

Observations and Impacts of U.S. Consumer Wealth Trends

Investment Landscape, Distribution of Assets, and Portfolio Allocation by Asset Tiers

The Equifax logo is displayed in white, bold, sans-serif capital letters on a dark red square background. The logo includes a registered trademark symbol (®) to the upper right of the word.

October 2015

Introductory Commentary by Amy Crews Cutts, PhD, SVP – Chief Economist, Equifax

The Great Recession, which started in December 2007 and officially ended in June 2009, caused significant economic harm to households in the U.S. A net 3.8 million adults lost their jobs, countless businesses, large and small, failed and homeowners lost over \$7 trillion in equity in their homes. The financial crisis that predicated the Great Recession still is being felt around the globe a full six years later. Importantly though, U.S. households have made great strides in regaining their financial health.

As the U.S. economy has improved, employment has exceeded its pre-recession levels, wages are rising and household wealth has achieved a new peak. However the form of the wealth and its distribution across households has changed markedly. While it is true to say that the rich have gotten richer, so too have the not-so-rich, though not nearly by the same rate. All have become more risk-averse, choosing to keep more of their investable financial assets in deposit accounts which earn little or no interest. These deposits protect the principal value of household wealth, the downside risk, but offer no upside of wealth appreciation.

In the following pages, we explore how the non-housing financial wealth of U.S. households has changed from just prior to the onset of the Great Recession to today.



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SOURCES INCLUDED IN THIS PAPER: All data referred to in this report is sourced from Equifax Inc.'s IXI Services WealthComplete®, MarketMix™, Income360®, CreditMix™, CreditStyles Pro®, and Aggregated FICO® Scores, as well as IXI's Proprietary Geographic Framework and Equifax Property Experts.

IXI's definition of "invested assets":

- Includes: Projected consumer liquid investable assets, based on about \$14 trillion in anonymous, aggregated, direct-measured™ assets collected from leading financial services firms
- Excludes:
 - o Business accounts
 - o Defined benefit/contribution assets held in 401(k)s or 403(b)s
 - o IRA-SEPs
 - o Profit sharing accounts, stock purchase/ESOP, money purchase plans, life insurance, and home value

U.S. Investment Landscape: 2007-2014

Historical Shifts in Personal Assets

As of December 2014, the personal investable assets of U.S. residents totaled close to \$32 trillion, having increased by over 66% since the Great Recession when it was at a trough of just \$19.2 trillion in December 2008. The Great Recession hurt American consumers badly, but the economy has since trended up and markets have recovered.

Looking back, there have been some tough times and some joyous climbs:

Big losses:

The Great Recession hit many families hard – from December 2007 to December 2008, consumer assets dropped 20% from \$24.1 trillion to \$19.2 trillion. Stock prices fell drastically and consumers shifted much of their investments to deposits and other conservative savings options.

The market returns:

Just three years later, consumers had regained confidence and personal assets had returned to its pre-recession level at \$24.5 trillion in June 2011.

A blip:

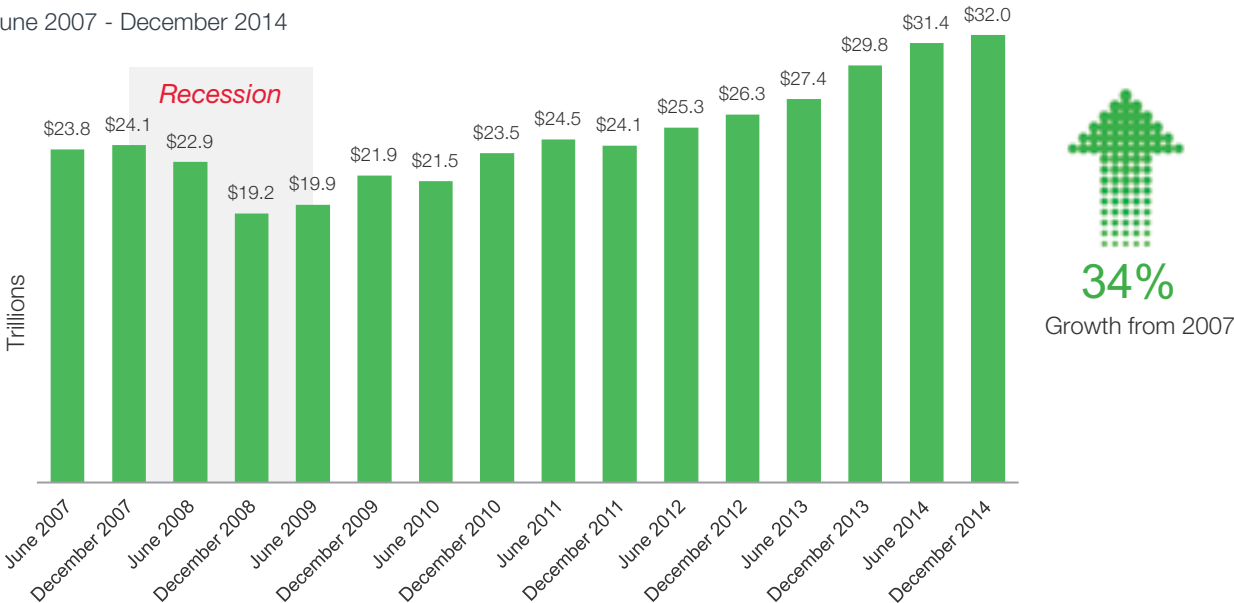
The debt ceiling crisis of 2011 caused a minor blip as consumer confidence fell while the U.S. government negotiated until the last minute over a deficit reduction and raising the debt ceiling. Major stock markets lost up to four percent in value and personal assets fell two percent between June 2011 and December 2011.

Steady climb:

Except for the 2011 glitch, personal assets have continued to increase steadily since the depths of the Great Recession, rising 32.6% from a pre-recession high of \$24.1 trillion in December 2007 to almost \$32 trillion in December 2014.

