CONCENTRATION RISK: UK INVESTORS DISPLAY STRONG 'HOME BIAS', FINDS NEW SCHWAB SURVEY
Lack of portfolio diversification means investors are missing out on potential returns

London, 9 August 2018 – Despite concerns over the short-term impact of Brexit on their portfolios, UK investors' assets are heavily weighted towards the UK market. New research from Charles Schwab shows that UK investors are put off investing in other markets such as the US due to risks arising from geopolitical tensions. UK investors are also hesitant to invest in equities due to perceived risk and volatility and a nervousness around the complexity of the asset class.

Schwab's poll of 201 UK investors with a minimum of £25,000 in disposable assets found that 74% are looking to invest the majority of their assets in their home market. Only 7% are looking to make significant investment into the US. The fact that nearly one in ten investors did not know or were unsure of their favoured markets demonstrates how little investors are considering foreign equities compared to their own.

When asked why they were attracted to investing in their home market, a significant proportion of investors (48%) said that they feel most informed about companies in their own market and 39% feel that they understand the dynamics of their domestic economy better than others. As further confirmation of the 'Home Bias' issue, nearly three quarters (74%) of respondents agree that there is long-term value in investing in the UK market, compared to 56% who say there is long- term value investing in the US market.

Kully Samra, Vice President of Charles Schwab, **said**:

"UK investors have a strong tendency towards Home Bias and are clearly more comfortable allocating money to economies and stocks with which they are immediately familiar, even if the data suggests there may be better returns elsewhere. The US stock market is a prime example: the S&P 500 has by far outperformed the FTSE 100 over the last few years, so this UK favouritism demonstrates how UK investors are actually weakening their portfolios and cutting themselves off from potentially superior returns."

Stock Market Positivity Abounds, Despite Brexit

The study reveals that many investors (72%) believe that the medium-term outlook for the global stock market is looking bright. The home bias is evident here too, with investors believing that the UK market will perform strongest over the next year, followed by Europe and finally the US.

Not only is there a general bullishness around UK stock market performance, but 57% of investors think that Brexit will have a long term positive impact on UK equities. The overall sense of positivity around UK equities is tempered to some extent in the short term by the likely market turbulence that will accompany Brexit. Investors appear to be aware that the lack of legal certainty around the so-called "divorce deal", and the opaque nature of the future UK-EU trading relationship, is likely to lead to some short-term shocks for the UK economy; 59% say that Brexit has made them consider diversifying their portfolio away from UK stocks.

This sentiment reflects an events-driven reaction – the desire to diversify outside of UK shares in order to avoid Brexit-related uncertainty and consequent volatility – rather than as part of a considered long-term diversification strategy.

Scepticism Trumps Diversification

While UK investors clearly have some desire to diversify their portfolios beyond their home shores, political tensions in the USA have resulted in UK investors shying away from this market. 60% of respondents say that the political situation in Washington puts them off investing in the US market, with a further 58% and 55% detracted from US investing due to geopolitical tensions and high valuations respectively.

Scepticism and lack of knowledge is also putting these individuals off stocks and shares. The majority of investors (73%) say that there is at least one thing which puts them off investing in equities, with 32% thinking that the asset class carries too much risk and 22% of the view that equities are too confusing.

Kully Samra adds:

"Macroeconomic and geopolitical events have no doubt given stock markets some jitters over the past six months, but headlines can often be a distraction from the fundamental investment cases. US equities should be considered a key component of any balanced portfolio. The US remains the most established, liquid, and capitalised market in the world. The underlying economy is strong; unemployment is low, a tight labour market is leading to accelerating wage growth, corporate earnings are surpassing expectations and both productivity and sentiment indices are looking positive. Whilst political sabre-rattling can spook investors, we believe that economics and markets have had a larger impact on politics than the other way round.

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About the Survey

The research is based on an online survey, conducted by YouGov on behalf of Charles Schwab, to understand the perceptions of investors in the UK and to validate the hypothesis of home bias (i.e. favouring investing in the UK over other markets), and their attitude to investment and the equities market. 201 UK direct investors – individuals who invest directly into the equity and/or debt capital markets without the assistance of a financial adviser – with a minimum of £25,000 disposable savings, were interviewed in April 2018.

About Charles Schwab

The Charles Schwab Corporation (NYSE: SCHW) is a leading provider of financial services, with more than 345 offices and 11.1 million active brokerage accounts, 1.6 million corporate retirement plan participants, 1.2 million banking accounts, and $3.38 trillion in client assets as of May 31, 2018.

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