

Morgan Stanley Wealth Management
Investor Pulse Poll



Houston Metro Area Report
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Executive Summary

Morgan Stanley releases findings from the “Morgan Stanley Wealth Management Investor Pulse Poll” of 1,000 U.S. high net worth (HNW) investors age 25 to 75 with \$100,000 or more in investable household financial assets. Approximately one in five (21%) of all U.S. households fall into this group representing approximately 24 million households (defined to exclude assets held in real estate and employer retirement plans).¹ The poll was conducted from January 14 to March 3, 2013 and includes interviews with hundreds of households that report investable household financial assets of \$1 million or more (33% of those interviewed) yielding a robust look at a group that makes up only 3.6% of total US households.² All told, households with \$100,000 or more in investable assets account for 94% of total investable assets by value.³ All results reported are from the Morgan Stanley Wealth Management Investor Pulse Poll. This special summary report focuses upon an oversample of 302 respondents in the city of Houston and its surrounding areas.

Highlights from this survey reveal that roughly six in ten Houston-area HNW investors feel that the global economy (63%) and national economy (58%) will be the same or better by the end of 2013. Even more (86%) expect their own household’s investment portfolios to be the same or better. A high proportion of investors (74%) are also confident of achieving their long-term financial goals.

- With much optimism expressed at the personal level, the poll, however, reveals some macro worries among investors. The budget deficit (90%), the prospects for the U.S. economy (89%), increased foreign conflicts (86%), and the trade deficit (84%) top the list of concerns (“very concerned” plus “somewhat concerned”). Other top concerns include volatility in the stock market (80%), phase-out of personal exemption and deductions for incomes over \$250,000 and terrorism in the U.S. (79% each), social security for “your generation” (77%), and a downgrade in the debt rating and high inflation within five years (76% each).
- Assets do seem to help investors sleep better in some important ways—fewer (56%) are concerned about outliving their income and assets, with even fewer (millionaires 39%).
- More Houston-area HNW investors keep their money in stocks or equities (40%) than in other choices, but cash and fixed income investments representing another 42%. This finding underscores the importance to this group of keeping its capital intact—64% state that preserving their capital is more important today than it was three years ago.
- Gold (50%), commodities and precious metals other than gold (46%), dividend bearing stocks and REITs (45% each), and mutual funds or ETFs (43%) are investors’ “good” picks for 2013. International stocks, treasuries, and corporate bonds are much less enticing. As sectors go, Energy, Natural Resources, Technology, Bio-tech, and Pharmaceutical are seen as good picks by half or more of Houston-area HNW investors, but Aerospace, Consumer Discretionary, and Insurance, for example, are not.
- On average, investments in the energy sector make up one-fifth (20%) of Houston-area HNW investors’ portfolios, with oil making up the largest portion (48%). A large majority see potential in natural gas (88%) and oil (87%) investments. Fewer, but still a majority, see potential in

¹ According to aggregated data using results of the Federal Reserve’s 2010 Survey of Consumer Finances, 21% of all US households have non-retirement financial assets of \$100,000 or more and are of age 25 to 75.

² A statistical Analysis of the Survey of Consumer Finances Data.” October 2010, a CEB data analysis of the Federal Reserve Board’s 2010 Survey of Consumer Finances.

³ A statistical Analysis of the Survey of Consumer Finances Data.” October 2010, a CEB data analysis of the Federal Reserve Board’s 2010 Survey of Consumer Finances.

alternatives and renewables (64%). About six in ten (61%) believe that government regulations and incentives have a positive impact on alternatives and renewables, but many also think that such regulations and incentives have a *negative* impact on oil (57%) and natural gas (46%).

