Exploring the Stages of the New Investor Journey: Actionable Insights for Industry Stakeholders

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Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx, and women-led households disproportionately experience financial insecurity due in large part to longstanding, systemic racism and gender discrimination. Addressing these issues is critical to Commonwealth's work of making wealth possible for all. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling over 2 million people to save nearly $8 billion in savings. Commonwealth understands that broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policymakers, and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them. To learn more, visit us at www.buildcommonwealth.org.

Established in 2003 by the Financial Industry Regulatory Authority, the FINRA Investor Education Foundation empowers underserved Americans with the knowledge, skills and tools to make sound financial decisions throughout life. The Foundation accomplishes this mission through educational programs and research that help consumers achieve their financial goals and that protect them in a complex and dynamic world. FINRA, the Financial Industry Regulatory Authority, regulates its broker-dealer members and their associated persons doing business in the United States. FINRA is dedicated to investor protection and market integrity. To learn more, visit FINRAFoundation.org.
Executive Summary

Investing in capital markets is an important mechanism for building wealth. For those living on low and moderate incomes (LMI), market participation is particularly useful as a pathway to financial security. Yet, people living on LMI—who are disproportionately Black/African American and Hispanic/Latina\(^1\) women—face significant barriers when accessing investment opportunities. These include limited capital, financial knowledge, and exposure to investment opportunities (e.g., access to workplace retirement plans), barriers that researchers and other experts often attribute to long-standing policies or practices in the financial system. As a result, many people living on LMI are excluded from the financial markets, missing out on opportunities for asset accumulation and wealth-building.

Commonwealth’s research, in collaboration with the FINRA Investor Education Foundation, focuses on understanding how individuals living on LMI become investors—what we call the “New Investor Roadmap”—and how financial services industry stakeholders can help improve that journey to make investing more accessible. We draw on interviews with new investors and financial services industry stakeholders (see Methodology). For the purposes of this report, we define financial services industry stakeholders as those who have a vested interest in the investing customer base, including policymakers and financial professionals in wealth management firms, mutual fund companies, investment banks, brokerage firms, and fintechs. Financial services industry stakeholders play a key role in determining how new investors at different points of the journey can invest with the goal of financial security and ultimately building wealth.

Throughout the project, we identified areas of opportunity to innovate and support the business ecosystem of investing, broaden market participation, and consider policy solutions.

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1 The terminology used here encompasses race/ethnicity language used by both Commonwealth and the FINRA Investor Education Foundation
Key definitions

NEW INVESTORS
We define new investors as non-professional investors who started and have been investing for the past six months to one year with the expectation of growing their wealth. New investors in this research earned a net annual income of $30,000−$80,000 and the majority are women, Black/African American and/or Hispanic/Latina.

INDUSTRY STAKEHOLDERS
We define industry stakeholders as anyone with a vested interest in the investing customer base, including fintech founders, policymakers, financial advisers, and financial professionals, including those employed in wealth management firms, mutual fund companies, investment banks, brokerage firms, and fintechs.

Key Takeaways

THE CONTEMPLATING STAGE IS PIVOTAL TO BEGINNING THE INVESTOR JOURNEY.
The Contemplating Stage refers to the initial phase in which potential investors reflect on their objectives and on the steps needed to achieve them. It is a crucial phase as it determines if they will ultimately decide to start investing. The precise length of this stage can vary but is often quite long (it could last from weeks to years).

ACTIONABLE INVESTOR EDUCATION CAN BUILD NEW INVESTORS’ CONFIDENCE.
Providing investors with easily digestible and practical content tailored to meet their specific needs and aspirations can help new investors make informed decisions and bolster their confidence, helping them feel better equipped to navigate each stage of their investing journey.

FEELINGS OF BELONGING ENCOURAGE INVESTORS TO PARTICIPATE IN THE CAPITAL MARKETS.
In the context of investing, new investors often seek and trust the advice and guidance of people who share their backgrounds, financial goals, or investment experiences. The availability of financial professionals who understand new investors’ experiences may encourage initial and ongoing participation in the capital markets.