Total Investable Assets

June 2007 - December 2014



Source: IXI Services WealthComplete, 2007-2014

The Market:

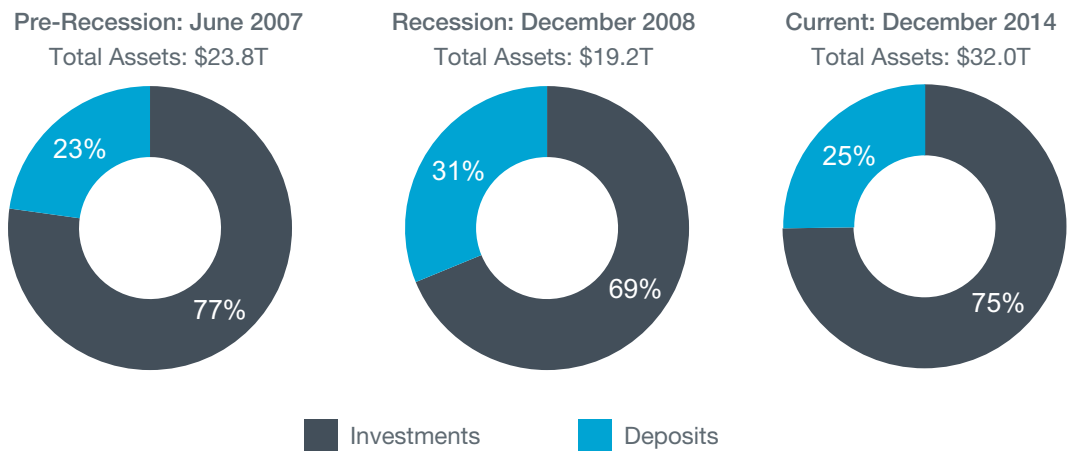
- “In the market”: Stocks, mutual funds, bonds, annuities, other
- “Out of the market”: Deposits

The Impact of the Great Recession

The Great Recession has had a lasting impact on how U.S. consumers invest their assets. With consumer confidence shaken, the stock market plunged over 20% between June 2007 and December 2008. At the same time, many investors shifted their assets out of investment markets.

- **Relatively high risk tolerance before the Great Recession:** In June 2007, about 7.7 out of 10 dollars were held in investment markets
- **Reduced investor risk tolerance after the collapse:** By December 2008, only about 6.9 out of 10 dollars were held in investment markets. Between June and December 2008, over \$4 trillion dropped out of the market partially due to market losses and partially from households moving money out of the market and into deposits. In fact, deposit holdings increased almost half a trillion dollars during this six month time period.

Portfolio Allocation of U.S. Households



Source: IXL Services WealthComplete, 2007, 2008, 2014

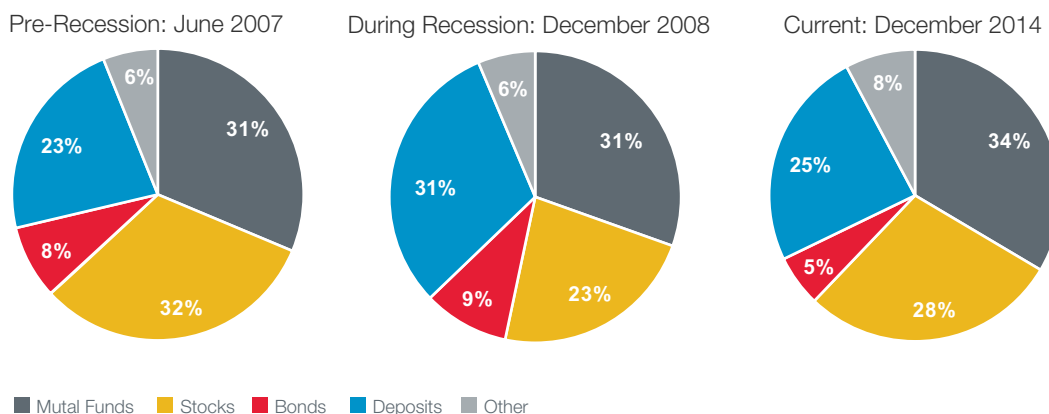
Asset Allocation - Before, During, and After the Great Recession:

In general, consumers have become more conservative investors. Although personal assets have increased significantly since the Great Recession and the stock market continues to achieve new highs, consumers still appear to be hesitant to shift their money out of deposits and back into investment markets.

- **Stock allocation has room to grow:** Before the Great Recession, consumers held 31.7% of their assets in stocks. This dipped to a low of 22.7% during the recession. As of December 2014, five years after the official end of the recession, the percent of assets that consumers held in individual stocks was below pre-recession values at 28.2%.
- **Mutual Fund investments remain a bedrock:** Even though the allocation of assets invested in mutual funds took a small dip of about 2% during the Great Recession, consumers have invested about 32%-34% of their assets in funds both before and after the recession.

- Bond allocation spiked during the recession, but has fallen drastically:** During the Great Recession, there was an uptick in bond holdings as a percent of consumers' total portfolio, since investors still felt that most fixed income assets were a relatively stable investment. Bond allocation peaked in December 2008 at 9.4%, but that has declined steadily with just 5.3% of assets in bonds as of December 2014. Lower bond rates and the accompanying anticipation that rates will eventually rise, combined with a climbing stock market, have likely had a significant impact on investors' movement of assets out of bonds.
- Deposits remain a safe-haven:** During the Great Recession, there was a mass deleveraging and an accompanying shift into the safety of deposits. By December 2008, over 31% of total assets were held in deposits. After the recession, deposit allocation decreased and leveled off to about 25.2% in December 2014. This was still higher than the June 2007 low point when just 22.8% of assets were held in deposits. This could indicate a new norm whereby consumers are a bit more cautious with their money; they may keep a little more of their assets in deposits than they used to before the recession, while at the same time focusing on reducing debt.

Portfolio Allocation of U.S. Households by Product



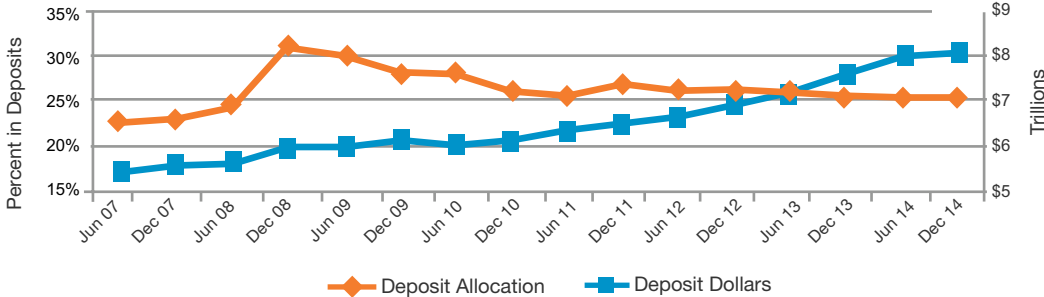
Source: IXL Services WealthComplete, 2007, 2008, 2014

Does the shift toward a relatively higher percentage of assets allocated toward deposits create an opportunity?

It could. For example, banks often have very loyal customers. Banks that want to grow their wealth management businesses have an opportunity to seek out their Mass Affluent and Affluent clients that have a relatively higher percentage of their assets in deposits and then promote their investment services. Similarly, financial advisors at both banks and brokerage firms can tap in to “low-hanging fruit” by analyzing their existing book of business to identify which of their clients are deposit-heavy and then encourage them to move more of their assets into the market.