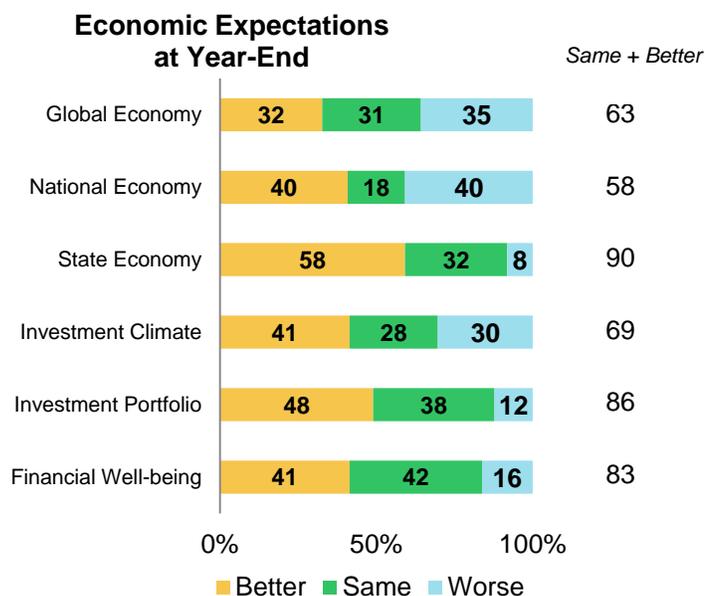
- The U.S. tops the list as a good place to put one's money this year (56% say it is good), with China (47%) also seen as attractive.
- More (50%) believe there has been an improvement in their local housing market than a decrease (7%). Investors are positive about the current housing environment for purchasing primary residences (80%) and rental properties (61%), but not quite as positive for second homes (44%), commercial real estate (39%), or REITs (38%).
- Three-quarters (75%) of Houston-area HNW investors seek the guidance of a professional financial advisor on a broad range of topics, from tax efficiency to asset allocation, to new investment ideas and bringing downside protection. Many use more than one type of advisor. For example, certified financial analysts, certified public accountants, and certified financial planners (53%) are consulted about as often as stock brokers (48%). Expectations for these professionals run high, with most seeking more than just facts. They want analysis, clear communication, and guidance.

The State of the Economy and the Investment Climate

Houston Investors Feel the Economy Will Be the Same or Better at Year-End—Particularly the State Economy

Nearly two-thirds (63%) of 302 High Net Worth (HNW) investors with \$100,000 or more in investable liquid assets interviewed in Houston or its surrounding areas at the beginning of this year feel the global economy will be the same or better by the end of 2013, although this group is slightly more cautious than similar investors nationally (72%). Thirty-two percent predict a better global economy before January and 35% feel it is already better than it was a year ago. In post-fiscal cliff, pre-federal sequestration interviews, 58% predict that the national economy will be the same or better before the end of December with 40% expecting to see improvement in the economy by that time.

More than four-in-ten (44%), fewer compared to nationally, also believe that the national economy is better now than it was a year ago. In vivid contrast, Houston investors are exceedingly positive about the direction of the state economy; virtually all (90%) say “same” or “better”.



Personal Portfolios and Financial Well-Being Expected to Improve

At the personal level, optimism runs high, with 86% expecting their investment portfolios to be the same or better by next January. Looking back a year, 44% say their portfolio is better than it was at the beginning of 2012, slightly lower than nationally (53%), compared to just 16% who say it is worse. This *improvement* over last year does not hold as well for lower asset group investors (35%) versus millionaires (75%) and those with one-half to a million dollars in assets (45%). A great majority of all those interviewed (83%) feels that as 2013 closes, they will have the same or a better sense of financial well-being.

Most Are Confident They Will Reach Their Long-Term Financial and Retirement Goals But One in Three Retirees Are Disappointed With Their Portfolios

Most Houston-area HNW Investors (74%) are confident they will achieve their long-term financial goals. They are slightly less optimistic than their counterparts nationally (83%), however.

Most Houston-area HNW investors are confident (74%; 30% very confident) that they will achieve their long-term financial goals. They are slightly less optimistic than their counterparts nationally (83%), however. A majority (71%) of those who have not retired are also confident that they are on track in their planning. Reality can dampen optimism once retirement actually arrives, however. A plurality of

retirees (42%) report that their investment portfolio is about what they expected, but 33% say it is worse than expected, with only 22% saying it is better.

Concerns about Investing and the Economy

What Keeps HNW Investors Awake the Most At Night?

Economic issues top the list of HNW investors' concerns. The budget deficit worries 90%, with 71% describing themselves as very concerned. Other top economic concerns include the nation's economic prospects (89%), the U.S. trade deficit (84%), and volatility in the stock market (80%). Over three-quarters of Houston-area HNW investors are concerned with the phase-out of personal exemptions and deductions for incomes over \$250,000 (79%), the solvency of Social Security for "your generation" (77%), the possible downgrading of the debt rating (76%) and high inflation (76%). Two geo-military issues make the top grouping of concerns, including increased foreign conflicts (86%)—third on the list—and terrorism in the U.S. (79%).