BUILDING TRUST BY PROVIDING UNBIASED, HIGH-QUALITY SERVICES IS CRUCIAL.
Investors entrust their money to financial institutions and professionals with the expectation that they will receive fair and equitable services. Investors need to have confidence that these institutions and professionals will provide accurate and reliable advice and offer high-quality services.
Introduction

Investing is one of many tools that can close wealth gaps in the United States. Although people invest for a variety of reasons, building wealth is a goal for many investors. Women living on LMI are not an exception; many want to invest in the capital markets. In fact, when surveyed, Black/African American (78%) and Latina/Hispanic (72%) women report the most interest in investing. However, while nearly two-thirds of women living on LMI express interest in investing, only four in 10 report actually doing so.

These participation gaps in part reflect a perception among women—and particularly women of color—that current investment options are not designed for them. Though a lack of resources remains a fundamental barrier to participation in capital markets, even those with the financial resources to begin investing are often hesitant to start.

According to prior Commonwealth research, there are barriers that pose difficulties for women of color to invest in the capital markets:

1. Resources (money available for investing);
2. Actionable knowledge (access to knowledge and ability to learn by doing);
3. Market access (tools built with accessibility for people living on LMI in mind); and
4. Investor identity (feeling like an investor).

Addressing these barriers first requires an acknowledgment of the gaps existing in the investing ecosystem and a commitment to creating more inclusive capital markets that serve all communities. This research identifies the needs and barriers faced by new investors as they embark on their investor journey. Our objective is to provide considerations for industry stakeholders on how to best address these barriers and make their products more inclusive.

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5 Charles de la Cruz et al. “How Retail Investing Platforms Can Create a More Inclusive Environment”, Commonwealth, September 2022
The New Investor Roadmap

The New Investor Roadmap depicts an investor’s journey, from the first time they learn about investing through becoming a knowledgeable and confident investor. It is a stage-by-stage representation of the new investor’s journey and the factors that influence their journey. While the roadmap represents the investing journey, that path is not necessarily linear. Providing insights into new investors’ challenges, needs, and expectations allows industry stakeholders to better understand what resonates with new investors, and inform their decision-making when developing innovative solutions.

The New Investor Roadmap provides detailed stages of the investor journey: Contemplating, Starting, Engaging, and Integrating.

The stages outlined in the investor roadmap are informed by a review of existing literature as well as in-depth interviews and focus groups with new investors and financial services industry stakeholders. Both agreed that the roadmap presented a comprehensive, logical, and realistic approach to understanding the investing experience. The roadmap resonated with new investors’ firsthand experiences. In fact, one new investor reported that they felt their “voices being heard” by the roadmap’s ability to demonstrate awareness of their needs, challenges, and aspirations. Industry stakeholders also reacted positively to the roadmap and its stages, specifically identifying the four stages within the roadmap as a resource that could help them identify areas of opportunity to develop business strategies.

Notably, the stages and processes described in the New Investor Roadmap align closely with those of the Transtheoretical Model of Behavioral Change (TTM), a framework originally developed in the late 1970’s by Prochaska and colleagues to describe the process of intentional behavioral change. The TTM model has been applied across a variety of disciplines, including more recently financial behaviors. Like the stage-wise TTM, the New Investor Roadmap posits that several factors, including cognitive, emotional, and social characteristics, are important in determining whether a person successfully progresses through the stages of New Investor Roadmap. The New Investor Roadmap is uniquely positioned to advance the understanding of the investing journey of investors who are women and living on LMI, and who identify as Black/African American or Hispanic/Latina.

In the following sections, we discuss the New Investor Roadmap stages in more detail. To better understand what happens during each stage and what supports industry stakeholders can provide investors, these four stages have four subcategories:

- Investor Identity (how the investor sees themselves);
- Actionable Knowledge (what knowledge is accessible, functional, and impactful);
- Networks (how does the community influence investing); and
- Client Experience (how should client engagement be designed).

These details can help the industry stakeholders make informed decisions to foster their business as well as the growth of new investors. We also provide quotations from new investors to illustrate their experiences.

