

Search for income

European income investing research

In today's low-yield, low interest rate world, income from cash and bonds is falling. That means it's harder than ever for people to meet their income needs from these conventional investment sources alone. Against this backdrop, J.P. Morgan Asset Management has conducted extensive research into income investing across Europe, with its "Search for Income" survey.

WHY IS INCOME AN IMPORTANT THEME?

Despite record low interest rates, investors can still target an attractive income by gaining exposure to higher yielding assets, such as corporate bonds, emerging market debt and dividend paying shares.

For long-term investors able to ride out periods of market volatility, a regular investment income can help to cushion returns. While price returns can vary widely, consistent and regular income payments that rise in line with inflation can help to enhance the overall stability of investment portfolios.

Income distributions can also make a significant contribution to total returns. Take stock markets, for example. Since 1926, 41% of the US market's total return has come from dividends, with the rest coming from price appreciation. Regular income distributions can therefore help to boost long-term gains.

KNOWLEDGE IS KEY TO INCOME SUCCESS

There appears to be a lack of understanding about income investing, even among investors who may already be investing for income. With cash and bond yields so low, this lack of knowledge could leave investors facing the real risk of falling short of their investment objectives, whether they are relying on their savings to supplement their existing incomes or whether they are looking to reinvest income distributions to target long-term capital growth.

KEY FINDINGS

- Income is important to European investors, with 37% of all investments allocated, on average, to income generation.
- Income knowledge is poor, with less than half (48%) of investors able to correctly explain the term "income investing."
- Among investors not currently investing for income, the majority of respondents (61%) would like to know more about how they can produce an income from their investments.

IN BRIEF

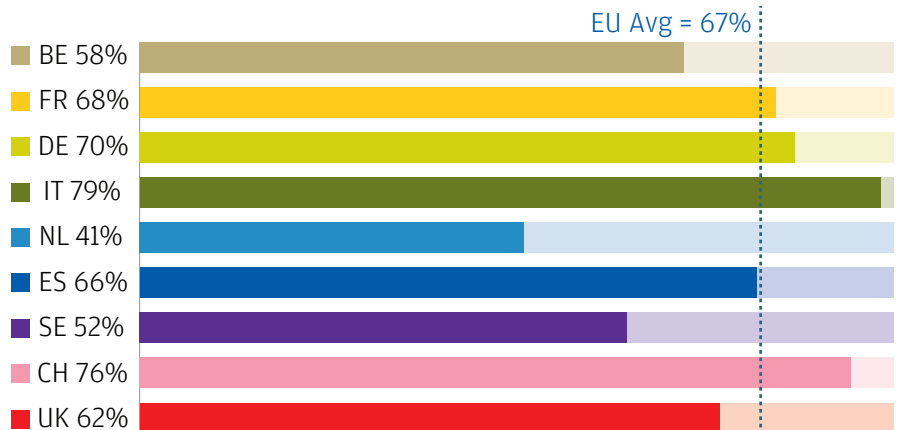
- 4,805 investors across Europe with a minimum of €20,000 in investable assets across nine European countries were surveyed.
- The survey was conducted online via panels and covered attitudes to investing and risk, current investments and familiarity with investing for income.
- A weighted European benchmark was created to allow for easy country comparison. The EU average was created by weighting using population sizes per market and investable assets.

EXPLORING THE KNOWLEDGE GAP

The survey reveals a hunger for knowledge about investing for income, as European investors attach greater importance to income generating products. Faced with a sharp drop in income payments from traditional income-producing assets, such as cash and government bonds, as well as being hampered by their own risk aversion, investors want to know more about the ways in which they can adapt their portfolios to provide an attractive income.

“67% of European investors are looking for income from their investments.”

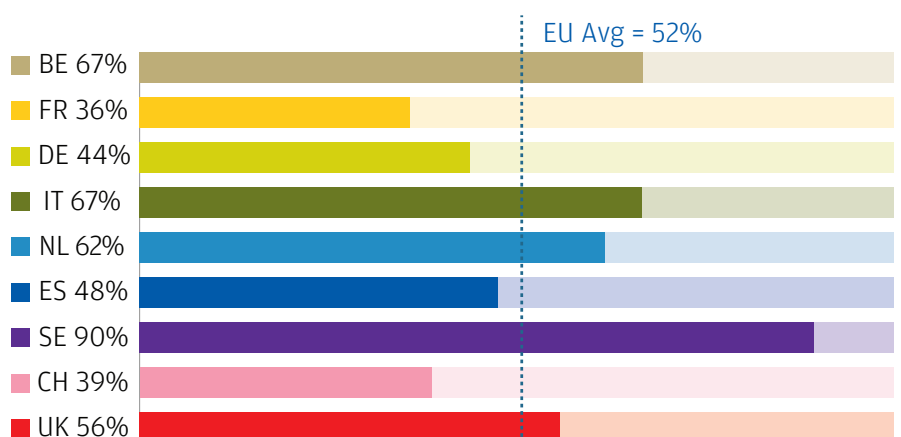
Investors are increasingly seeking an income from their investments



Two thirds (67%) of European investors are seeking some form of income from their investments. This suggests that investors have appetite for income as income payments from traditional sources, such as cash and government bonds, drop to record lows. Income from investments is most important to Italian, Spanish and UK investors, with Spanish and UK investors also concerned about the low yield environment. However, only a little over one third (37%) of investors actually hold income generating assets, suggesting a lack of understanding over how to maximise income from their portfolios.

