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Investors: Low Rates Useful, Debt Acceptable, SSI Benefits are Unlikely

Low interest rates are typically thought of as advantageous to borrowers but not so good, perhaps even harmful to investors. The Wells Fargo/Gallup third quarter Investor and Retirement Optimism Index survey however found that **investors can benefit** from low rates and indeed have done so in recent years.

The survey was conducted in August among 1,006 U.S. investors, both retired (with a median age of 70) and non-retired (median age 45). A majority of respondents (58 percent) indicated they have taken advantage of low rates over the previous two years. Thirty percent have taken out a car loan, 17 percent a home finance loan, and 16 percent a mortgage for a new home. Smaller numbers have taken out a student loan for themselves or a family member (9 percent) or some other type of loan (10 percent.) Further, half of those surveyed said they are somewhat or **very likely to take out a loan** in the near future in anticipation of rising rates.

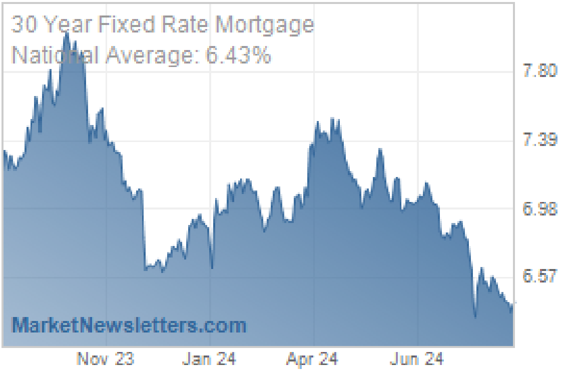
"Investors found a variety of ways to benefit from the low interest rate environment, but this may be a good time for them to **revisit their investment strategies** and make sure they're properly diversified to benefit in a rising rate environment as well," Bob Vorlop, Head of Products and Advice at Wells Fargo Advisors said. "Those nearing retirement and retirees may be able to take some risk off the table in their portfolios."

Forty-four percent of respondents indicate rising rates would cause them to make **major** adjustments to their investment strategy. The most common response, from 30 percent, was to buy more stocks while 23 percent would buy bonds or other fixed income investments. Only 8 percent could reduce stock ownership and 10 percent would sell bond type investments.

"In a complex market environment, interest rates changes are **yet another factor** that can be unsettling to investors, but one of the most important roles a financial advisor can play is to design portfolios that can meet investors' objectives under a variety of circumstances," Vorlop said. "That can be a tremendous source of comfort and confidence to investors."

The Wells Fargo/Gallup Investor and Retirement Optimism Index had **started to slip** even before the recent volatility in the stock market. Investor confidence as measured by the index slipped from a seven year high of 70 in the second quarter to 58. Most of the drop was on the part of non -retirees; their score was down 17 points to 53 versus 70 in May. Wells Fargo said the decline was driven more by mounting concerns about the economy -

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

particularly the stock market and inflation - rather than by investors' inability to reach personal financial goals. Retiree optimism held steady at 70, similar to 67 in May.

		Value	Change
Builder Confidence	Mar	51	+6.25%

"While investors couldn't have predicted the timing of the market volatility, the wide market swings in late August underscored the importance of having a diversified portfolio that helps to shield them from the rollercoaster rides that can occur in the stock market from time to time," added Vorlop.

Many investors were **caught off guard** by the recent slide in stock prices. Prior to last month's volatility investors generally felt the market would either continue to go up (30%) or hold steady (41%); only 26% expected it to start going down. Additionally, more than half of investors, (53%) said it was a good time to invest in the stock market and 41% of those believed the market would continue to rise. On the flip side, 41% of investors thought it was a bad time to invest, most citing market volatility.

When investors were asked about specific issues that could affect the investment climate in the U.S., the issues most likely to be seen as very harmful were **taxes** (46%), **unemployment** (43%), and the threat of **cyberattacks** (42%). Only 20% of investors in August believed China's economic slowdown was hurting the investment climate a lot while 42% said it was hurting it a little.

Thirty-six percent of non-retired investors say they have a written financial plan, and 45% of those are highly confident that their plan is adequately designed to meet their financial goals. Slightly more retired investors have a written plan (45%) and 53% are highly confident it is adequately designed to achieve their financial goals. More than half of non-retired investors with a written plan (56%) and 44% of retired investors with a written plan say their plan includes debt management and two-thirds of all investors have been consciously reducing their debt.

Three-quarters of respondents - 83 percent of non-retired and 54 percent of retired investors - have **some type of debt** and among those nearly half (46%) say the amount of debt they are carrying has decreased in the past two years, while 31% say it has increased and 23%, say their debt load has stayed the same.

A slight majority of all investors (56%) say it is **critically important** for them to be debt-free in retirement. Another 36% say this is important but not critical. The slight majority (55%) also believe it is "very possible" for them to be debt-free in retirement; 37% say it is somewhat possible and 8% not possible.

Still, the vast majority of investors, 70 percent, see debt as necessary and acceptable if used sparingly and 14 percent view it as a useful tool for leveraging. Investors with $100,000 or more in assets were much more likely than lower asset investors to view debt as a powerful tool, 20% vs. 6%.

Non-retired investors are **generally doubtful** they will receive their full benefit from Social Security when they retire: 52% say it is not too or not at all likely the system will be able to pay them their full benefit. Just 15% believe it is very likely. As a result only 26 percent expect Social Security to be a major source of income when they retire. Fifty-eight percent say it will be a minor income source and 14% not a source at all. This contrasts sharply with current retirees, 42% of whom describe their Social Security benefit as a major income source and 37% as a minor source.

For this study, the American investor is defined as an adult in a household with total savings and investments of $10,000 or more. About two in five American households have at least $10,000 in savings and investments. The sample size is comprised of 74% non-retired and 26% retirees. Of total respondents, 45% reported annual income of less than $90,000 and 55% of $90,000 or more. The Index had a baseline score of 124 when it was established in October 1996. It peaked at 178 in January 2000, at the height of the dot-com boom, and hit a low of negative 64 in February 2009.

Responsive service, experienced expertise

I've dedicated my 22 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

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