## The End of the Cautious Investor?

After five years of hunkering down following the financial meltdown in 2008, there is evidence investors are emerging from their foxholes, according to a recent survey of high-net-worth investors and advisors from Federated Investors, Inc. High-net-worth investors say they are ready to make a decisive shift from bonds to equities during the next 12 months. Driving what appears to be a change in investment behavior is a combination of increased optimism about the economy and a deep concern about low portfolio returns.

Investors want more reliable sources of income and now view equities as a better option than bonds to achieve that goal. Advisors are closely aligned with investors in this belief. Indeed, advisors describe their clients as much more conservative in their investment style than the clients describe themselves, another sign investors appear willing to take on more risk.

### Finding #1 Investors plan a decisive shift from bonds to equities

There is evidence that the long-anticipated "Great Rotation" from bonds has begun in a measured fashion: 24% of investors plan to invest more in equities over the next year as compared with 10% for bonds. In addition, compared to bonds, nearly four times as many investors plan to add equities and balanced strategies that combine equities and fixed income to their portfolios. Advisors also are focusing more on equities as their recommended approach: 92% say they are confident or very confident that equities will provide a solid result for clients.

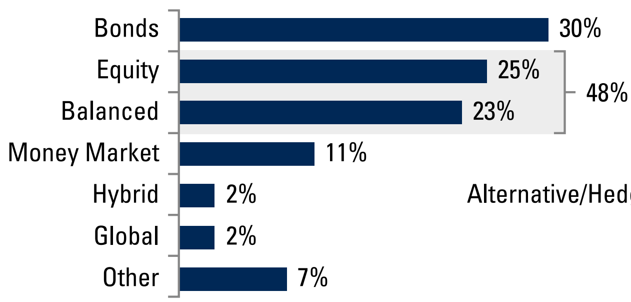
The desire for consistent income is a key driver.  A total of 35% of investors and 41% of advisors cite predictability and reliability as the most important benefit of income products. However, the interest in predictability does not reflect a desire for fixed-income products for many investors. Asked what is "top of mind" when thinking of income products, 48% choose equities and balanced, while only 30% choose bonds. The interest in equity-income products also is reflected in the 65% of investors who agree that buying stock in a company is a "great way to earn income" and 31% who cite dividends as an important aspect of income products.

| Investment Strategies | Invest More* |
|---|---|
| Equity | 24% |
| Balanced | 13% |
| International | 11% |
| Bonds | 10% |
| Global | 9% |
| Money Market | 9% |
| Alternative/hedging strategies | 6% |
| Hybrid | 4% |

* Represents the percentage of high-net-worth investors who plan to invest in these types of investments during the next 12 months.

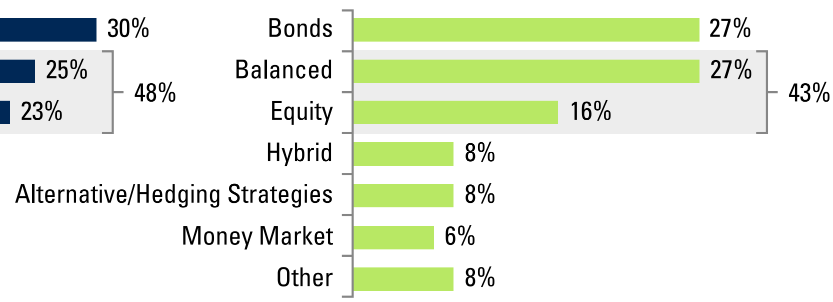
Investors

Which Income Products Come to Mind First?




Financial Advisors

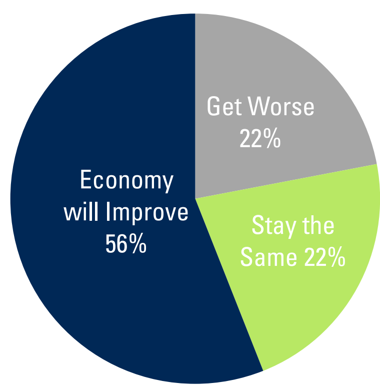
Which Income Products Do You Recommend Most?



