique survey questions, the responses to which are as follows. When asked what factor they care most about in selecting a brokerage account, investors overwhelmingly said low prices and fees. However, reality did not align with this preference, and most investors with accounts said they got their account for another reason than low cost.

3.1) First question posed to current online investors: **“How did you select the last online brokerage account you opened?”**

Responses as follows:

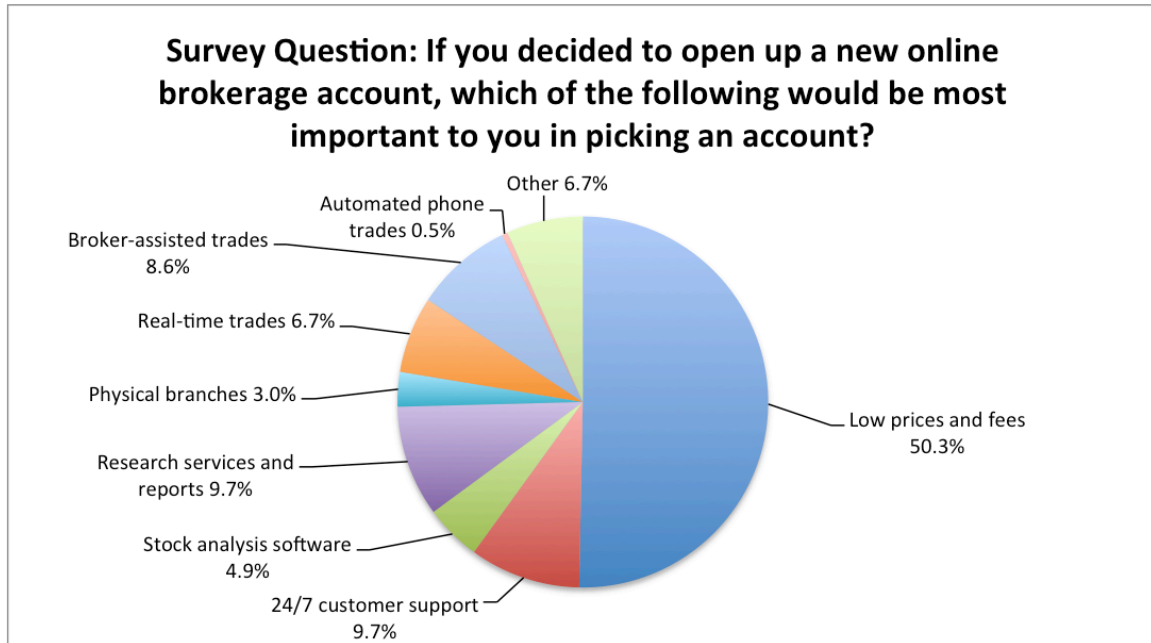


Full response breakdown:

<b>Answer Option:</b>	<b>%</b>	<b>Response Count:</b>
<i>A personal recommendation</i>	26.2%	69
<i>Company Reputation</i>	22.4%	59
<i>Company Advertisement</i>	6.5%	17
<i>Comparing costs across multiple online brokerages</i>	11.0%	29
<i>Someone else opened the account for me</i>	16.3%	43
<i>I don't know or remember</i>	9.9%	26
<i>Other</i>	7.6%	20
<i>Total</i>		263

3.2) Second question posed to all respondents: “If you decided to open up a new online brokerage account to manage your investments, which of the following would be most important to you in picking an account?”

Responses as follows:



Full response breakdown:

<b>Answer Option:</b>	<b>%</b>	<b>Response Count:</b>
<i>Low prices and fees</i>	50.3%	400
<i>24/7 customer support</i>	9.7%	77
<i>Stock analysis software</i>	4.9%	39
<i>Research services and reports</i>	9.7%	77
<i>Physical Branches</i>	3.0%	24
<i>Real-Time Trades</i>	6.7%	53
<i>Broker-Assisted Trades</i>	8.6%	68
<i>Automated Phone Trades</i>	0.5%	4
<i>Other</i>	6.7%	53
<b>Total</b>		795

