



Different Strokes for Different Investment Folks: The Keys to Investor Satisfaction

With the market improving and more investors returning to their trading activities, firms have an opportunity to establish long-term relationships with their investors. Based on a review of websites of some of the largest self-directed investment firms, it appears that today's investors have never had it better. Low prices, free trades, mobile apps, and local branch offices are only a few of the available benefits; however, overall satisfaction continues to decline year over year according to the *J.D. Power 2013 U.S. Self-Directed Investor Satisfaction Study*.SM

By having a business strategy that tailors products and services to the unique needs of both Passive (conducted no trades in the past 12 months) and Active traders (conducted 24 or more trades in the past 12 months), firms will be well positioned to not only increase satisfaction, but also to capture more individual investors, greater share of wallet, and increased trading volume from those investors.

The Business Case for Building Better Relationships

While the benefits of delivering higher satisfaction are clear, self-directed investment firms are leaving money on the table year after year, as they struggle to deliver an experience that meets the varied needs of investors.

A common theme that has emerged among the various industries in which J.D. Power conducts research is that revenue from customers increases as tenure with a service provider increases. The self-directed investment industry is no exception, as investors' assets will likely grow over time as their income increases, which makes more money available for investment.

Additionally, as investors' total assets increase, so do the average number of trades. Although neither of these findings is surprising, it does clearly illustrate the value derived from retaining investors in terms of both total assets under management (AUM) and the increased revenue firms garner from trading charges and fees. When firms are able to achieve higher levels of satisfaction, investor intentions related to attrition, trading activity, and assets are all positively impacted.

Another trend is that as investable assets increase, investors tend to invest a lower proportion of these assets with their primary self-directed firm. Investors with less than \$100,000 in assets have more than 90% of their investable assets with their primary self-directed firm, compared with only 80% of those with more than \$250,000 in assets. Firms that deliver the highest levels of satisfaction are able to attract and retain more assets from their wealthiest investors.

“With the market improving and more investors returning to their trading activities, firms have an opportunity to establish long-term relationships with their investors.”

Future intentions with firm	Less than \$100,000		\$100,000 to <\$250,000		\$250,000+	
	OSAT 900+	OSAT <700	OSAT 900+	OSAT <700	OSAT 900+	OSAT <700
% Definitely will not switch firms in the next year	70%	22%	67%	19%	79%	17%
% Planning to increase number of trades in the next year	27%	9%	18%	5%	16%	5%
% Planning to increase amount of money with firm in the next year	40%	23%	45%	18%	46%	19%

Source: J.D. Power 2013 U.S. Self-Directed Investor Satisfaction StudySM

What are self-directed investors expecting, and how do self-directed firms meet and/or exceed the expectations of various types of investors?

How You Communicate Is Key

Effective communication is comprised of two elements—1) frequency and 2) channel, or method, of contact—both presenting self-directed investment firms with opportunities for improvement.

Frequency

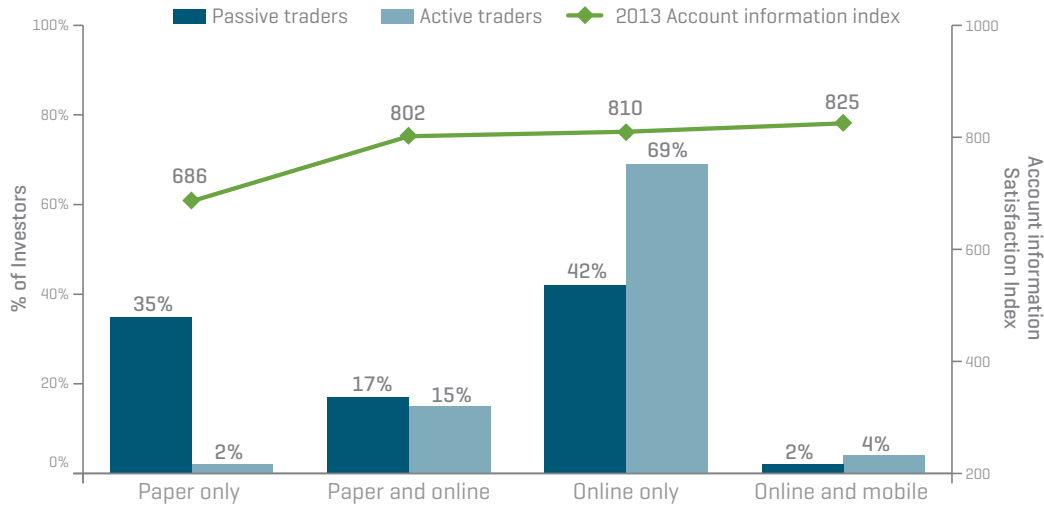
While remaining in contact with investors is important across both trading segments, the expectations and demands of Active and Passive traders are different. Firms that lack a targeted strategy may fail on both fronts. With respect to contacting investors about products, services, and seminars, the best practice for Active Traders is three or more contacts per year; for Passive Traders, one contact is adequate.