Consistent with Houston-based HNW investors' optimism about the economic prospects in Texas, these investors are noticeably less concerned than HNW investors nationally about the financial well-being of their state (-28 points; 46% concerned to 74%, respectively), or about a decline in housing prices (-9 points; 44% to 53%, respectively).

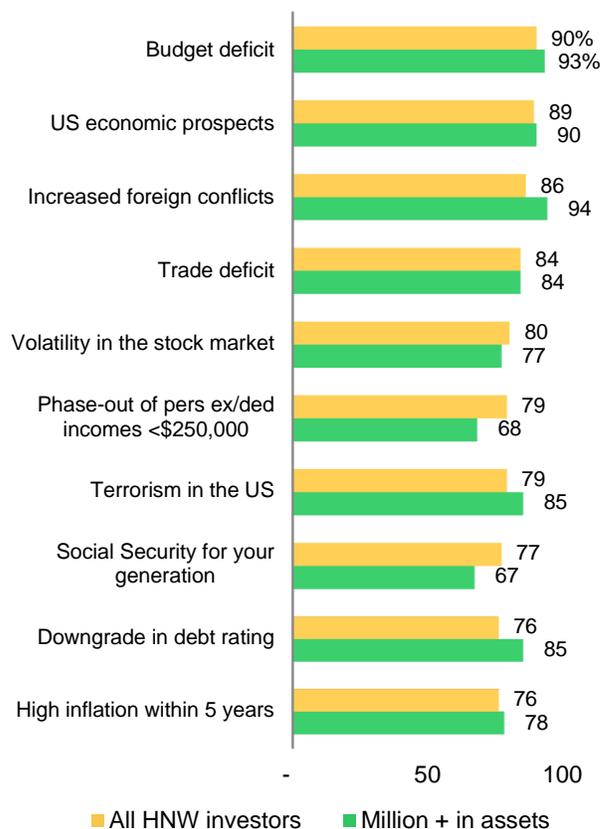
Millionaires' views on these top concerns—primarily macro-economic in nature, such as the budget and trade deficit, U.S. economic prospects, the possibility of high inflation over the next five years, as well as the increased foreign conflicts—track fairly closely to those of overall Houston-area HNW investors.

Healthcare and retirement compose a second tier of concerns for Houston-based HNW investors. Nearly three-quarters have concerns about decreased Medicare coverage levels (74%), the possibility of incurring major healthcare expenses for themselves or members of their family (73%), or being able to afford quality healthcare at all times (73%). Clear majorities are likewise concerned about having enough income during retirement (71%), living longer than income and assets (56%), and having the ability to retire when they desire it (55%).

Among Houston HNW investors, there is broad agreement between millionaires and non-millionaires on healthcare concerns, but noticeable divergence on retirement concerns, with millionaires less likely to indicate concern about their ability to retire when desired and have enough income during this period. This perhaps reflects the sense that healthcare expenses can be more *unexpected* and *very high*—potentially sinking even well-planned and funded plans—whereas "other" retirement expenses are more predictable, and thus more manageable in the long term. This divergence is reflected among HNW investors nationally, as well.

Being able to provide for and help one's family is yet another area where millionaires sleep better. Notable are concern over the family's financial well-being (millionaires are 28 percentage points lower in