As per the chart below, the allocation toward deposits in December 2014 is about 2.4 percentage points higher than it was in June 2007, before the Great Recession. Deposit dollars as a whole however have grown over \$2.6 trillion during that time.

Deposit Allocation and Dollars



Source: IXI Services WealthComplete, 2007-2014

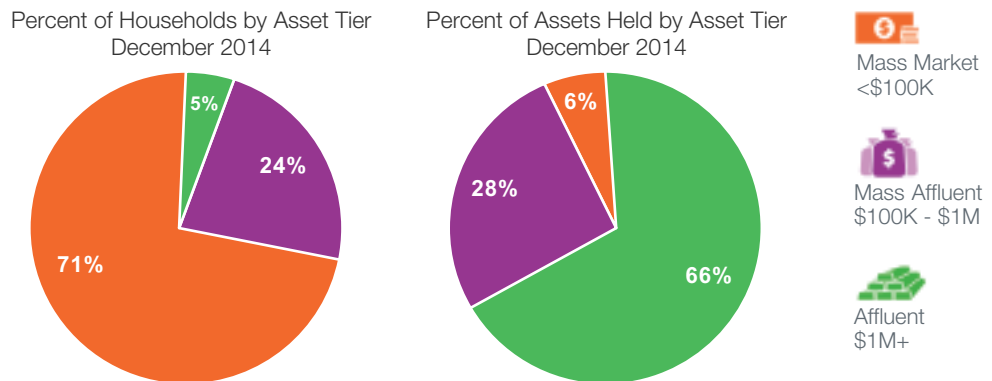
The Distribution of U.S. Consumer Assets

Concentration of Assets

A very small percentage of U.S. households hold the preponderance of assets. How this looks by asset tiers is as follows:

- Affluent households hold almost 2/3 of all U.S. assets:** Households with accumulated assets of at least \$1 million represented only about 5% of the population (6.0 million households), but held about 66.1% of all assets as of December 2014. Needless to say, while they are a small group, the Affluent are prime candidates for financial advisors to pursue for long-term relationships.
- Mass Affluent – Plenty of households, plenty of assets:** There are many Mass Affluent households, comprising about 24% of all households (28.6 million) and holding almost 30% of all assets. The Mass Affluent can be ripe targets for many financial advisors, as they are numerous, have between \$100,000 and \$1 million in investable assets, and may benefit from a range of financial advice.
- The Mass Market:** After adding up the 5% of Affluent households and almost 25% of Mass Affluent households, the remaining seven out of 10 households (85.7 million) hold almost no assets. Mass Market households represent over 70% of all households, but only about 5.5% of all assets. For financial advisors looking to establish long term profitable relationships, this group is the least likely to require the expertise offered by advisors, at least on an ongoing basis.

2014 Distributions by Asset Tier



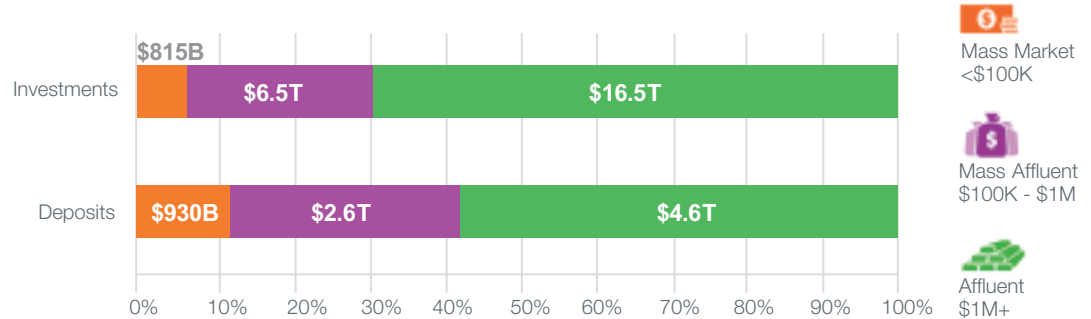
Source: IXL Services WealthComplete, 2014

Product Allocation by Asset Tier

Looking at the allocation of funds in the market across asset tiers reveals that the Affluent hold the vast majority of investments, while over 30% of investments are held by the combined Mass Market and Mass Affluent groups. For deposits, again the majority is held by the Affluent, but over 43% are contributed by the combined Mass Market and Mass Affluent groups.

Investment and Deposit Breakout by Asset Tier

December 2014



Source: IXL Services WealthComplete, 2014

Investment Growth by Asset Tier

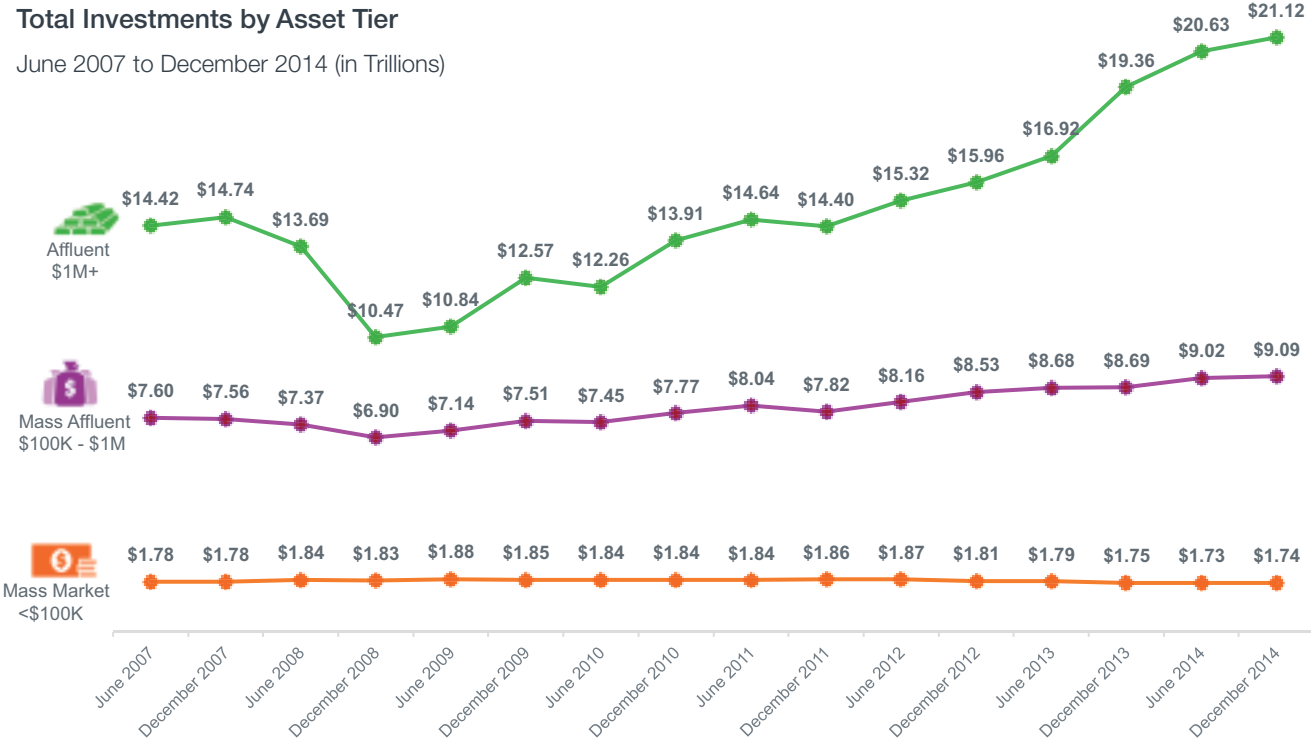
After the Great Recession, total U.S. invested assets grew considerably, up 61% between June 2009 and December 2014. However, the gains were not shared equally across asset tiers:

- **The rich are getting richer...and there are more of them:** The Affluent group had an astounding 95% growth in investable assets between the end of the recession in June 2009 and December 2014, growing from about \$10.8 trillion in assets to \$21.1 trillion. The Affluent group also had astonishing growth in the number of households it represents:
 - o In June 2009, there were only about 3 million Affluent households controlling about \$11 trillion in assets, which was about 55% of total invested assets.
 - o As of December 2014, there were almost 6 million Affluent households, which controlled about \$21.1 trillion in assets, which was about 66% of total invested assets.
 - o Within a recent one year period (between December 2013 and December 2014), the Affluent tier grew by about 500,000 households, adding about \$1.8 trillion to assets held by this tier. While there are almost certainly some households dropping out of the Affluent group, many more are coming into it.

- The Mass Affluent are also moving up, just more slowly:** The Mass Affluent group also gained significant assets between June 2009 and December 2014, their holdings growing about 27% from \$7.1 trillion to \$9.1 trillion. Over 4.5 million additional households also became part of the Mass Affluent group during this time.
- Mass Market asset growth has stalled:** With minimal invested assets to begin with, the Mass Market group has fared less well. This population in fact lost assets between June 2009 and December 2014, declining 7% down to \$1.7 trillion.

Total Investments by Asset Tier

June 2007 to December 2014 (in Trillions)



Source: IXI Services WealthComplete, 2007-2014

Possible Reasons for the Disparity in Asset Growth

Clearly, the Affluent have gained the most since the Great Recession compared to other populations. One of the primary drivers of this asset growth disparity is likely the disparity in total household income. Affluent households made on average over 3 times the income as those in the Mass Market group, which remained true between June 2009 and December 2014. Over many years, this variance can add up to huge gains for the Affluent.

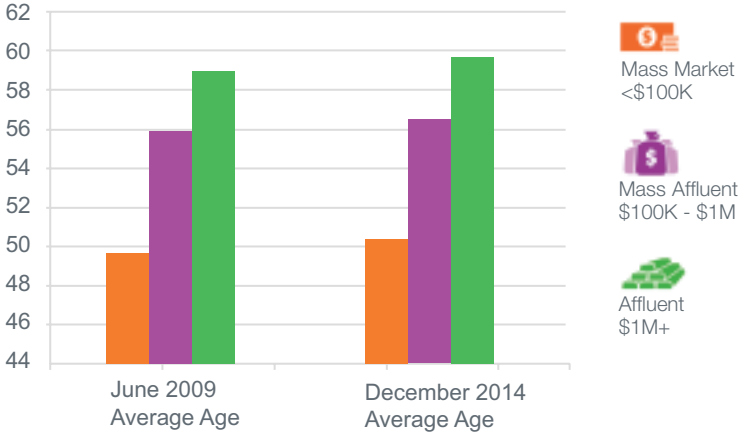
Total Household Income by Asset Tier



Source: IXL Services Income360, 2009, 2014

Lifestage is also a factor, as older individuals have had more time to accumulate assets. The average age for the head-of-household for Affluent households is 60, almost a decade older than the average age for Mass Market households, as of December 2014. The age of Mass Affluent households falls in the middle, with an average head-of-household age of 56.

Average Age by Asset Tier



Source: IXL Services Asset Data, 2009, 2014

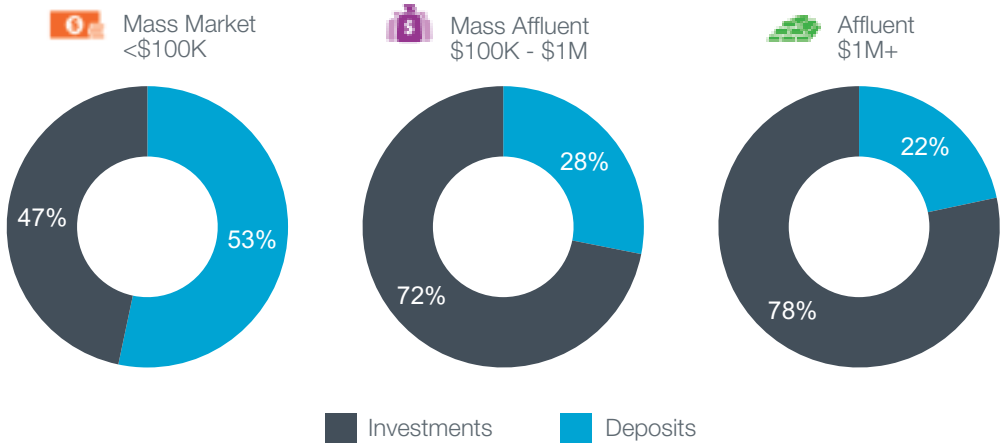
Understanding Portfolio Allocation Patterns by Asset Tier

Levels of household assets have a significant impact on how funds are invested. While it can be expected that affluent households have a higher percentage of their assets in the market and less wealthy households rely more on deposits, each asset tier does have at least some of its assets in the market, and there are some noteworthy differences in the preferred product types for those investments.


Investments vs. Deposits

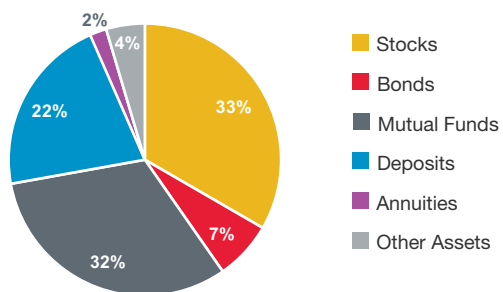
- **Affluent households are heavily in the market:** Almost 80% of Affluent households' assets are invested in the market (stocks, mutual funds, bonds, annuities, other), allowing for the most risk-reward in their portfolios over time.
- **Mass Affluent households are not far behind:** These households have about 70% in the market and 30% in deposits, thus also conceding to the ups and downs of market swings.
- **Deposits are the Mass Market's best friend:** Mass Market households have over half of their assets in deposits, thereby limiting market exposure.