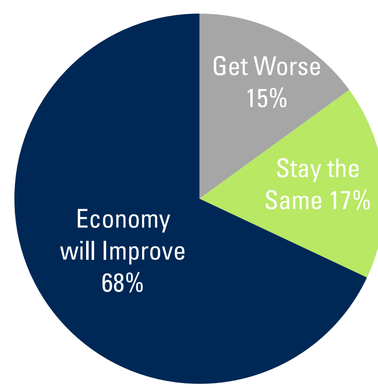

## Finding #2 Investors are optimistic about the economy

Fifty-six percent of investors and 68% of advisors expect the U.S. economy to improve over the next 12 months. Only 22% of investors and 15% of advisors believe the economy will get worse. The concerns that temper optimism about the economy are related to government policy—U.S. fiscal/budgetary issues and changes to health-care laws. A total of 40% of investors and 42% of advisors say they are most concerned about these issues when looking at the economic outlook. The outcome of these policy debates during 2013 and 2014 will shape investor confidence in a major way.

Widespread Optimism About the Economy




78% of investors say the economy will stay the same or improve during the next 12 months



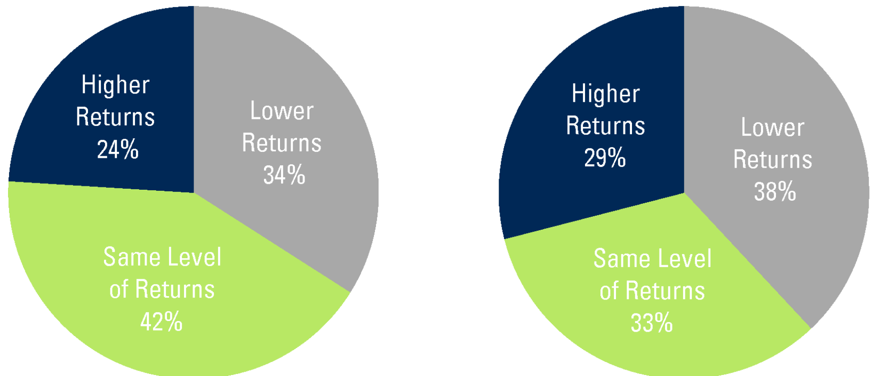

85% of advisors say the economy will stay the same or improve during the next 12 months

## Finding #3 Investors are concerned about low portfolio returns

Low portfolio returns are the main concern of investors, with 34% expecting lower portfolio returns during the next 12 months and only 24% expecting higher returns. Investors cited similar worries when asked open-ended questions about what they "hope to get out of investments"—the majority mentioned consistent income/returns ahead of emotional benefits, lifestyle enhancements and legacy issues. Personal portfolio concerns are overriding more altruistic goals, such as the desire to leave a legacy to family or charity.

The combination of optimism about the economy and concern about low returns appears to be driving investors to move from the extreme caution of recent years to a willingness to invest in equity and balanced products. Advisors are reinforcing this direction, as 79% say they have advised clients to shift their portfolio allocations due to changing economic conditions.

Investors and Advisors Are Concerned About Low Returns




34% of investors say portfolio returns will be lower during the next 12 months

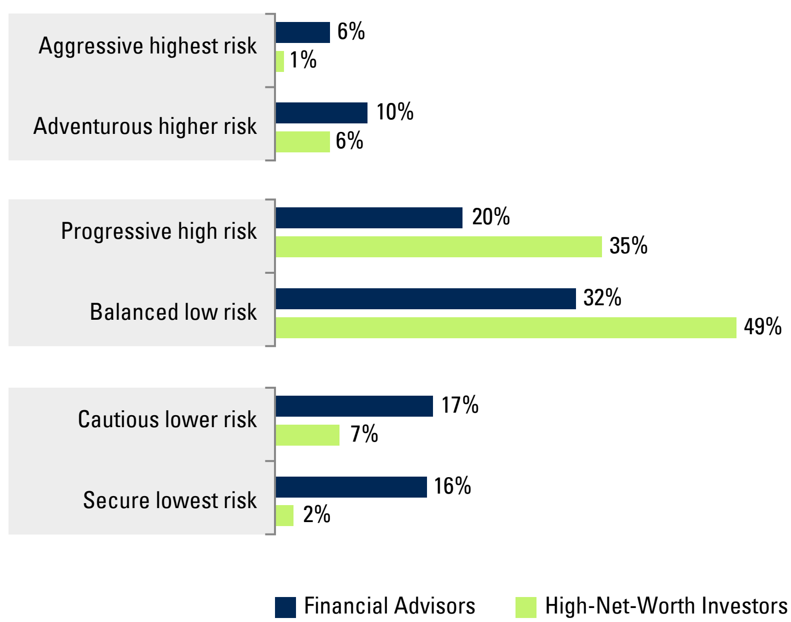
38% of advisors say portfolio returns will be lower during the next 12 months

## Finding #4 Investors see themselves as less conservative than advisors do

Investors' willingness to make calculated changes to their portfolios is reflected in their responses when asked to describe their investment style. Investors take a Goldilocks approach—neither too hot nor too cold. An overwhelming 84% described themselves as having a "balanced" or "progressive" risk appetite—a more moderate approach to risk. Interestingly, advisors had a different perception of investors, with a third describing their clients as being "cautious" (lower) and "secure" (lowest) in their risk appetite, while only 9% of investors described themselves this way.

