2013 INVESTOR MINDSET SURVEY

THE END OF THE CAUTIOUS INVESTOR?

2013 INVESTOR MINDSET SURVEY FROM FEDERATED INVESTORS

Summary Report

A survey of high-net-worth investors and financial advisors

September 2013

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Findings at a glance

After five years of hunkering down following the financial meltdown in 2008, investors are emerging from their foxholes. According to results of the 2013 Investor Mindset Survey, high-net-worth investors (HNWIs) 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—and are somewhat surprised that their clients agree with them. 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 are planning a decisive shift from bonds to equities during the next 12 months: 24% of investors plan to invest more in equities over the next year as compared with 10% for bonds.

Finding #2

Investors are optimistic about the economy: 56% of investors and 68% of advisors expect the U.S. economy to improve over the next 12 months.

Finding #3

Investors are concerned about low portfolio returns: Investors cited low investment returns as their main portfolio concern, with 34% expecting lower returns during the next 12 months.

Finding #4

Investors see themselves as less conservative than advisors do: Advisors describe a third of their clients as being “secure” or “cautious” in their risk appetite, while only 9% of investors describe themselves this way.

Finding #5

Investors are much less concerned than advisors about reaching their retirement goals: Only 7% of investors strongly agree they are concerned about their ability to meet their retirement goals while 32% of advisors think their clients are very concerned about retirement goals.

In detail: The "Great Rotation" has begun

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, nearly four times as many investors plan to add equities and strategies balanced between equities and fixed income to their portfolios as compared to those who plan to add bonds.

Looking forward, equities clearly are the primary focus for investors. More than eight in 10 plan to maintain or increase investments in equities over the next 12 months. Only 8% of investors plan to invest less in equities. Plans to increase investments were more modest for other products. Thirteen percent plan to increase holdings in balanced, 11% in international and 6% in alternatives/hedging strategies.

Age and income play a role in allocation plans. Investors ages 18-64 are significantly more likely to plan to invest more in equities than those older than 65. Investors with more than $2.5 million in investable assets are significantly more likely to maintain a portion of their investments in alternative/hedging strategies than those with less than $2.5 million in investable assets.

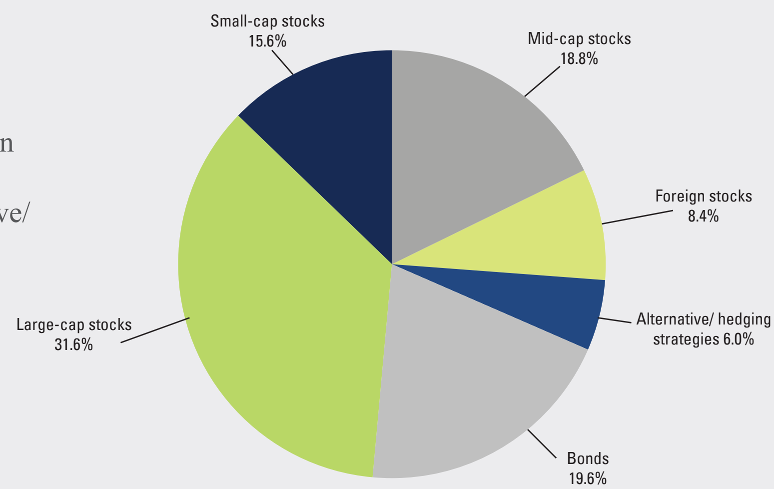
HNW investors' future investment plans

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.

The shift from bonds is building on a foundation of robust holdings of equities. Most investors are currently following an equity focused—though diversified—investment strategy. The average investor's portfolio consists of about two-thirds stocks, mostly large-cap. Specifically, equity allocations are 31.6% in large cap, 18.8% in mid-cap, 15.6% in small cap and 8.4% in foreign stocks. Investors estimate they have 19.6% allocated to bonds and 6% allocated to alternative/hedging strategies.

HNW investors' current portfolio allocation

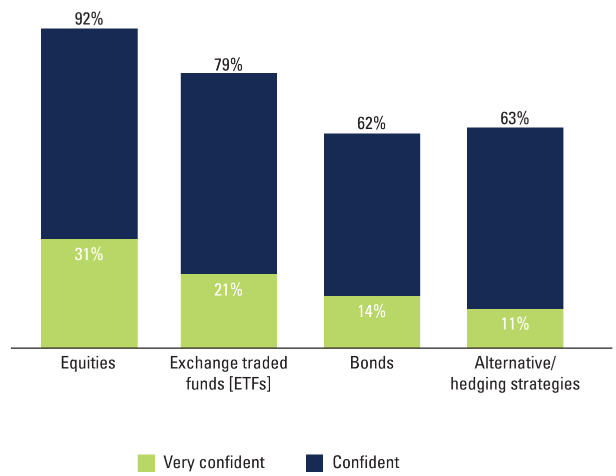


Advisors focusing on equities

It appears that advisors are focusing more on equities as their recommended approach: 56% agreed or strongly agreed that they've advised clients to increase their investing in the market due to anticipated strong returns. In addition, 92% of advisors said they were confident (61%) or very confident (31%) that equities would provide a solid result for clients. In comparison, 62% said they were confident (48%) or very confident (14%) that bonds would provide a solid result.