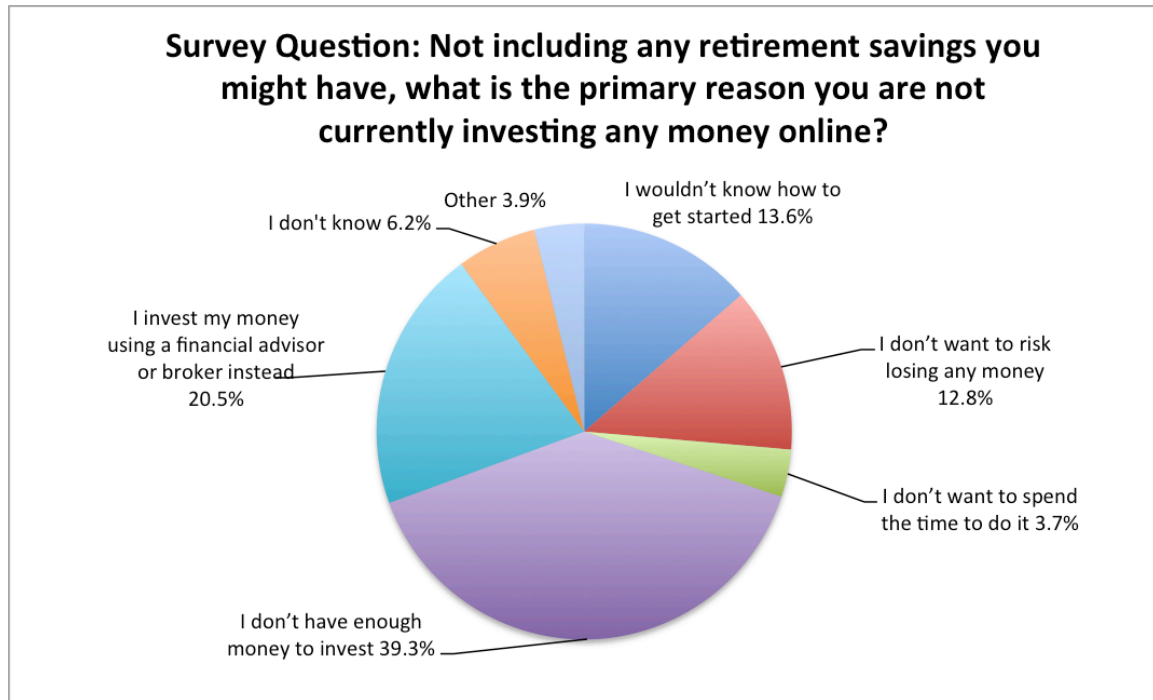
#### 4. Concerns About Investing Among Non-Investors:

*Just over a quarter of those not currently investing online say they don't invest because of either uncertainty on how to get started (13.6%) or risk aversion (12.8%).*

Question posed to respondents who do not currently invest online: "Not including any retirement savings you might have, what is the primary reason you are not currently investing any money online?"



Responses as follows:



Full Response Breakdown:

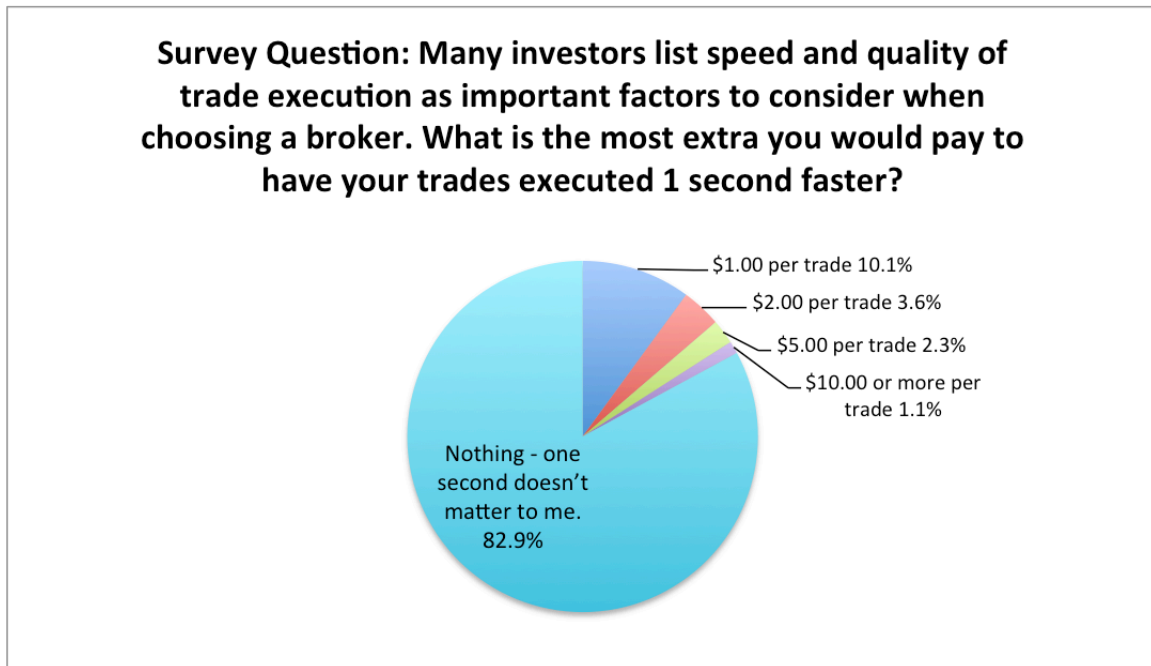
Answer Option:	%	Response Count:
<i>I wouldn't know how to get started</i>	13.6%	81
<i>I don't want to risk losing any money</i>	12.8%	76
<i>I don't want to spend the time to do it</i>	3.7%	22
<i>I don't have enough money to invest</i>	39.3%	234
<i>I invest my money using a financial advisor or broker instead</i>	20.5%	122
<i>I don't know</i>	6.2%	37
<i>Other</i>	3.9%	23
<b>Total</b>		<b>595</b>