High Concerns Among Investors All HNW Investors vs. Millionaires

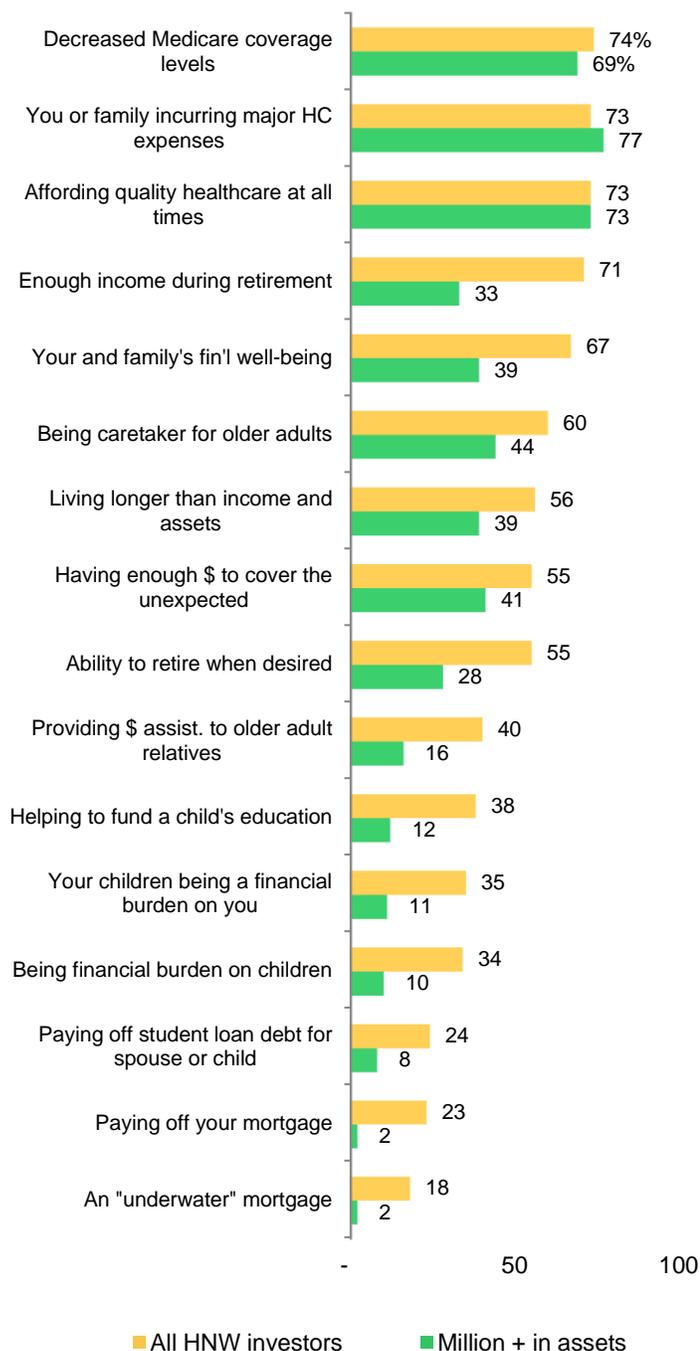


concern), providing financial assistance to older relatives (24 points lower), helping to fund a child’s education (26 points lower), being a financial burden on children (24 points lower)—or children being a financial burden on them (also 24 points lower).

As with HNW investors nationally, there is another difference between millionaires and all HNW investors that illustrates how assets can help to alleviate concerns: on perceptions of “having enough money to cover the unexpected”. While a substantial number of HNW investors worry about this (55% are concerned or very concerned), this is a lower-level concern in the minds of Houston-area millionaires, with 41% saying they are very or somewhat concerned.

Looking at the list of concerns, Houston-area HNW investors are perhaps least anxious about housing-related issues, such as a decline in housing prices (44%), paying off their mortgage (23%), or being “under water” with their mortgage (18%).

Other Concerns Among Investors All HNW Investors vs. Millionaires



Portfolios and Investments

A Lot of Investors' Money is in Equities But Some Remains In Fixed Income Investments and Cash

On average, stocks and equities make up the largest portion of HNW investors' portfolios (40%) and many have likely benefitted from the recently soaring market. One in five dollars (19%) is parked in fixed income investments and 19% is in "all other" investment vehicles, which includes commodities, etc. Just under one-fourth of all money sits in in cash (23%).

Roughly three in ten (29%) Houston-area HNW investors plan to adjust their allocations during the coming year. Right now, those who plan to make a change are a little lighter in their "other investments" (14%) versus those who do not plan any changes (21%), though the differences among the named allocations are minimal. These "adjustors" do not expect to alter their cash proportion, but they are looking to reduce equities slightly (from 43% to 39%), while increasing fixed income and "other" investment proportions by a hair (from 20% to 22%, and 14% to 16%, respectively).

Millionaires who plan to adjust—of note, a small sample of 34 in the city of Houston—do not appear to approach their portfolio allocations differently from other HNW investors. They are similarly likely to expect to have more in stocks and equities (42%) than in cash positions (23%) or fixed income vehicles (20%).