Advisor recommendations in equity and bonds during the past 12 months are closely aligned with investor plans for the next year. Twenty-seven percent of advisors recommended more equity as compared with 24% of investors planning to invest more in equity. Ten percent of advisors recommended bonds more, the same percent of investors planning to invest more in bonds. However, when compared to investors, advisors were significantly more likely to have recommended balanced (27% vs. 13%), international (17% vs. 11%) and alternative/ hedging strategies (20% vs. 13%).

Advisors have high level of confidence in equities



Investor allocation plans for next 12 months compared to advisor client recommendations for past 12 months

Investment Products	Invest/ Recommend More		Invest/ Recommend Less		Maintain/ No change		Do not invest/ recommend		Stopped Recommending
	HNWIs	FAs	HNWIs	FAs	HNWIs	FAs	HNWIs	FAs	FAs
Equity	24%	27%	8%	11%	62%	59%	6%	1%	1%
Balanced	13%	27%	7%	7%	66%	62%	15%	2%	2%
International	11%	17%	11%	26%	61%	52%	17%	2%	4%
Bonds	10%	10%	22%	34%	54%	46%	14%	1%	10%
Global	9%	16%	11%	22%	59%	55%	21%	2%	4%
Money market	9%	11%	18%	26%	64%	46%	9%	7%	11%
Alternative/ hedging strategies	6%	20%	7%	17%	36%	41%	51%	17%	5%
Hybrid	4%	12%	7%	13%	38%	60%	52%	10%	5%

HNWI = High-net-worth investors
FA = Financial advisors

Investors see themselves as less conservative than advisors do

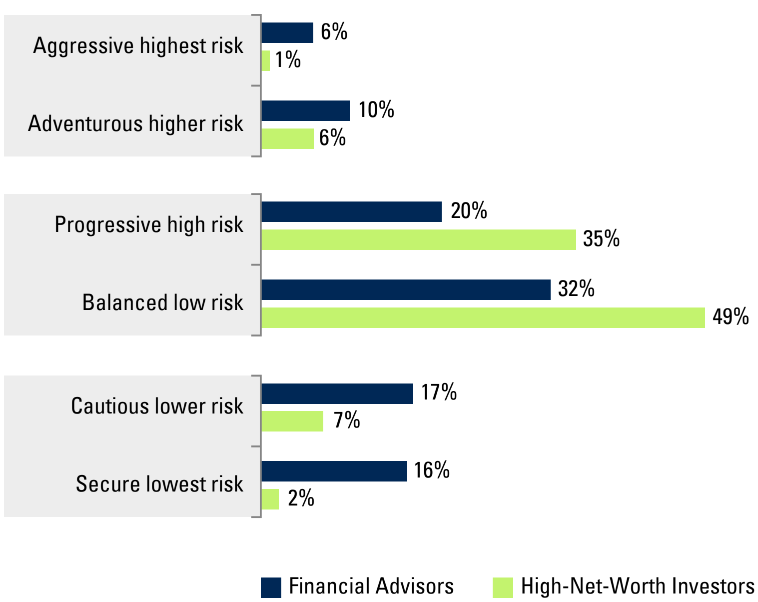
Investors' willingness to make calculated changes to their portfolios is reflected in their responses when asked to describe their investment style. Investors take a Goldilocks approach—neither too hot nor too cold. An overwhelming 84% of investors described themselves as having a "balanced" or "progressive" risk appetite—a more moderate approach to risk.

Advisors had a different perception of their clients. They described 52% of their clients as having a "balanced" or "progressive" risk appetite.

Surprisingly, advisors described a third of their clients as being "secure" or "cautious" in their risk appetite, the bottom end of the risk spectrum, while only 9% of investors described themselves this way. At the other end of the spectrum, only 7% of investors describe themselves as "adventurous higher risk" or "aggressive highest risk" while advisors thought 16% of their clients fell into this category.

Demographic factors 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 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



Federated

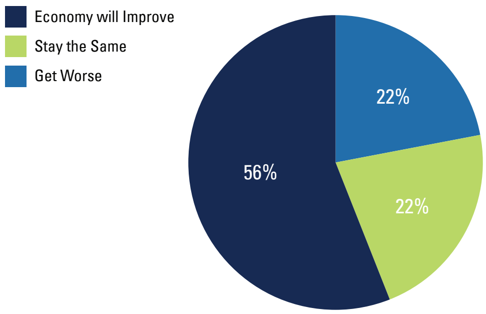
In detail: Investors optimistic about the economy but concerned about low returns

There is evidence of widespread optimism about the economy: 56% 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. While the outlook is broadly optimistic, it is tempered, as most say they feel the economy will "slightly improve" and only 6% of investors and 5% of advisors feel the economy will "significantly improve."