However, the most satisfied investors are contacted at a higher rate than the minimum identified above. Firms must focus on providing a greater number of and more effective communications to their investors in order to positively impact satisfaction. The question is, how?

Channel

The majority of investors indicate their preferred method of communication regarding product, services, and seminars is via email. The inherent challenge in this channel is ensuring investors actually receive and review the information.

METHODS FOR REVIEWING ACCOUNT INFORMATION—BY TRADE SEGMENT



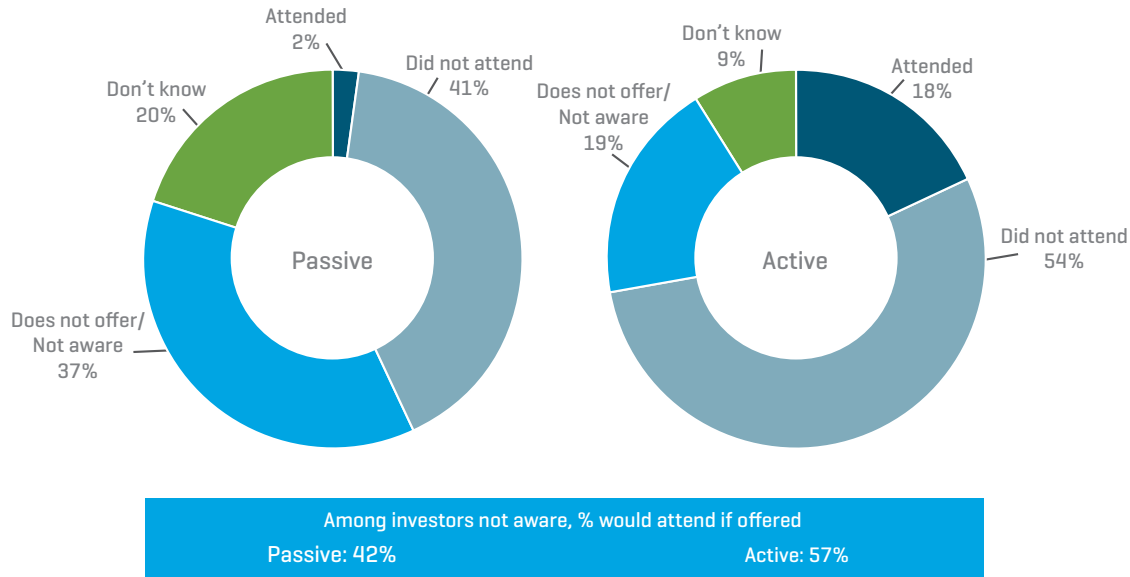
Source: J.D. Power 2013 U.S. Self-Directed Investor Satisfaction StudySM

Firms must leverage the extensive investor data they have available in order to create target profiles of different types of investors and design approaches that meet the unique needs of different investor groups, rather than assume everyone receives and reads all communications. Firms must also find ways to help Passive Traders transition to the online channel, and not assume that their limited use of electronic communications equates to a lack of desire.

What You Communicate Is Key

Although Passive Traders may not conduct many trades, they do look for information and value from the relationship with their firm. As illustrated below, among Passive Traders, only 2% indicate they have attended a seminar, and 57% indicate their firm does not offer or they do not know if it offers educational seminars. Given the importance these investors place on receiving this type of information, raising awareness is a vital step in driving higher levels of satisfaction.

AWARENESS AND ATTENDANCE OF EDUCATIONAL SEMINARS—BY TRADE SEGMENT



Source: J.D. Power 2013 U.S. Self-Directed Investor Satisfaction StudySM

In terms of communications received regarding educational seminars, there is a clear opportunity for firms to improve. More than half (56%) of Passive Traders are not contacted about online webcasts, and 49% are not contacted about in-person seminars, while a significantly lower proportion of Active Traders are not contacted about webcasts (21%) and in-person seminars (27%).