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### Contemplating

In the Contemplating Stage, new investors start to weigh the benefits, barriers, and risks, and gather information about investing via their community, news, and social media. This stage is where they start considering different approaches to investing and evaluating whether investing is right for them. The precise length of the Contemplating Stage can vary, but is often quite long, lasting anywhere from weeks to years.

<table>
<thead>
<tr>
<th>INVESTOR IDENTITY</th>
<th>ACTIONABLE KNOWLEDGE</th>
<th>NETWORKS</th>
<th>CLIENT EXPERIENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Think about investing but have yet to take concrete steps toward taking action</td>
<td>Have limited understanding and knowledge about investing</td>
<td>Networks influence individuals' decisions to contemplate investing</td>
<td>Seek experiences that are user-friendly, easy to navigate, and offer educational resources</td>
</tr>
<tr>
<td>Start considering investing as an option</td>
<td>Have yet to be exposed to investing</td>
<td>Networks expose individuals to investing, motivate them to start their journey, and support them by offering guidance and sharing educational resources</td>
<td>Contemplate fee structures, need clarity and guidance about investing products and desire visual inclusion</td>
</tr>
<tr>
<td>Believe investing is for more experienced or affluent individuals and don't see themselves as investors</td>
<td>See investing terminology as complicated</td>
<td></td>
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<tr>
<td></td>
<td>Lack resources and tools, such as money and time</td>
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As they seek information, new investors' understanding of investing may be shaped by what is available on social media platforms which may be biased or unreliable. Providing accessible, personalized, high-quality information can help investors at this stage build the knowledge and skills needed to start investing.

Networks, such as family and friends, can help determine how long new investors remain in the Contemplating Stage.

Trusted representatives of financial institutions within local communities can help new investors gain awareness and knowledge about investing.

Investing experiences should be easily accessible to people from all backgrounds, with clear and user-friendly interfaces.

Design products that focus on the investor, giving them agency and control over their financial lives.
Actionable Insights from the Contemplating Stage

To help new investors move from the Contemplating to the Starting Stage and beyond, financial services industry stakeholders can consider these actionable insights:

- Providing accessible, visually inclusive, digestible and user-friendly actionable education—particularly on investing topics like risk and reward and the distinctions between saving, investing, and gambling—can help equip investors with knowledge and confidence to begin investing.

- Partnering with community organizations, nonprofits, and other educational institutions already servicing specific audiences and leveraging existing networks and resources to deliver educational programs can help build trust among new investors.

- Working towards reducing misconceptions and biases about who an investor is, including reframing the narrative that only the “rich” can invest, can help increase investor identity.

- Equipping financial professionals to understand the background and experiences of new investors can help them better identify and support their clients’ financial goals.

- Offering guidance to potential investors through the aid of technological innovations can provide cost-effective ways to engage with potential investors.

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“I’ve never invested, and it’s always been about not having the funds to do so, and not having a lot of knowledge of how to begin the process with a small amount of funds.”
- Research Participant

“[Visual inclusion] is important because if I see people that look like me or are similar to me, then I feel like there’s a better understanding of who I am and the culture I come from.”
- Research Participant
STAGE 2: Starting

The Starting Stage is an inflection point where potential investors transition from contemplating to actually opening an account and making their first investment. At this stage, new investors determine critical aspects of their journey, including how much to invest, where to invest, and their risk tolerance.

INVESTOR IDENTITY
- Feel “ready enough” to start taking the first steps into investing
- Become more self-aware of the kind of investor they are (risk assessment, investment types)
- Start evaluating investment options and platforms that align with their goals, values, and identity

New investors have yet to fully see themselves as investors because they are not confident in their investing knowledge.

ACTIONABLE KNOWLEDGE
- Feel comfortable with their investing knowledge
- Become more self-aware of risk tolerance and the different investment options
- Continue learning about investing concepts
- Focus on choosing the right platform and investment option they will feel comfortable using

New investors continue to need knowledge and guidance to select appropriate products or services.