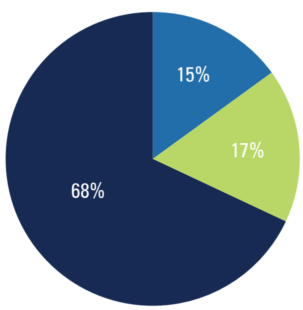
The concerns that temper optimism are related to government policy—U.S. fiscal/budgetary issues and changes to health-care laws. A total of 40% of investors and 42% of advisors say they are most concerned about one of these issues when looking at the economic outlook. The outcome of these policy debates during 2013 and 2014 will shape investor confidence in a major way.

Other high-ranking concerns for both investors and advisors are employment, slow U.S. economic growth and low returns on investments. Investors expressed stronger concerns about employment and low returns; advisors were more focused on slow U.S. economic growth. While inflation did not rank high as an issue of most concern, it was more likely to be cited by advisors (7%) than investors (4%).

Widespread optimism about the economy

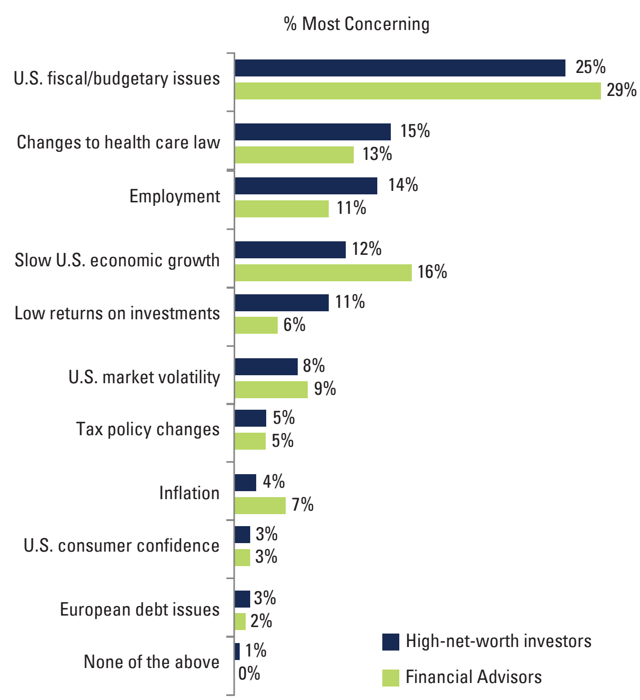


78% of high-net-worth investors say the economy will stay the same or improve during the next 12 months



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

Investor and advisor concerns focused on government policy



Low returns the primary concern for investors

Investors cited low investment returns as their main concern for their personal portfolios. Eighteen percent of investors cited low returns, followed by U.S. market volatility (15%) and U.S. fiscal/budgetary issues (15%).

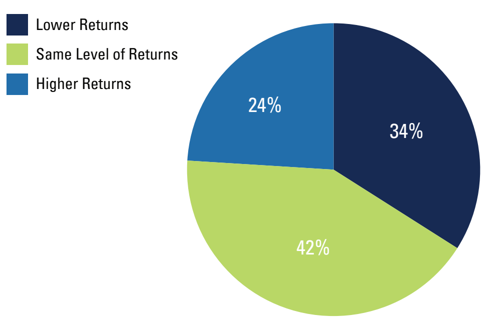
The concern about low returns is reflected in investors' mixed outlook for their portfolios, with 34% expecting lower returns during the next 12 months and 24% expecting higher returns. When asked an open-ended question about what they "hope to get out of investments," investors focused on consistent income/returns as opposed to emotional benefits, lifestyle enhancements and legacy issues. Practical portfolio concerns are overriding more abstract goals such as the desire to leave a legacy to family or charity.

Advisors more focused on market volatility

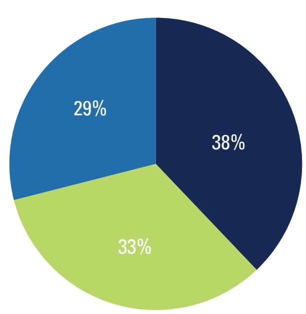
Advisors had a similarly mixed outlook regarding clients' portfolios, with 38% expecting lower returns during the next 12 months while 29% expect higher returns. However, advisors were less focused on low returns than investors, with only 10% of advisors saying it was the top-of-mind concern. Advisors' top concerns were U.S. market volatility (19%) and low interest rates (13%). While both investors and advisors want to maximize returns, advisors worry about market volatility and issues influencing those returns, while investors tend to focus on the bottom line.

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% said they have advised clients to shift their portfolio allocations due to changing economic conditions.