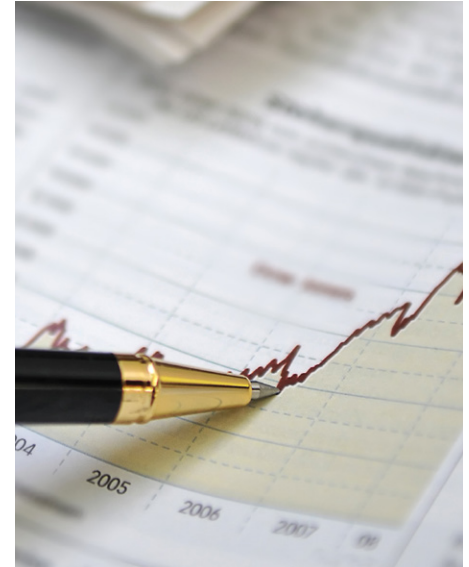
Conversely, Active Traders, by definition, spend a much higher percentage of time visiting their firm's website and, therefore, place a greater value on the tools that support their investing activities. Virtually all highly satisfied Active Traders indicate they are at least aware of real-time quotes and alerts, with the vast majority of investors using them. Among less satisfied Active Traders, 10% are not aware of these tools. Similarly, two in three highly satisfied Active Traders use comparison tools, while less than half of those with lower satisfaction use these tools.

Awareness is the key difference, and firms should focus on targeted communication efforts based on past usage to inform investors of the availability and benefits of the tools they are not currently using.

Where You Communicate Is Key

On average, Active Traders visit their firm’s website nearly every other day, and, not unexpectedly, they use substantially more website functions than do Passive Traders. In contrast, Passive Traders visit their firm’s website fewer than two times per month, on average. The challenge for self-directed firms is that in an effort to deliver more tools, capabilities, and functionality to their frequent visitors, they may diminish the user experience in the process as core functions become difficult to locate. To help ensure website functions are easy to locate, firms should consider how their sites are laid out and then prioritize upgrades or enhancements based on their importance to investors in each of the two segments.

Among the top 10 list of website functions, investment research and transferring funds are the third-most-important functions among Active Traders, while Passive Traders place more importance on the ability to update their account information. Active Traders also place a premium on managing a stock watch list, which ranks 10th among Passive Traders.



Website functions used	Trade segments	
	Passive	Active
Review account balance	1	1
Review account history	2	2
Find investment information/research	6	3
Review rate of return	4	5
Update account information	3	5
Transfer funds	7	3
Review tax information	5	7
Review documents posted by your broker or staff	8	9
Manage a stock watch list	10	8
Utilize a financial planning tool	9	10

Source: J.D. Power 2013 U.S. Self-Directed Investor Satisfaction StudySM

Firms should understand that trying to provide all functions to all investors may result in an overwhelming website and make it difficult for each group to find the functions that are most important to them. Instead, firms should focus on providing investors with a more customized online experience based on their needs and priorities, which may not only improve satisfaction with the site, but may also aid in communication efforts to disseminate the right messages to the right investors.

Conclusion: Ensure a differentiated experience among investors

For Passive Traders—Although the investing behaviors of Passive Traders do not demand all the latest trading tools and capabilities, inactivity does not equal indifference.

- Firms must initiate periodic proactive communications with Passive Traders to ensure they are well informed regarding the value they receive for any fees they pay.
- Communications should focus on promoting educational opportunities and services that help investors make well-informed decisions.
- Websites should be tailored to the basic account information elements that are the priority among these investors.

For Active Traders—Despite a strong experience on many KPIs, there are still opportunities for firms to improve their performance in order to more effectively meet the unique needs of Active Traders.

- Firms must increase the frequency of their communications with Active Traders. While the average incidence of contact is higher among these investors than among Passive Traders, this frequency still falls below the average incidence rate among highly satisfied investors.
- Although firms have developed a wide variety of tools and capabilities targeted at Active Traders, a significant portion of these investors remain unaware of them. Targeted communication efforts based on past usage may help to inform investors of the availability and benefits of the tools they are not currently using. Active Traders, like Passive Traders, have a unique set of priorities when using their firm's website. Ensuring the trading tools and related activities, such as funds transfer, are front and center on the site helps provide a more fluid and user-friendly experience that is designed with the needs of these investors in mind.



For more information, please contact:

805-418-8000
information@jdpa.com

The information contained herein has been obtained by J.D. Power from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, J.D. Power does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or for the results obtained from use of such information.

This material is the property of J.D. Power or is licensed to J.D. Power. This material may only be reproduced, transmitted, excerpted, distributed, or commingled with other information, with the express written permission of J.D. Power. The user of this material shall not edit, modify, or alter any portion. Requests for use may be submitted to information@jdpa.com. Any material quoted from this publication must be attributed to "J.D. Power Insights: Different Strokes for Different Investment Folks: The Keys to Investor Satisfaction, published by J.D. Power, © 2013 J.D. Power and Associates, McGraw Hill Financial. All Rights Reserved." Advertising claims cannot be based on information published in this special report.