Decisions made at this stage can be influenced by how easy or difficult products are to understand.

NETWORKS
- Networks may recommend platforms, investment options and strategies to new investors
- Networks provide investors with a sense of community and support

New investors assess where they fit within the investing community.

They are in search of others with similar goals and experiences, including looking toward friends and family for support.

Their investing decisions are often influenced by their immediate social circle and social media.

Often, social media serves as an aid among those who do not feel comfortable discussing investing with their social circles.

CLIENT EXPERIENCE
- Open an account
- Decide the amount of money they will invest and their investment options
- Frame their onboarding experience as they compile information required to open an account

The onboarding process is particularly important because it determines new investors’ expectations about future experiences.

If the process is not easy to navigate or overly complex, the investor may become disinterested.
Actionable Insights from the Starting Stage

To help new investors move from the Starting Stage to the Engaging Stage and beyond, financial services industry stakeholders can consider these actionable insights:

- Offering investor education remains fundamental for new investors to continue learning and stay motivated. In this stage, investor education provides an opportunity for individuals to increase their knowledge, skills, and confidence by providing them with reliable information to make appropriate investing decisions early in their investment journey and build their investor identity.

- Helping new investors better understand fees, product and service cost structures, and the short- and long-term financial implications of their investment decisions, beyond providing written disclosures, can build trust, knowledge, and confidence among new investors.

- Enhancing customer service experiences, particularly during onboarding processes, can help investors feel supported when they encounter issues or have questions.

- Helping investors understand why certain information is required from them during the account opening process (e.g., identity verification, fraud protection, money laundering prevention) can help investors feel more at ease with getting started investing, in contrast to providing certain onboarding information as a barrier to investing.

"I still don’t even get into it a whole lot because I still don’t understand so much, but gotta [sic] start somewhere.”
- Research Participant

"I’m on a conservative-type because I’m not a gambler, so I’m not willing to take those big risks like some people, because even my little bit is a lot to lose.”
- Research Participant
**STAGE 3: Engaging**

In the Engaging Stage, new investors become more familiar with the investing process, and the features and functionalities of the investing products or services they are using. At this stage, new investors have acquired a certain level of investing experience and knowledge. This stage serves as an opportunity for investors to implement their investment strategies and adapt them based on their evolving goals and objectives.

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<tbody>
<tr>
<td>Feel excited and overwhelmed about their investing journey</td>
<td>Desire to educate themselves about investing to minimize losses, make more informed investment decisions and achieve proposed financial goals</td>
<td>Networks provide guidance, emotional support, accountability, and a boost of confidence for investors</td>
<td>Seek user-friendly, interactive tools that fit their needs and further their investor journey</td>
</tr>
<tr>
<td>Determine how they see themselves as investors based on their accounts’ performance</td>
<td>Look for educational resources such as news articles, videos, webinars, investing websites, and social media</td>
<td>Networks motivate new investors to stay on their investing journey</td>
<td>New investors need investment strategies, products, and services that align with their needs and goals.</td>
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New investors are engaging with their portfolios and learning new things that help shape their identity as an investor. They are evaluating the performance of their portfolios to make decisions.

New investors desire greater personalized education and investment strategies.

New investors desire a strong and supportive investing community.
Actionable Insights from the Engaging Stage

To help new investors move from the Engaging Stage to the Integrating Stage, financial services industry stakeholders can consider these actionable insights:

- Continuing to offer educational resources, including newsletters, webinars, tutorials, and interactive tools that provide valuable insights and updates on new investors’ current investments, including investment strategies, can help new investors navigate their journey.

- Building programs and incentives that encourage investors to continue their journey, such as discounted fees for reaching investment milestones.

“I would feel more engaged if I had people in my circle, or there was a circle of people that I could connect with to have those conversations.”

- Research Participant

“Getting information from people that know exactly what it is that they’re doing makes me feel a lot more comfortable in my decision making.”