Preservation of Capital Is More Important to Investors Today

Two in three (64%) Houston-based HNW investors admit that preserving their capital or holdings is more important to them now than it was three years ago—nine points higher than HNW investors nationally. Only 4% assign it lower importance. Considering that stocks and equities—more volatile than fixed income investments—make up the largest proportion of HNW investors' wealth, it appears that investors are fairly comfortable with equities at the present time.

Capital appreciation as an investment objective is also more important now than three years ago, with 52% saying "more important," as is generating income from investments (50%).

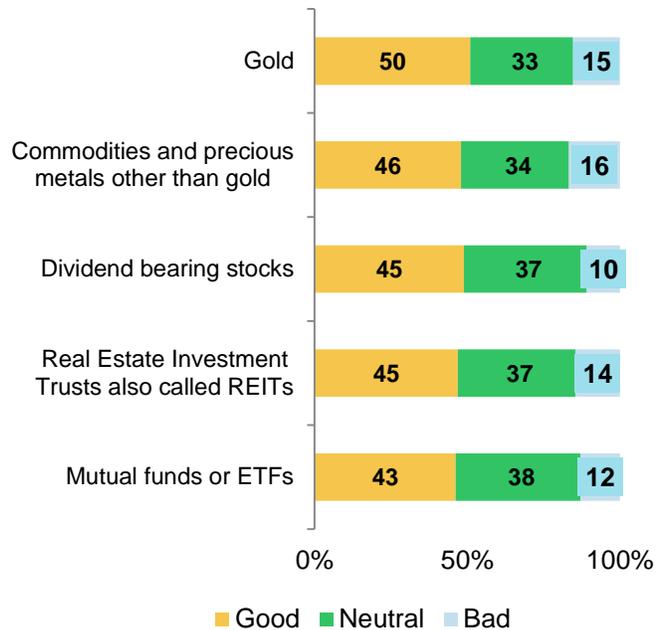
	Current Average Allocations	Current—Among Those Who Do <u>Not</u> Plan to Adjust (n=210)	Current—Among Those Who Plan to Adjust (n=92)	Planned Adjustment
Cash	23%	22%	24%	24%
Stocks or equities, stock funds, ETFs	40	39	43	39
Fixed income: bonds, treasuries, CDs, etc.	19	19	20	22
All other investments	19	21	14	16

Investors' Top List of Good Investments in 2013 Betrays Aversion to Risk

Topping the list of “good” investments for 2013 are gold (50%), non-gold commodities and precious metals (46%), dividend bearing stocks (45%), and Real Estate Investment Trusts (REITs) (45%). Mutual funds or ETFs round out the top tier, with 43% saying these are a good investment prospect. One in six or fewer says these five investments are “bad” investments. However, while each of the top five receives higher “good” than “neutral” ratings, the differential is not especially large, suggesting some tepidness toward these vehicles. This may indicate some risk aversion and supports the high importance that HNW investors place on preservation of capital, noted previously.

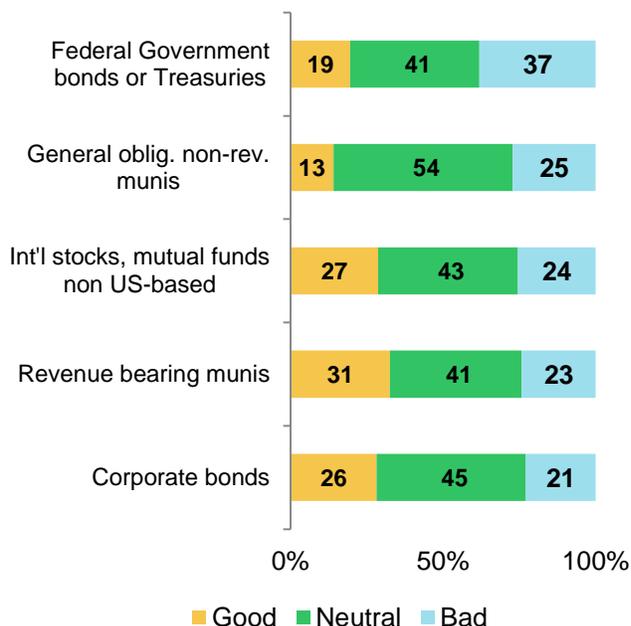
Consistent with Houston-based HNW investors' sunny view of the state's economic prospects, these investors are noticeably more likely to say that municipal bonds in their state are good investments (37% “good,” compared to 22% among investors nationally). Forty percent of Houston-based HNW investors are neutral about these instruments, and 18% say these

Good Investment Prospects in 2013



are a bad investment—also lower compared to the national view (26%).