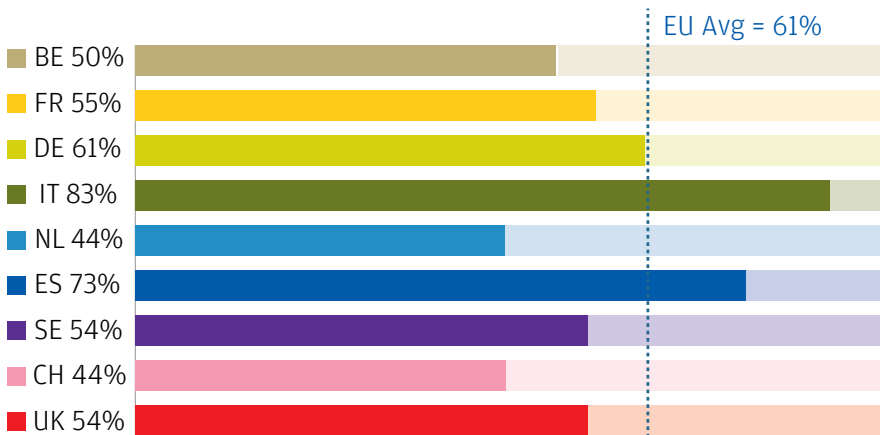
“52% of European investors cannot correctly articulate what income investing is.”

Income investing is being hampered by a lack of knowledge



Although more than two thirds of investors are seeking an income from their investments, only just under half (48%) of respondents were able to correctly explain the meaning of the term “income investing.” Investors in France, Germany and Switzerland have the most familiarity with income investing. Swedish, Italian and Belgian investors have the least familiarity. This general lack of clarity over the meaning of income investing helps to explain why only a third of investors have exposure to income producing assets despite the hunger for income.

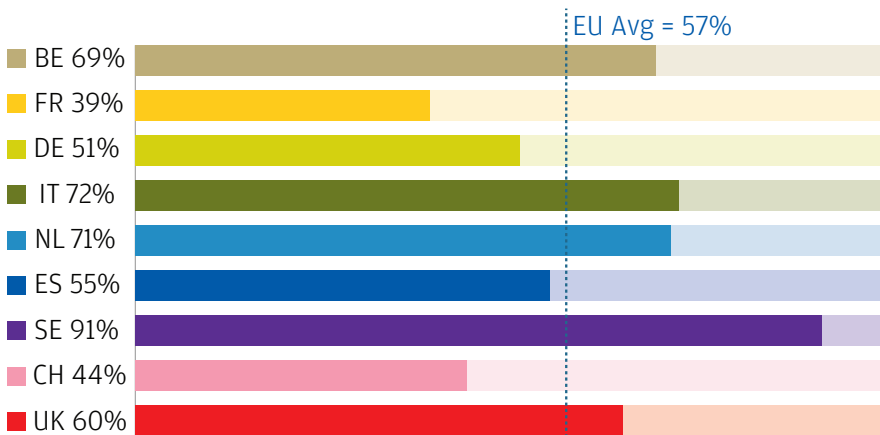
Investors are looking for guidance on income investing



“61% of non-income investors in Europe would like to know more about income investing.”

Among the respondents who said that they are not currently investing for income, the majority (61%) would like to know more about how they can generate income in their portfolios. This suggests that investors are generally looking to find ways to boost their incomes as regular distributions from other sources, such as bank deposits and government bonds, dry up.

Financial advisers have a key role to play in the search for income



“57% of European investors taking full advice from their financial adviser don't know what income investing is.”

Reliance on advice from financial advisers varies wildly across Europe, however 57% of European investors taking full advice from financial advisers don't know what income investing is. The level of understanding around income investing among investors who take full advice from their financial adviser varies from over 60% in France to less than 10% in Sweden.

Investors in France and Italy are most likely to have been approached by their advisers about income investing. Conversely, few advisers in Belgium, Netherlands, Sweden and the UK are raising the topic of income investing with their clients.

The growing demand for income and the thirst for knowledge among investors represents an opportunity for financial advisers.

FURTHER KEY FINDINGS FROM THE SURVEY

- Although most income investors across Europe say that they are familiar with the ways to invest for income, only 19% are using mutual funds to achieve their goals. With 28% invested in savings accounts there is an opportunity to explore investors' risk appetite to help them achieve their income needs.
- German, Dutch and Swiss investors are focused on the long-term and are less concerned about short term fluctuations in their underlying portfolios. A long-term view is important if investors want to access the higher income yields available from riskier assets, such as dividend paying equities, corporate bonds and emerging market debt.
- Investors tend to favour equities and cash savings for current income investments. Equities lead the way in Sweden, while savings are most likely to be used in Switzerland and the UK. German, Swedish, Italian and Dutch investors tend to use mutual funds for income investments, while French investors have a preference for insurance savings plans.
- Investors in Italy, Sweden and the UK are most likely to re-invest any income produced from investments, while those in Belgium and Italy tend to use income distributions to make new investments. French and Swiss investors are more likely to save income payments from their investments in cash. Conversely, German and Swiss investors prefer to spend the income produced.

VIEW THE SURVEY: JPMORGAN.COM/SEARCHFORINCOME

The J.P. Morgan Asset Management Search for Income Survey is published as an interactive online portal. You can find the survey at jpmorgan.com/searchforincome where you are able to explore the findings by theme and by country.

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