- Research Participant
STAGE 4:

Integrating

The Integrating Stage represents the phase where investors have progressed beyond the initial stages of contemplating, starting, and engaging. They have integrated experience, knowledge, and confidence in investing. They are now in a position to start exploring whether different investment opportunities would align with their objectives and risk tolerance. New investors in this stage no longer desire to constantly engage with their investment accounts. This stage is an important step towards achieving long-term financial success.

INVESTOR IDENTITY

- Re-evaluate their investing position to reflect their deeper understanding and experience

New investors have begun solidifying their identity as an investor and are increasingly building confidence. They are becoming more aware of who they are as investors and are searching for other products, services, and strategies that align with their goals and values.

ACTIONABLE KNOWLEDGE

- Reassess their level of motivation and interest based on positive or negative investment performance

As new investors gain knowledge around losses and profits, they also start to assess investing performance, which can create positive or negative emotions about investing.

New investors need information that helps them remain focused on achieving their goals.

NETWORKS

- Networks play a crucial role in new investors’ journey

- Seek advice and insights from financial professionals more often

New investors recognize the value of accurate information and seek this from trusted professional sources, rather than from family or friends.

New investors also start sharing their knowledge with family and friends.

CLIENT EXPERIENCE

- Look for ways to improve their financial position

New investors report no longer feeling compelled to check their portfolios constantly.

New investors need products and services that help them remain focused on achieving their goals.
Actionable Insights from the Integrating Stage

To help new investors stay in the Integrating Stage, industry stakeholders can consider these actionable insights:

- Offering personalized resources that meet investors’ evolving goals and motivations can help them remain engaged in their investing journey.
- Providing in-depth, advanced educational resources that are tailored to their specific needs can support new investors in their evolving investing journey.
- Offering spaces and opportunities for new investors to seek financial guidance and advice, including access to professional financial advisers, educational workshops or webinars, and mentorship programs can empower new investors to further their investing skills and make more informed decisions.
- Being clear and transparent about fee structures and product offerings can help new investors more easily navigate their evolving investing journey.

"I wouldn't want to go back and support something or somebody that doesn't follow my values, and I wouldn't want my portfolio to reflect anything different either."
- Research Participant

"I reached the point where I had a lot going on when I was buying the house and I wasn't really watching it [...]. I wanted to automate as much as possible."
- Research Participant
Considerations for Attracting and Supporting New Investors

Industry stakeholders indicated that profit potential is a strong motivator for engaging a customer base. Though most expressed interest in new investors, business models are not explicitly designed to serve customers living on LMI, especially women of color. The question then becomes, what must be done to provide new investors living on LMI access to investing opportunities?

Eleven of the 15 industry interviewees highlighted a lack of financial education as a significant barrier for new investors, and eight of the 15 also discussed the need for guidance or support to build confidence among new investors. Many also cited concerns about adverse outcomes for new investors’ portfolios caused by excessive trading, gamification, and high-risk investments.

Access to Financial Education

EARLY EXPOSURE TO INVESTING
Financial education can occur through various channels, including family, friends, and the local communities. New investors who are exposed to investing early in life, such as in school or by observing their family and community members, are more confident and aware about investing.

SOURCES OF FINANCIAL EDUCATION
It can be challenging for new investors to find reliable sources of information. Social media, which is often used by new investors as a resource, presents a particular challenge because it can be riddled with misinformation about investing.

Financial institutions can be a resource for reliable information. Yet, the information from these institutions can be limited or may not address the needs of new investors. Providing accessible and relevant information to new investors can help institutions gain and retain clients.

Human-Centered Design
Human-centered design is an intentional and strategic approach that allows stakeholders to focus on aligning their strategies with the needs of their clients. To increase the market participation of new investors in the financial ecosystem, industry stakeholders can attract and engage them with products and services that are desirable, viable, feasible, and impactful.

Trust is paramount in the financial services industry. A well-crafted client experience not only adds aesthetic value but also fosters a sense of security and reliability. Minimizing cognitive load by simplifying complex tasks, providing clear instructions, and reducing distractions can help clients feel more confident and in control. Understanding clients’ mental models (how they conceptualize and interpret their reality) and designing products and services that align with their expectations and preconceptions can foster trust.