## 5. Paying Too Much for Trade Execution:

*Though most respondents (82.9%) said they would not pay extra for faster trade execution speed by one second, the fact is that many already do without realizing it. A recent InvestingNerd trade execution study found that investors could be receiving quality execution at a fraction of the cost at a discount brokerage.<sup>vi</sup>*

Question posed to all respondents: “Many investors list speed and quality of trade execution as important factors to consider when choosing a broker. What is the most extra you would pay to have your trades executed 1 second faster?”

Responses as follows:



Full response breakdown:

<b>Answer Option:</b>	<b>%</b>	<b>Response Count:</b>
<i>Nothing - one second doesn't matter to me</i>	82.9%	659
<i>\$1.00 per trade</i>	10.1%	80
<i>\$2.00 per trade</i>	3.6%	29
<i>\$5.00 per trade</i>	2.3%	18
<i>\$10.00 or more per trade</i>	1.1%	9
<i>Total</i>		795

## Background: The State of Financial Illiteracy

There is a widespread financial illiteracy epidemic in America today, and it is growing.<sup>vii</sup> Despite governmental and non-profit engagement in recent years, as well as the rise of several mandatory financial literacy curriculums in high schools, the state of overall personal financial literacy is still lagging behind expectations.

From NGOs to the federal government, personal finance is increasingly being identified as a distinct priority worth working toward. Indeed, in May 2012 the White House published a report outlining both problems and courses of action to take to empower consumers to make better financial decisions. The White House report states:

*“Low levels of financial capability are evident across the U.S. A 2009 Financial Industry Regulatory Authority (FINRA) survey of Americans revealed that about half report trouble keeping up with monthly expenses, have no money saved for emergencies and do not save for retirement...Research shows that low levels of financial literacy are associated with high levels of indebtedness, lower wealth accumulation, and less retirement savings.”<sup>viii</sup>*

Several recent data sets in particular point to poor financial literacy today’s young millennial generation.

### Why Investing Literacy Matters: A Pillar of Personal Finance

Since not as much research has been done specifically on the scope and role of investing knowledge as a sub-topic within American financial planning comprehension, InvestingNerd wanted to learn more about the assumptions adults hold around best practices in investment management.

Personal finance literacy and investing literacy are clearly interlinked – they are overlapping topics, and if anything, recent research has shown that having a good understanding of one can improve one’s working knowledge of the other.

This interrelation appears to go both ways – not only can personal finance education better investor knowledge, but a solid understanding of investing principles can help one’s all around grasp of various aspects of personal finance. For instance, results from the recent Jump\$tart financial survey indicated that:

*“High school students who had played the Stock Market Game scored consistently better on the test than those who had taken a personal finance course -- and not just in investing, but across all aspects of the test, including credit. Experts think the game, which gives students a hypothetical \$100,000 to invest in an online portfolio, works because it's practical and related to current events.”<sup>ix</sup>*

SIFMA Foundation's Stock Market Game gives students the chance to invest a hypothetical \$100,000 in an online portfolio.<sup>x</sup> Alternatively, many of today's top online brokers offer free stock market simulators and virtual trading games so novice investors can get a sense of what they stand to gain or lose before diving in with their own real money.<sup>xi</sup>

Other newcomers to the investing game world include both Tycoon and JA Finance Park, a collaboration of Capital One and the NGO Junior Achievement. There will likely be many more to come as part of this growing trend.

## Conclusion

Will such gamification of online investing help raise levels of both financial and investing literacy? There are many online games and simulators on the market that can help novice investors and young financial planners get a head start, learning about investing through games and game-like simulations without the risks attached.

While there is no single silver bullet in financial literacy education, it is increasingly essential to provide young adults investing education and hands-on experience as early in the learning process as possible. This will provide the greatest hope for increasing investment and financial literacy throughout adulthood, enabling better financial planning for life.

# References

- <sup>i</sup> <http://www.nfcc.org/newsroom/FinancialLiteracy/files2012/FLS2012FINALREPORT0402late.pdf>
- <sup>ii</sup> <http://www.jumpstart.org/assets/files/2008SurveyBook.pdf>
- <sup>iii</sup> <http://www.abotschwab.com/images/press/teensmoneyfactsheet.pdf>
- <sup>iv</sup> <http://www.nerdwallet.com/blog/investing/2012/brokerage-execution-quality/>
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- <sup>vi</sup> <http://www.nerdwallet.com/blog/investing/2012/brokerage-execution-quality/>
- <sup>vii</sup> <http://www.nerdwallet.com/blog/investing/2012/expert-faq-financial-illiteracy-epidemic-young-adults-understanding-finances-fix/>
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