Portfolio Allocation by Asset Tier



Source: IXI Services WealthComplete, 2014

Affluent Portfolio Allocation  Affluent \$1M+
December 2014



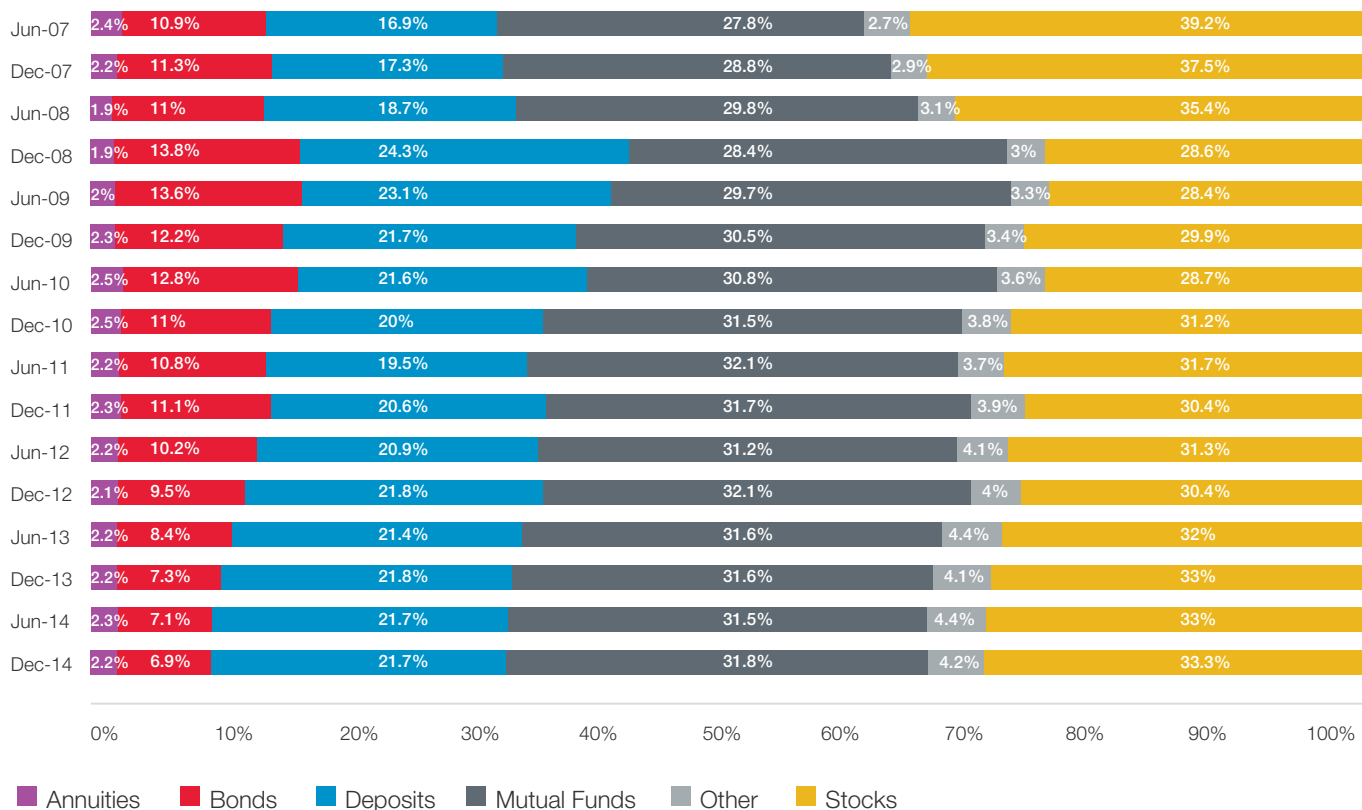
Investment Product Preferences by Asset Tier

Affluent Tier

Stocks and Mutual Funds rule for the Affluent: As of December 2014, the most favored investment vehicle for Affluent households was individual stocks at 33%, with mutual funds just one step behind at 32%. Examining their asset allocation over time, it can be noted that Affluent households had a higher percentage of their assets in both deposits and funds, and a lower percentage in stocks in December 2014 compared to before the 2008 recession.

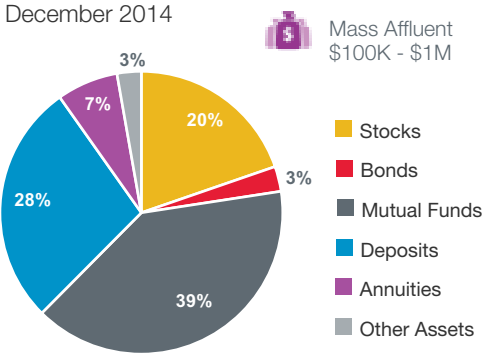
Source: IXI Services WealthComplete, 2014