Bad Investment Prospects in 2013



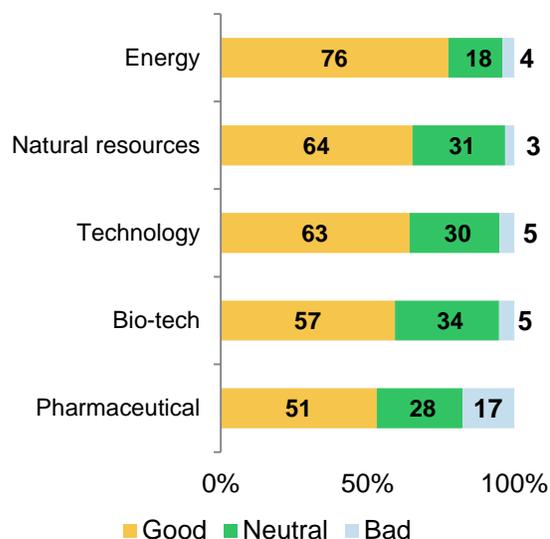
Topping the “bottom” list are federal government bonds or treasuries (37% “bad”), general obligation non-revenue munis (25%), “international stocks of non US-based companies or international mutual funds that do not own shares of US-based companies” (24%), revenue-bearing munis (23%), and corporate bonds (21%). Four out of five of these investments are fairly low risk, lower return investments, which goes along with the previously stated concern of many about low returns on fixed investments. International stocks (the third item) may just be considered too risky.

Good Investment Sectors

The top-five investment sectors for this year in the eyes of Houston-area HNW investors are Energy and Natural Resources. Owing to the strength of these sectors in the region, roughly two in three or more say these are good investments. Technology, Bio-tech, and Pharmaceuticals follow, which each have majorities saying these provide good opportunities for investing.

Endorsement of all other sectors falls below 50%, with the exception of the real estate sector, considered a good investment by 50% of investors. In terms of negative ratings, the Aerospace sector is viewed the most negatively: 37% say it is a “bad” investment area, only 15% consider it a “good” investment area, and 44% are neutral about it. The Insurance (24% “good;” 32% “bad”) and the Consumer Discretionary (18% “good;” 17% bad”) sectors are the only other two areas that are rated as “good” by fewer than a quarter of investors. Still, millionaires are more positive than Houston-area HNW investors overall when it comes to the consumer discretionary sector: 32% of millionaires give this sector a “good” rating. The Housing sector gets a stamp of caveat emptor, with 23% saying it is a “bad” area in which to put one’s money this year, but a modest 40% say it is a good and 35% say it is a neutral sector in which to invest. The broader Real Estate sector finds higher support (12% bad, 36% neutral, and 50% good). In a subsequent series of questions, investors are more favorable toward real estate overall for the next three-year outlook.

Top Investment Sectors in 2013

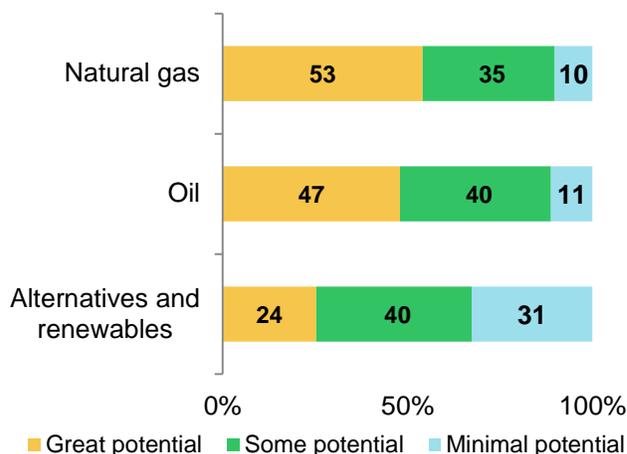


Investments in the Energy Sector

On average, investments in the energy sector make up one-fifth (20%) of Houston-area HNW investors’ portfolios, with oil making up the largest portion (48%). About a quarter (26%) is parked in natural gas, while 13% is in alternatives and renewables, and 14% is in “other” energy investments. Millionaires differ from the others slightly in that they have a bit more allocated toward natural gas (30%) and less toward oil (44%).