Not surprisingly, demographic factors also come into play. Investors under the age of 55 and those retiring in more than 5 years take a more progressive approach, while those over age 55 and those retiring within the next 5 years take a more balanced lower-risk approach.

Most Investors View Themselves as Progessive High Risk or Balanced Low Risk

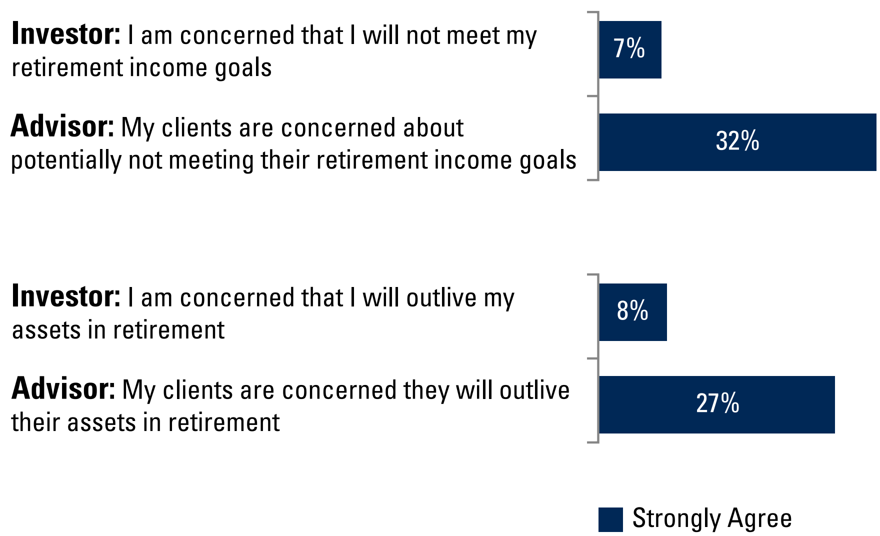


## Finding #5 Investors, unlike advisors, aren't that concerned about reaching retirement goals

While investors are very focused on retirement—78% say ensuring a secure retirement is their top investment priority—they are much less concerned than advisors about reaching their retirement goals and outliving their assets. Only 7% of investors strongly agree they are very concerned about their ability to meet retirement goals while 32% of advisors think their clients are very concerned about retirement goals. Similarly, only 8% of investors strongly agree they are concerned about outliving their assets while 27% of advisors think their clients are very concerned. This disconnect may reflect advisors' higher level of caution regarding longer-term risks such as longevity risk, i.e., outliving assets, while investors are more focused on shorter-term concerns.

Investors view income products as an important part of retirement security, even more so than advisors. A total of 65% of investors cite a positive effect on retirement as the most important aspect of income products as compared with 53% of advisors.

Advisors are More Concerned than their Clients About Retirement Risk




## About the Survey

The 2013 Investor Mindset Survey was fielded online nationally between June 20 and July 5, 2013. Interviews were conducted with 1,013 high-net-worth investors, who were U.S. adults, age 18 and older, with at least $500,000 in investable assets, excluding primary residence and employer-based retirement funds. The 301 financial advisors interviewed were primarily Certified Financial Planners, Chartered Financial Analysts, Registered Investment Advisors and Personal Financial Planners.

KRC Research, an independent third-party research firm, designed and conducted the survey on behalf of Federated Investors.

## About Federated Investors

Federated Investors, Inc. (NYSE: FII) is one of the largest investment managers in the United States, managing $363.8 billion in assets as of June 30, 2013. With 135 funds and a variety of separately managed account options, Federated provides comprehensive investment management to approximately 5,700 institutions and intermediaries including corporations, government entities, insurance companies, foundations and endowments, banks and broker/dealers.

For more information, visit FederatedInvestors.com

## For Additional Information

Visit www.federatedinvestors.com/2013investormindset

Contact 1-800-341-7400

Federated®

Federated Investors, Inc.
Federated Investors Tower
1001 Liberty Avenue
Pittsburgh, PA 15222-3779

Contact us at **FederatedInvestors.com**
or call 1-800-341-7400.

*G45361-1 (9/13)*