Affluent Portfolio Allocation - June 2007 to December 2014



Source: IXI Services WealthComplete, 2014

Mass Affluent Portfolio Allocation

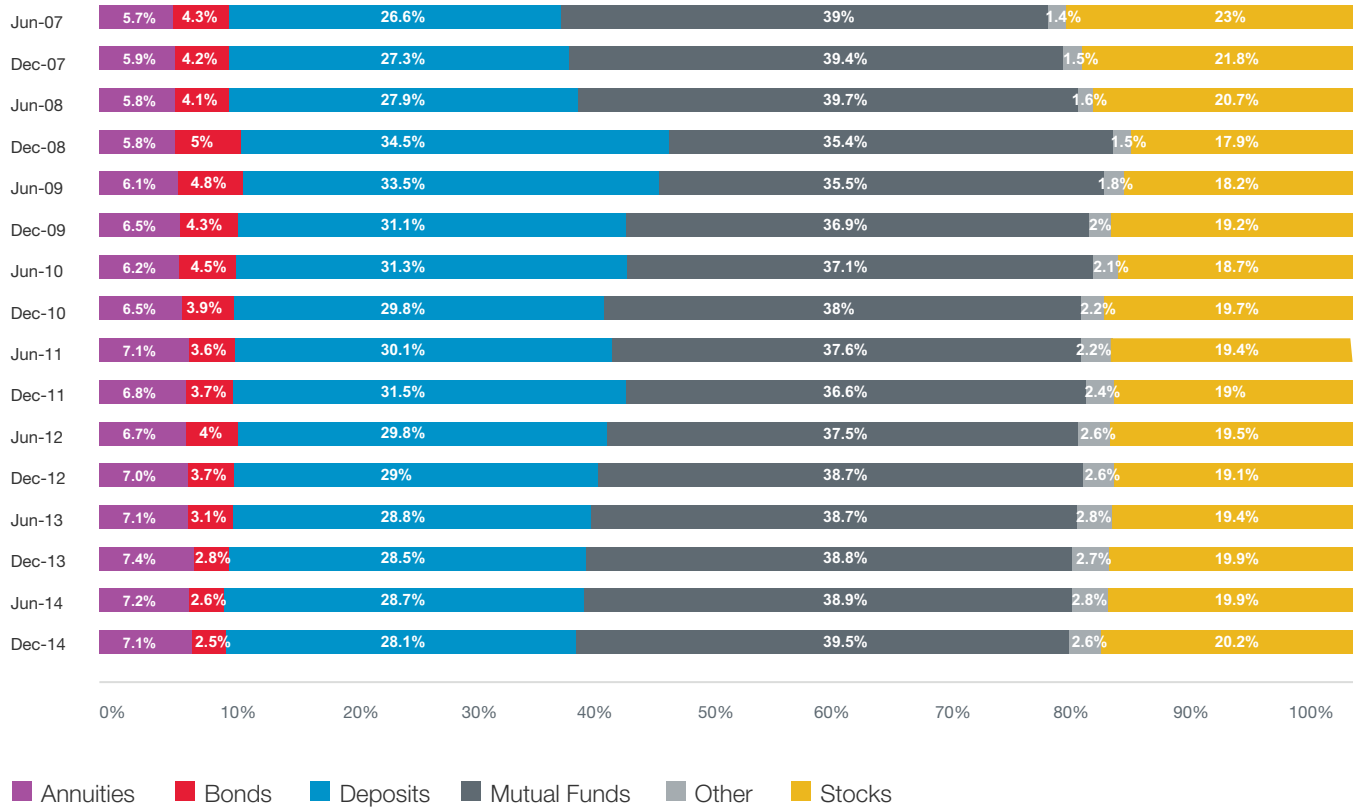


Source: IXI Services WealthComplete, 2014

Mass Affluent Tier

Mutual Funds are favored by the Mass Affluent: The Mass Affluent group holds close to 40% of their portfolios in mutual funds, double what they hold in stocks, at just 20%. They are heavily in the market, but generally have somewhat less market risk than Affluent households. Looking at their historical asset allocation, the Mass Affluent group is much closer to achieving parity with their pre-2008 recession allocations in contrast to the Affluent group.

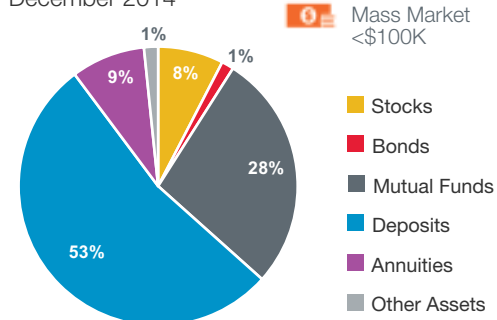
Mass Affluent Portfolio Allocation - June 2007 to December 2014



Source: IXI Services WealthComplete, 2007-2014

Mass Market Portfolio Allocation

December 2014



Mass Market <\$100K

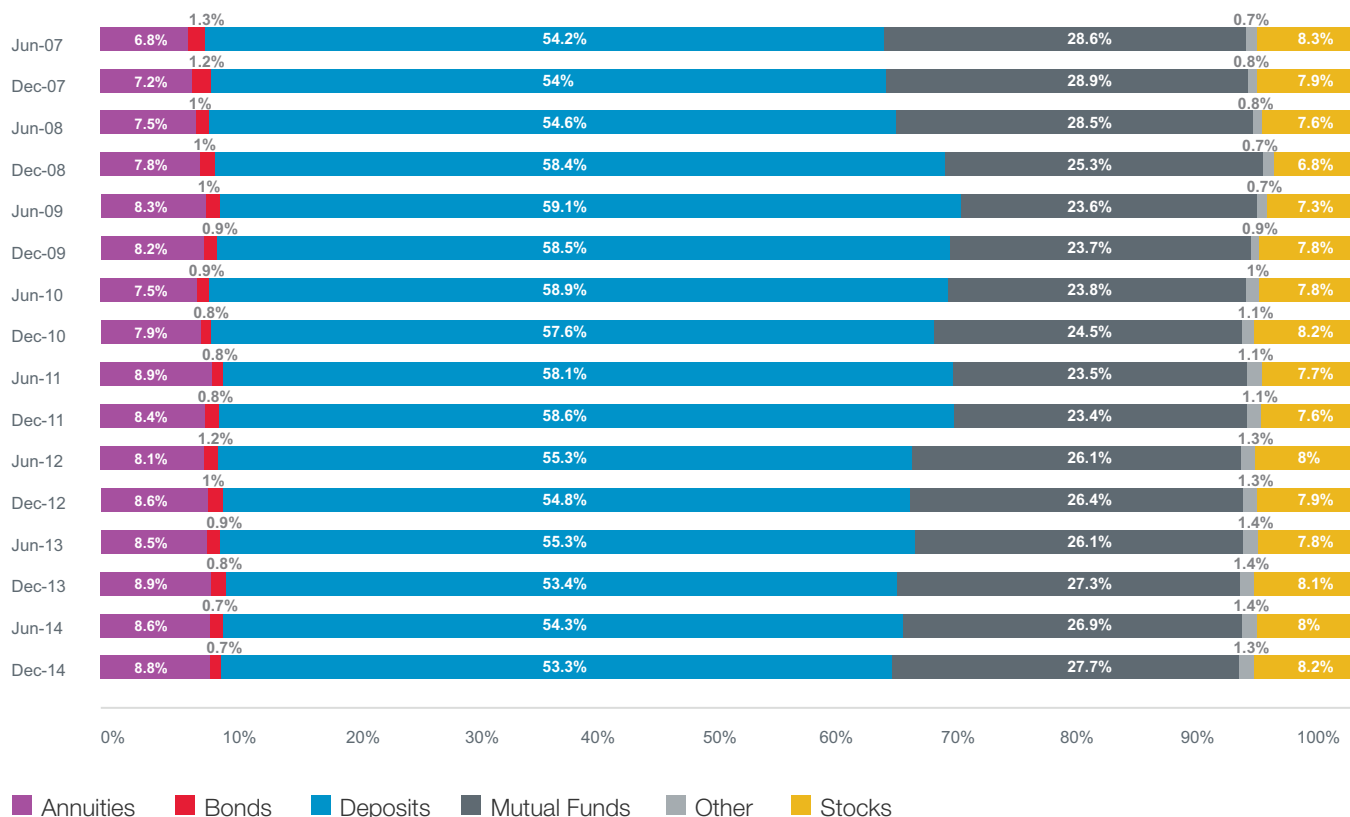
Mass Market Tier

After Deposits, Mutual Funds are also preferred by the Mass Market, followed by Annuities:

While Mass Market households have 28% of their modest assets in mutual funds, it is interesting to note that annuities are the runner up with a 9% allocation. This may reflect this group's relative lack of financial savvy, or a desire for guaranteed returns from their limited assets. The Mass Market has not had significant shifts in their asset allocation over time, although there has been slight growth in their preference for annuities.