A large majority of Houston-based HNW investors see at least some potential in natural gas (88%) and oil (87%) investments. About half even see “great” potential in these (53% and 47%,

Energy Investment Potential



respectively). Fewer, but still a majority, see at least some potential in alternatives and renewables (64%), though only a quarter (24%) see “great” potential in that area. Millionaires’ views on energy investments’ potential do not differ significantly from those of Houston-area HNW investors overall.

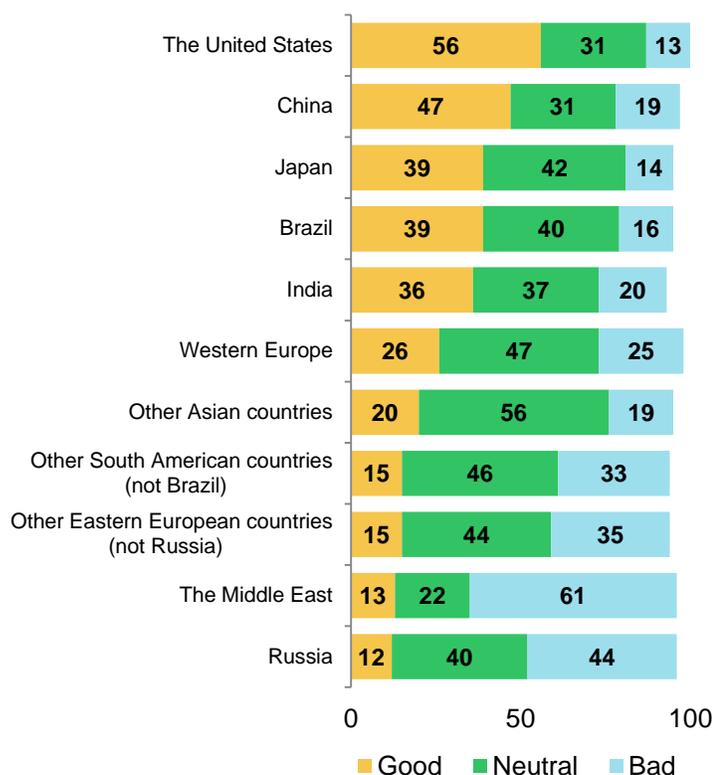
Six in ten (61%) of Houston-area HNW investors believe that government regulations and incentives have a positive impact on alternatives and renewables, with 31% saying the impact is strongly positive. On the other hand, a majority (57%) of Houston-area HNW investors think that the government has a *negative* impact on oil, and a plurality (46%) think it has a *negative* impact on natural gas.

Foreign and International Investing

Like HNW investors nation-wide, those in the Houston area say there is no place like home when it comes to investment opportunities. A majority (56%) say that the United States is a good place to invest in 2013, more so than any other country or region named, mirroring the view of national HNW investors.

China joins the U.S. as the only place where even a plurality sees good investment opportunities this year. At the national level, investors place China lower—third place (39%), behind Brazil—versus Houston’s 47%. Ranked at the bottom, Russia is seen as a very poor place prospect among investors (a mere 12% say it is good), while investors are split between being positive and neutral toward both Brazil and India, leaving a big hole in the BRIC category. Despite investors’ lingering concerns about the fiscal direction of the United States, the country has secured the top spot as the best place to put money this year.

2013 Investment Outlook by country/region



The U.S. is seen as the best place to put money this year, followed by China.