Advisors and investors anticipate mixed returns

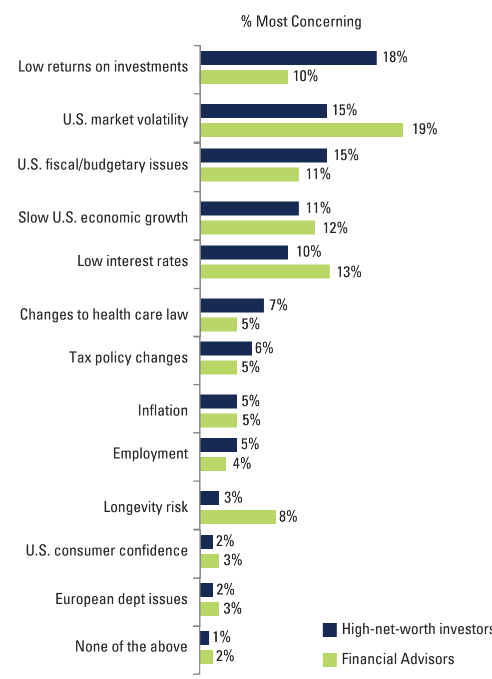


34% of high-net-worth investors say portfolio returns will be lower during the next 12 months



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

Investors focused on low returns



Investor insight:
Very high-net-worth investors

How do investors with more than $2.5 million in assets differ from other high-net-worth investors? There is evidence that they are somewhat more bullish about their returns, more focused on equities and more likely to consider themselves knowledgeable investors.

Investment returns

Twenty-eight percent of very high-net-worth investors (VHNWI) expect higher returns during the next 12 months as compared to 24% of all surveyed investors.

Focus on equities

Twenty-nine percent of VHNWIs say they plan to increase their investments in equities and 17% in balanced strategies as compared with 24% of all surveyed investors for equities and 13% for balanced. Twenty-five percent of VHNWIs say they plan to reduce their investments in bonds as compared to 22% of all surveyed investors.

Knowledgeable investors

VHNWIs are more likely to describe themselves as very knowledgeable about market volatility, interest-rate risk, inflation risk, tax legislation implications and a potential bond bubble. They also are more likely to say they are familiar with equities, bonds, balanced and international income products.

In detail: Income means more than bonds

While it seems that investors worry about volatility, they yearn for better returns as long as they are reliable and consistent. The desire for consistent income is a key driver of the shift to equities and balanced strategies. A total of 35% of investors and 41% of advisors say predictability and reliability "comes to mind first" when thinking of the benefits of income products. Striking a similar theme, an additional 15% of investors and 15% advisors cite "stabilizes portfolio returns."

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, only 30% choose bonds while 48% choose equities and balanced. The interest in equity-income products is also reflected in the 65% of investors who agree that buying stock in a company is a "great way to earn income" and the 31% who cite dividends as an important aspect of income products.

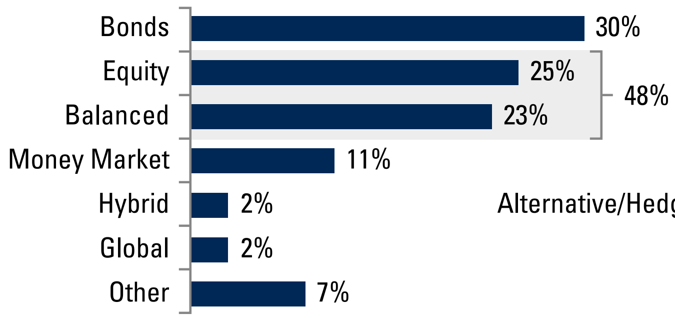
Similarly, when asked "What does investment income mean to you?" 31% of investors selected "Dividend payments from stock holdings" and only 23% choose "Receiving a regular, guaranteed payment provided by a bond, annuity or other fixed-income security."

Investors and advisors cite reliability as key benefit of income products

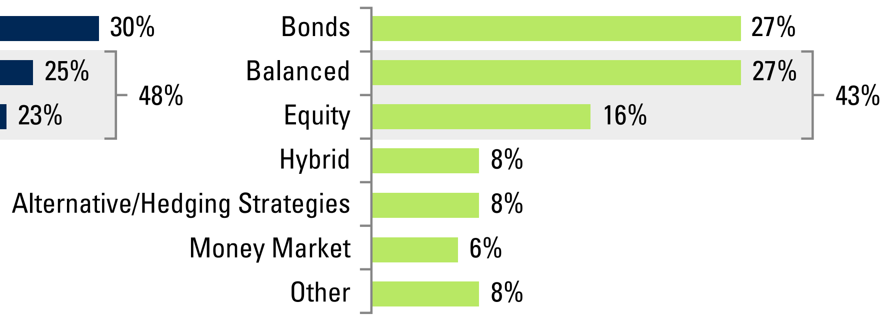
Which of the following comes to mind FIRST when you think of income products?

Income no longer means bonds for many investors

High-net-worth Investors
Which Income Products Come to Mind First?



Financial Advisors
Which Income Products Do You Recommend Most?