Source: IXI Services WealthComplete, 2014

Mass Market Portfolio Allocation - June 2007 to December 2014



Source: IXI Services WealthComplete, 2007-2014

Risk Bands

The Risk Bands presented in this section are based on IXI's Aggregated FICO® Scores, which are an aggregated, micro-neighborhooded form of the FICO® Score designed to enhance marketing applications. Aggregated FICO® Scores are applied at the household level and range from 300-850®. The higher the score, the lower the risk. For example, households with a score of 750+ are estimated to pose less credit risk than households with a score of under 650.

Risk Band Trends by Asset Tier

Large variations can be seen among risk scores by asset tier:

- **Affluent – Lower risk but not the majority within the 750+ score band:** The Affluent group has a higher percent of households (18%) with risk scores above 750, yet they clearly do not dominate this highest score band. Only about 0.2% of all households that have a risk score under 650 are Affluent households.
- **Mass Affluent – Control half of the 750+ score band:** Mass Affluent households have a controlling presence among households in the highest score band (750+), and only a few of the lowest band (Under 650) are Mass Affluent.
- **Mass Market – Lower scores but still a presence in the 750+ score band:** Of the households that have a risk score under 650, about 97% are Mass Market households. These households are three times more likely to have a score under 650 than one over 750, although about 31% of all households that have a risk score above 750 are Mass Market.

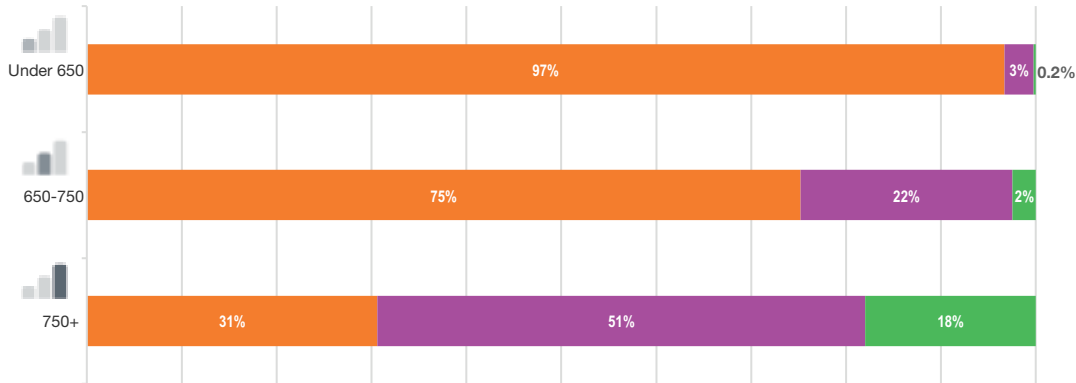
Household Distributions

 Mass Market <\$100K
  Mass Affluent \$100K - \$1M
  Affluent \$1M+

Overall U.S. Household Distribution by Asset Tier – December 2014



Risk Band Household Distribution by Asset Tier – December 2014



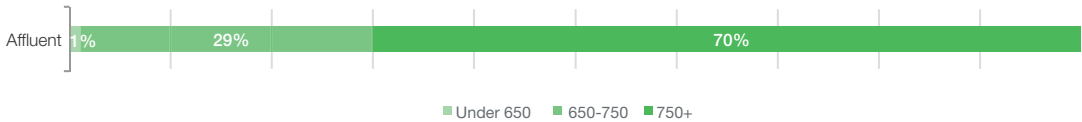
Source: IXI Services Aggregated FICO® Scores, 2014

Risk scores have some correlation with portfolio allocation preferences within asset tiers. The most variation by risk band in portfolio allocation is seen among Mass Market households, whereas Affluent households present almost no variation by risk band.

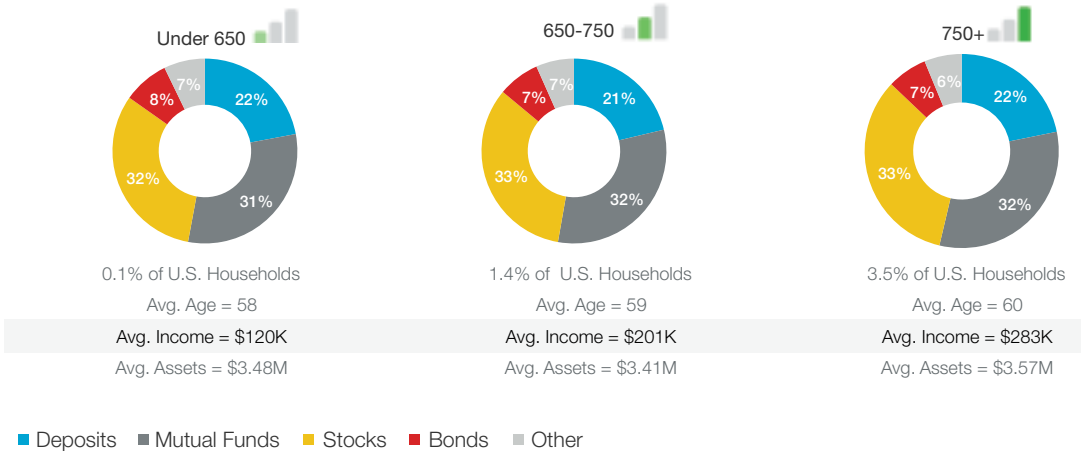
- **Affluent:** Affluent households tend to have higher risk scores, with 70% having a score above 750, and almost 99% having a score above 650. Affluent households also tend to have a fairly constant allocation of investment types regardless of risk score band.