Additionally, by using ethical engagement practices in the product and services, industry stakeholders can better protect clients and help them avoid bad actors who use manipulative techniques. These practices also support compliance with regulations and laws that protect investors.
Client Relationship
Investors, particularly new investors, place great value on trust and seek financial professionals that allow them to openly share their concerns and receive personalized guidance through the roadblocks they encounter. New investors reported seeking individuals who share similar backgrounds, life experiences, and investment paths. This insight suggests an opportunity for stakeholders in the financial services industry to consider diversifying their recruitment of customer-facing investment professionals and customer service representatives. Demographic diversity among these roles may encourage participation in the capital markets. Efforts to actively minimize biases and promote inclusivity in the industry are vital.

Transparency and Disclosure
Transparency is fundamental to ensuring that new investors have adequate access to information about investment products and services—including features, different types of fee structures, potential risks and returns, and expenses. Providing accessible information can help new investors make informed financial decisions.

SIMPLIFIED AND ACCESSIBLE LANGUAGE
- Unambiguous information can help investors avoid confusion and misinterpretation.
- Some investors may find fees to be more relatable and straightforward when expressed as dollar amounts rather than percentages.
- New investors may find it helpful to have fee calculators.
- Visual and user-friendly formats like charts, graphs, tables, timelines, lists, and bullet points can be effective in disclosures.
- Privacy protection can increase clients’ trust and foster greater capital markets participation.
Conclusion

This report offers a glimpse into the journey of new investors as they navigate the complex and dynamic world of investing. We identified a four-stage conceptual roadmap to help industry stakeholders support new investors’ participation in the capital markets:

1. Contemplating
2. Starting
3. Engaging
4. Integrating

Our study yielded several insights. First, we found that new investors engage in thoughtful contemplation as they begin their investing journey. This is a foundational phase upon which successful investment decisions are built. It is marked by self-reflection and goal setting. Second, networks are pivotal for helping develop new investors’ confidence. In addition, actionable investor education fosters new investors self-assurance in navigating the investing ecosystem. Lastly, trust is the bedrock of any successful investor-financial institution relationship. Investors must feel confident that financial institutions and its professionals are committed to providing unbiased, high-quality client services. For new investors, having financial professionals who share their values and experiences is important during their investor journey. Also, because investors must entrust personal data to financial institutions, it is important they feel their information is protected.

Gaining a better understanding of investors’ journey, including their needs and challenges, can help industry stakeholders create solutions that foster a capital market that serve all communities.
Appendix: Methodology

Commonwealth and the FINRA Investor Education Foundation conducted a two-phase project to gain insights into new investors’ investing journey and determine how these experiences can be used to create inclusive capital markets. Conversations with new investors and financial services industry stakeholders informed the development of the New Investor Roadmap. Information about each phase is described below.

In the first phase of the project, Commonwealth conducted a series of semi-structured in-depth interviews and a focus group with female investors who began investing in the capital markets during the last six to 12 months and earn a net annual income of $30,000-$80,000. Most identified as Black/African American and Hispanic/Latina. Respondents were asked about their investing motivations, goals, challenges and experiences that have reinforced or discouraged investing. A total of 15 investors participated in the first phase; eight of whom participated in-depth interviews and five in a focus group. Insights gained from these conversations were used to create the initial version of the New Investor Roadmap. New Investors who participated in the study were recruited from a prior study conducted by Commonwealth which provided low-to-moderate income women with no investing experience $250 to begin investing.

In the second phase of the project, Commonwealth conducted 15 semi-structured in-depth interviews and three co-design sessions with financial services industry stakeholders to obtain feedback on and refine the New Investor Roadmap. During these sessions, financial services industry stakeholders shared their experiences serving new investors. Financial services industry stakeholders included policymakers, and financial professionals in wealth management firms, mutual fund companies, investment banks, brokerage firms, and fintechs. In addition, Commonwealth conducted an additional focus group with five new investors to verify that the New Investor Roadmap resonated with new investors’ experiences.