Advisors more focused on balanced strategies

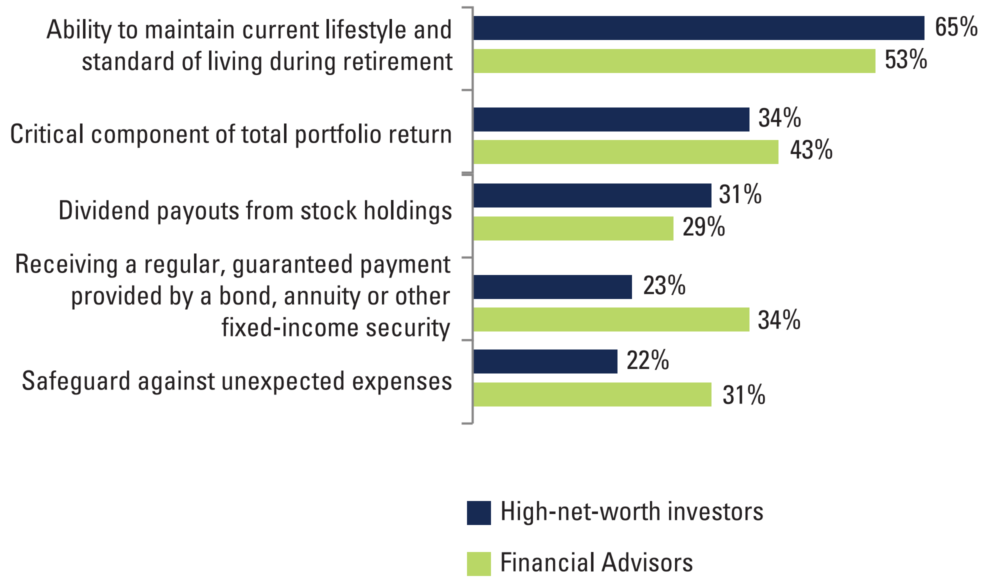
Advisors reflect a similar mindset related to income products, although they are more focused on balanced strategies than investors. When asked which income products they recommend the most, only 27% cited bonds while 27% selected balanced and 16% choose equity. While equity trailed bonds and balanced strategies, 56% of advisors agree they had advised their clients that "buying stock in a company is a great way to earn income."

Investors and financial advisors see somewhat differing value from income products. Investors are more focused on returns, with 32% citing reinvestment/investment growth as the primary purpose of having income products in their portfolio. Advisors view income products as more important for portfolio diversification (34%) and contributing to daily living expenses (21%).

While investors and advisors look at the value of income products slightly differently, all agree on income products' contribution to a stable retirement. Sixty-five percent of investors selected the ability to maintain lifestyle and standard of living during retirement when asked, "What does investment income mean to you?" Advisors also stressed the retirement advantages, with 53% selecting maintain lifestyle and standard of living during retirement.

Investment income has varied benefits

"What does investment income means to you"



Most feared unexpected event: Bond bubble

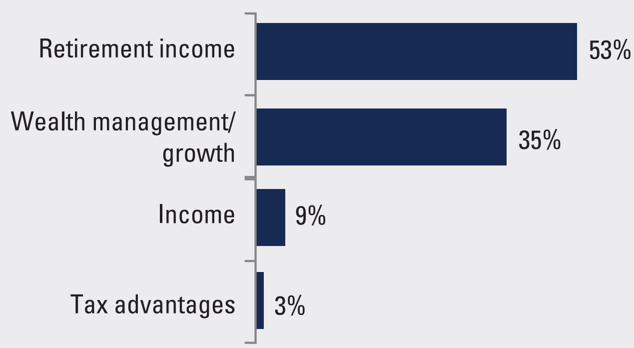
Fears about a potential bond bubble may also be influencing investors' portfolio allocations. When asked to describe their level of confidence that their portfolio allocations will protect them against unexpected external events, investors felt least confident about tax legislation and a bond bubble. They felt more confident regarding market volatility, interest-rate risk and inflation risk. Advisors, asked a similar question about their clients' portfolios, were also most concerned about taxes and a bond bubble.

Investors are not very confident that they understand these external risks, indicating an opportunity for advisors to educate their clients. Investors said they feel least knowledgeable about a potential bond bubble, followed by tax legislation and inflation risk. Interestingly, advisors cited the three same factors: they too felt least knowledgeable about a potential bond bubble, followed by inflation risk and tax legislation.

In detail: Advisors worried, investors sanguine about retirement strategies

Investors' responses showed that they are very focused on retirement—78% say ensuring a secure retirement is the top priority driving their investment strategy and an additional 13% cite retiring as soon as possible. Similarly, 53% of investors say retirement income is their most important reason for investing, well ahead of wealth management/growth at 35%.

Retirement top reason for investing



The importance of retirement is reflected in investors' responses to an open-ended question about "What are you hoping to get out of your investments?" Many investors dwell on similar themes with comments such as:

> "I would like my investments to continue to grow and provide me with enough income to have a comfortable retirement."