Risk Profile: Affluent

% of Affluent Households by Risk Band



Affluent Product Allocation by Risk Band

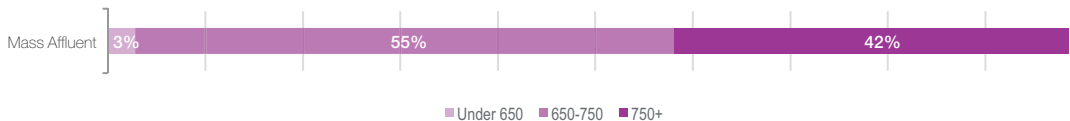


Source: IXI Services Aggregated FICO® Scores, Income360, WealthComplete, 2014

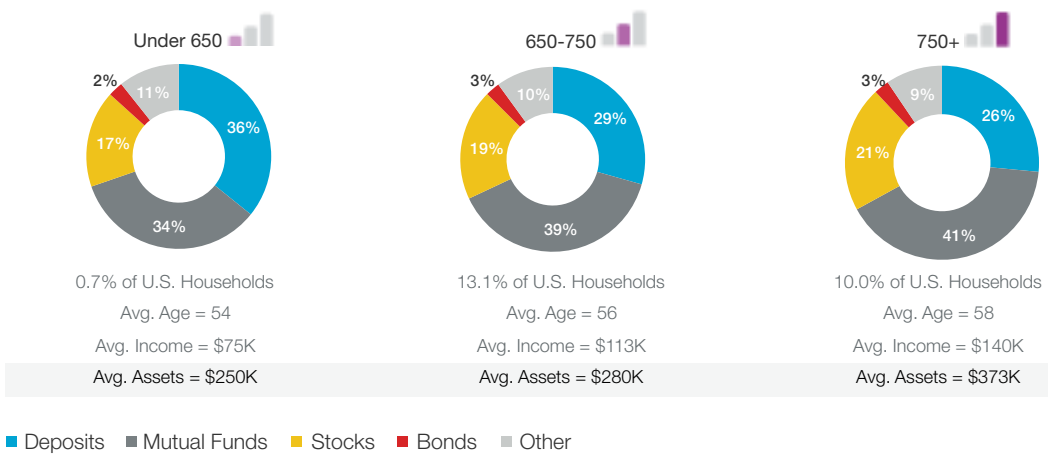
- Mass Affluent:** Households with between \$100,000 and \$1 million in investable assets also tend to have higher risk scores, with 97% having a score above 650. These households are about 15 times more likely to have a score over 750 than a score under 650. Mass Affluent households with risk scores above 750 are a bit more risk tolerant, with a higher percentage of their assets in stocks and mutual funds, than Mass Affluent households with risk scores below 650.

Risk Profile: Mass Affluent 

% of Mass Affluent Households by Risk Band 



Mass Affluent Product Allocation by Risk Band 

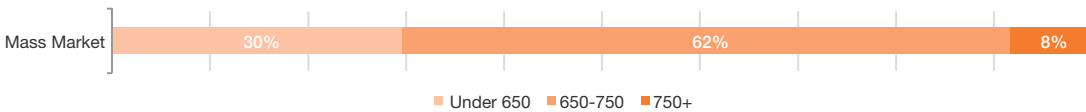


Source: IXI Services Aggregated FICO® Scores, Income360, WealthComplete, 2014

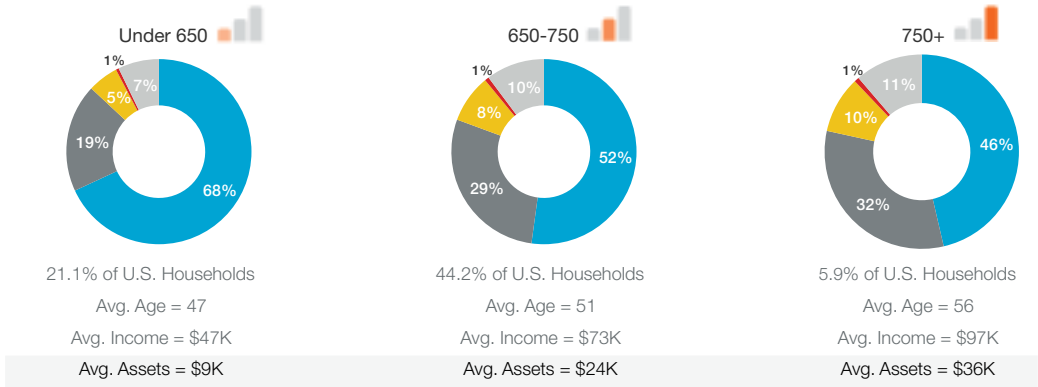
- Mass Market:** While it is no surprise that Mass Market households often have lower risk scores than households in the other asset tiers, about 8% of this segment has risk scores in the highest risk band (above 750). In regards to portfolio investment preferences, the Mass Market group shows the most variation by risk band: Mass Market households with higher risk scores (750+) are much more likely to hold more of their small portfolios in mutual funds and other investments, shifting away from deposits, as compared to Mass Market households with lower risk scores (under 650).

Risk Profile: Mass Market

% of Mass Market Households by Risk Band



Mass Market Product Allocation by Risk Band



■ Deposits ■ Mutual Funds ■ Stocks ■ Bonds ■ Other

Source: IXI Services Aggregated FICO® Scores, Income360, WealthComplete, 2014

Implications for Financial Services Firms

Financial advisors have much to explore to react to these asset trends. Combined, the Affluent and Mass Affluent groups hold 95% of the nation's assets, and thus should be a primary focus for most advisors. Since the Great Recession, many households are holding more of their assets in deposits taking a more risk-averse approach to their finances. However, given pre-recession deposit allocations, there is room for some of today's deposits to be shifted back into the market. This creates a ripe opportunity for financial advisors to identify those deposit-heavy investors who have the potential to diversify and recommend strategies to move more of their money into the market.

In addition, Affluent and Mass Affluent groups have steadily been gaining assets since 2009. As households gain assets, some investors choose to remain loyal to their current financial institutions while others seek out new institutions and more sophisticated services. Financial institutions may gain from exploring which of their current investors and potential prospects fit both of these profiles and which services are most in demand, and then tailor growth strategies to better meet the needs of today's investor and capitalize on opportunities for growth.

Why IXI Services?

For over 20 years, IXI Services, a division of Equifax Inc., has helped the nation's leading financial services and consumer marketing firms better optimize omnichannel marketing efforts, identify growth markets, and enhance practice and performance management. With the help of our comprehensive suite of analytical, digital, marketing, software, and data solutions, marketers can build more profitable business relationships with consumers.

Our specialty in anonymous, direct-measured data differentiates our ability to better connect our clients with their optimal customers. We help our clients expand their view of customers' and prospects' full financial wallet by providing insights on wealth, income, spending, credit, investment style, share-of-wallet, and share-of-market.

Foundation of Measured Assets

Our insights are based on about \$14 trillion in anonymous, aggregated measured consumer assets collected from leading financial services firms. This "direct-measured" data represents about 43 percent of all U.S. consumer invested assets and serves as the foundation of our unique measures of consumer financial capacity, investment style, behaviors, and characteristics.

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