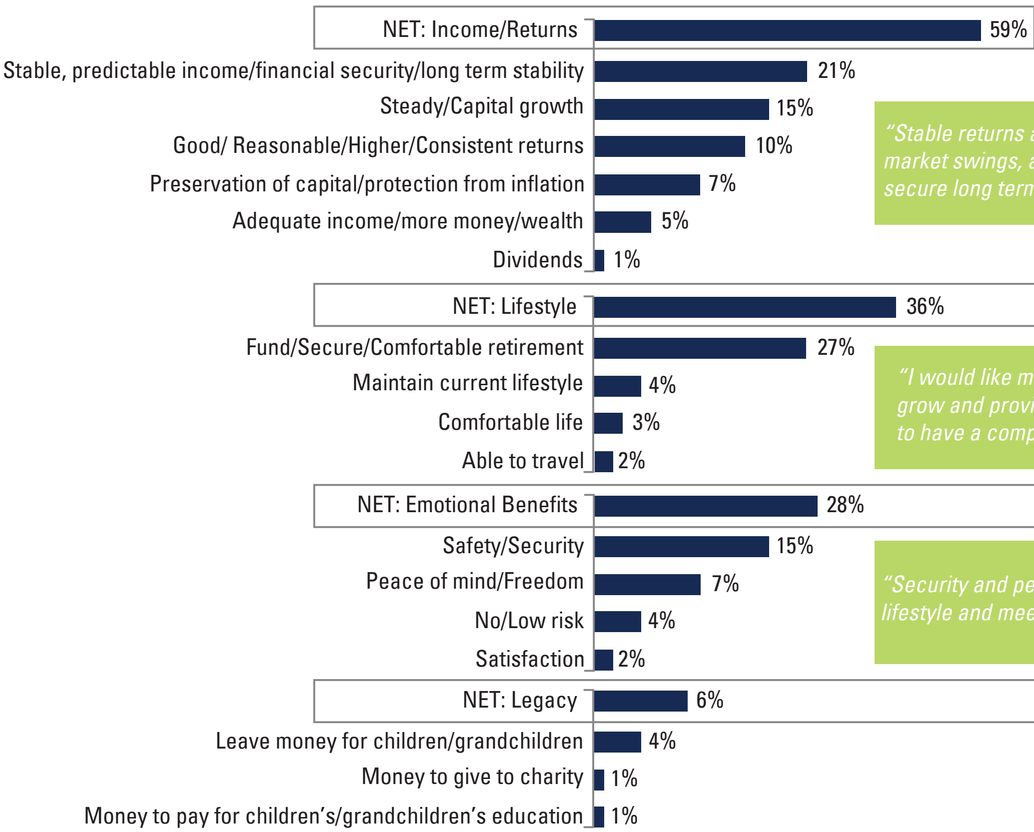
Others focused more on predictable income and retirement:

> "Stable returns and some insulation from wide market swings, a strategy which will lead to a secure long-term retirement income."

Not surprisingly, given the tenor of these comments, 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.

HNW investor goals rooted in practical portfolio concerns

In your own words, and besides more wealth, what are you hoping to get out of your retirement?



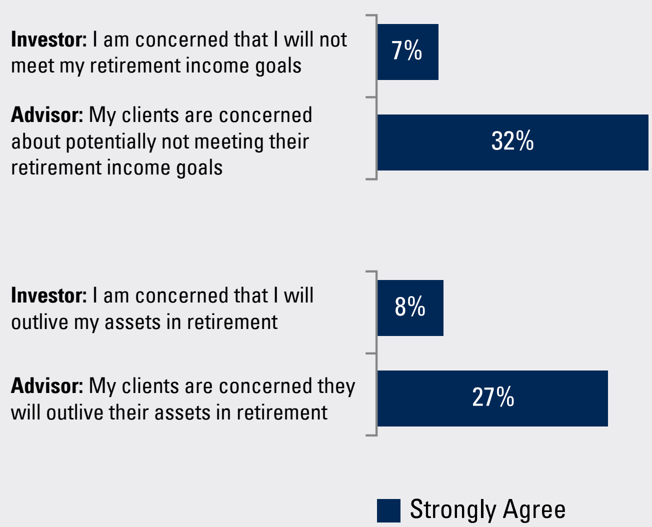
"Stable returns and some insulation from wide market swings, a strategy which will lead to a secure long term retirement income."

"I would like my investment to continue to grow and provide me with enough income to have a comportable retirement."

"Security and peace of mind about maintaining lifestyle and meeting personal goals."

What is surprising, given the strong concern about long-term retirement security, is that investors seem much less concerned than advisors about reaching their retirement goals and outliving their assets. Only 7% of investors strongly agree they are 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 the aforementioned longevity risk, i.e., outliving assets, while investors are more focused on shorter-term concerns.

Advisors are more concerned than their clients about retirement risk



Investor insight: Investors far from retirement

Surveyed investors who are more than six years away from their planned retirement are slightly more bearish on their investment returns, slightly more aggressive in their portfolio allocation and more concerned about meeting their long-term retirement goals.

Investment returns

Thirty-six percent expect lower returns as compared with 34% of surveyed investors. Only 22% expect higher returns, slightly lower than the 24% of all surveyed investors expecting stronger results.

Portfolio allocation

Investors not as close to retirement are much more focused on growing their portfolio. Sixty-seven percent say their portfolio is on a growth strategy, a much greater percentage than among all surveyed investors (49%). And 25% say they are consulting with their financial advisor more this year than the last (compared to 19% among all surveyed investors).

Long-term retirement goals

Fifty-three percent of investors far from retirement say they are concerned that they will outlive their assets in retirement (as compared to 42% of surveyed investors) and 51% say they are concerned they will not meet their retirement income goals (as compared to 38% of all surveyed investors).

Investor insight: Investors in retirement

Investors in retirement are more concerned about low interest rates, more focused on capital preservation and look to their financial advisor for more assistance.

Key concerns

Investors in retirement are more likely to be most concerned about low interest rates because their primary goal is maintaining retirement income. Fifteen percent say low interest rates are their top portfolio concern compared to 10% among all surveyed investors.

Investment priorities

Most investors in retirement focus on capital preservation but many continue to follow a growth strategy. Forty percent say their follow a capital preservation strategy compared to the 33% following a growth strategy.

Retired investors are more likely to value income products to support their standard of living. Twenty-eight percent say the primary purpose of income investment products is reinvestment/ investment growth and 25% cite day-to-day living expenses.

Role of advisor

Retired investors are slightly more likely to desire a more active role for their financial advisor. Thirty-four percent say their advisor should look out for their best interest and recommend strategies based on their life stage (compared to 30% among all surveyed investors). Retired investors are more likely to say their advisor has a role in determining the right amount of risk in their portfolio, helping the investors stick to their investment strategy and articulating their investment goals.

In detail: Investors want ultimate control and stronger returns from advisors

Most surveyed investors (61%) that responded use a financial professional, primarily financial planners and registered investment advisers. However, there is untapped potential especially among younger investors. Investors younger than 55 are much more likely to not use an adviser. In fact, nearly half (42%) of younger investors do not use an adviser as compared with 31% of investors age 65 and older. There is also untapped potential in terms of the level of service provided: despite the challenging environment, 67% of those with an advisor are seeking the same level of assistance as last year.

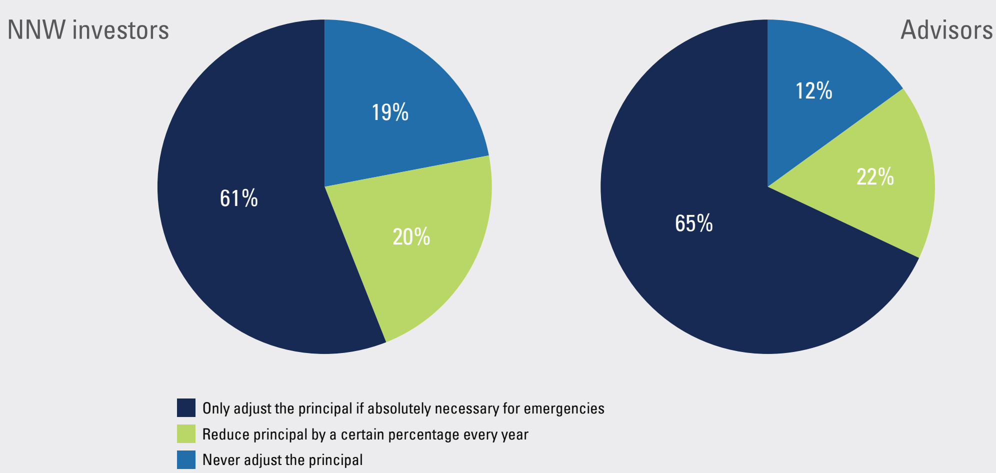
Advisors believe prudent risk management paramount

At a broad level, financial advisors see their job as providing prudent risk management and consistent guidance. Sixty-six percent of advisors cite prudent risk management (39%) and consistency (27%) as the most important attributes an investment firm can offer their clients.

The focus on consistency may be due to advisors perception of investors' ability to stick to their investment plan. Fifty-two percent of advisors said their clients "try to stick to the plan but usually get derailed by the unexpected" and 19% said their clients "almost never stick to the plan." Advisors with more than $10 million in assets under management are more likely to say their clients almost always stick to their plan than those with less than $10 million in assets under management (52% vs. 40% respectively).

Investors have a different perception. Only 17% agreed or strongly agreed that they have difficulty following their investment plan or strategy. And they lack confidence that their investment plan can adapt to external surprises. Only 12% of investors are strongly confident there are contingencies in place to account for unforeseen market conditions as compared with 23% of advisors.

Advisors and HNW investors agree principal should be adjusted only for emergencies



Advisors less focused on maximizing returns

Only 11% of advisors see their most important attribute as maximizing return on investment for clients. Investors may value returns more than advisors think. As described previously, investors are more focused on low returns than advisors and tend to describe themselves as less conservative than investors think they are. In addition, 68% of investors say they prioritize growth (49%) and income (19%) strategies, as compared with 30% who cited capital preservation and 2% who selected liquidity. Yet, there is strong agreement among advisors and investors on avoiding dipping into principal. Three in five advisors and investors agree that principal should be protected and only adjusted for emergencies.

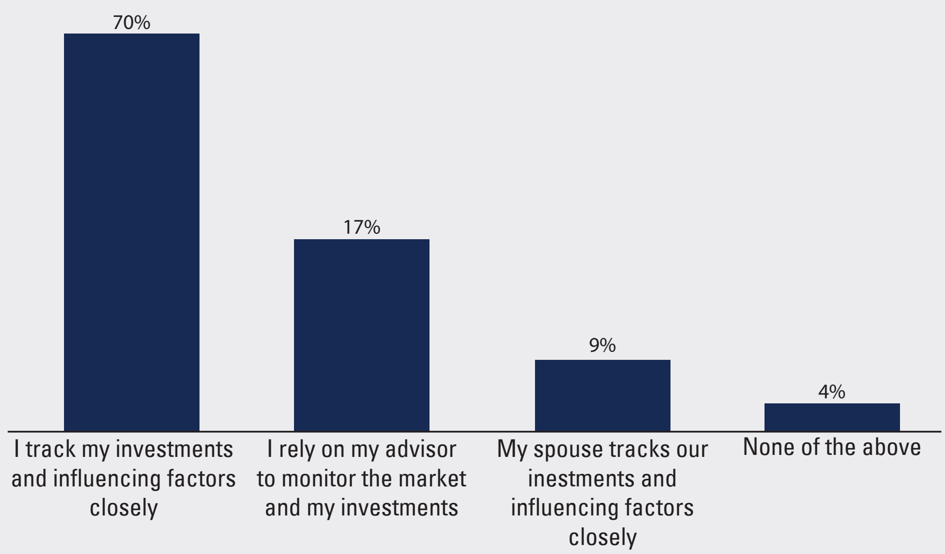
Ultimate decision-making with investors

Most investors and advisors believe the relationship should be a partnership but feel the ultimate decision-making resides with investors. Fewer than one in 10 investors believes the advisor should make all the decisions or that advisors should only carry out client instructions. And 70% of investors say they closely track their investments and external factors affecting the marketplace.

What is the key responsibility for advisors? Sixty percent of investors and 71% of advisors say the main role for advisors is listening to investors' goals and then helping them formulate a plan. For many advisors that means articulating clients' investment goals and recommending specific products. Sixty-three percent of advisors say their main responsibility is articulating clients' investment goals and 77% agree they have the most responsibility for recommending specific products.

Investors keep a close eye on investments

Which of the these best describes your approach?



Investor insight:
Investor demographic differences

Focus on Principal

Younger Investors (ages 18 – 54) feel more strongly than those 55 and older that principal should never be adjusted (27% vs. 18% respectively)

Reliance on advisor

Older (65 and older) and female investors are significantly more likely than their counterparts (younger than age 65 and males) to rely on their advisor to monitor the market. Twenty-two percent of older investors and 24% of female investors look to advisors to monitor markets as compared with 15% for younger and male investors.

Investors age 55 and older are significantly more likely to say their advisor has a large role in articulating investment goals than their younger counterparts (52% vs. 39% respectively).

Research methodology and demographics

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.

Audience profile: High-net-worth investors

Gender	%
Male	71%
Female	29%
Age	
Under 54	27%
55-64	44%
65+	28%
Household Investments	
Sole Decision Maker	59%
Share Decision Making	41%
Employment	
Employed	59%
Not Employed	15%
Retired	26%
Retirement Plans	
Plan to retire in next 10 years	65%
Plan to retire in more than 10 years	25%
Never plan to retire	7%

Investable Assets	%
$500,000 - $999,999	41%
$1,000,000 - $2,499,999	39%
NET: $2,500,000+	20%
$2,500,00 - $4,999,999	14%
$5,000,000 - $9,999,999	4%
$10,000,000 or more	2%
Income	
NET: <$100,000	23%
Less than $50,000	1%
$50,000 - $99,999	22%
$100,000 - $199,999	47%
NET: $200,000+	28%
$200,000 - $299,999	15%
$300,000 - $399,000	5%
$400,000 +	8%
Prefer not to say	2%

Education	%
No College Degree	11%
College Graduate	38%
Post College Degree	52%
Race	
Caucasian	89%
Aftrican American	2%
Hispanic	1%
Other	8%
Children under 18 in Household	
Yes	14%
No	86%
Caregiver to Elderly Parent	
Yes	11%
No	89%
Marital Status	
Married	80%
Not Married	20%

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.

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.

G45361-04 (9/13)