Brazil and China outshine other countries in their respective regions, with at least pluralities saying they are neutral toward the investment opportunities in other South American and Asian countries. And the Eurozone crisis may be taking a toll on U.S. investor confidence, with nearly half neutral and

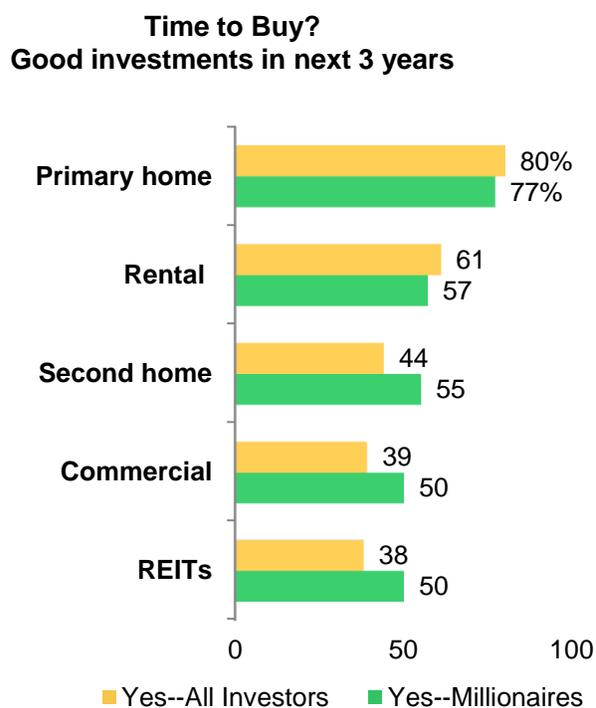
about two-fifths neutral and one-third negative toward investment in Western Europe, and about two-fifths neutral and one-third negative in Eastern Europe. With civil war in Syria and concerns about Iran’s nuclear ambitions overshadowing whatever optimism “the Arab Spring” may have spawned, Houston-area HNW investors, like those across the U.S., are decidedly negative about investment opportunities in the Middle East.

Housing and Real Estate

Investors are Seeing Opportunities in Real Estate Again

Half (50%) of Houston-area HNW investors say that home prices have increased in their geographic area in the past year. This is a bit higher than the national average of 41%. Specifically, they estimate that prices within 25 miles of their primary home have increased 9%, on average, over the past year. Slightly fewer Houston-area HNW investors say prices have remained the same (43%). Only 7% believe there has been a decrease, at an average of 14%. Foreclosures have affected 34% of respondents' neighborhoods "somewhat" or "a great deal" (compared to 43% saying this among national investors), but only 1% say "a great deal." Nearly two-thirds (65%) have seen no foreclosure problems close to home. This rate is higher than the national average of 56%.

Like HNW investors nationwide, those in the Houston area are fairly bullish on investing in the real estate market now. More than one out of three believe real estate will outperform stocks and commodities (36% each) over the next three years, and about half believe it will eclipse bonds (48%) and cash (54%). The timing is good, they say, to buy primary residences (80%) and, to a lesser degree, rental properties (61%) but not quite as good for second homes (44%), commercial real estate (39%), or REITs (38%). Millionaires, however, are more keen on buying these: 50% say commercial real estate and REITs will be good investments. Overall, more Houston-area investors than those nationwide believe these are good investments.



Fifty percent of Houston HNW investors sense an improvement in their local housing markets. They estimate that prices within 25 miles of their primary home have increased 9%, on average, over the past year.

As seen among national investors, the great majority of those in the Houston area already own a primary home (98%), in many cases with a mortgage (61%). Very few of those mortgages are "under water" (4%). Ownership of second homes (18%), rental (13%), or commercial property (8%) is much less common. Fewer hold mortgages on these investments, with the exception of commercial real estate (86%).

In the past three years, 39% (compared to 43% nationally) have made some type of real estate transaction, mostly in primary homes (31%). Many have taken advantage of historically low interest rates via re-financing (22%), especially younger investors (28%). But relatively few have made new property purchases (11%), and cash transactions (10%) have not been the vehicle of choice with today's interest rates so low. Second mortgages (2%) and home equity loans (4%) have been fairly scarce among the HNW set, both in the Houston area and nationwide.

As at the national level, Houston-area HNW investors are conservative on real estate policy. Only one in four (23%, compared to 34% nationwide) feel that the government should place a high priority on loan

modifications for at-risk borrowers and fewer than one in five (16%, compared to 17% nationally) want to see a strong focus on backing low down payment loans for low income borrowers. Even a topic closer to home—raising the threshold for government loan guarantees in high value housing area—sparks little support in this group, as merely 13% (the same as the national average) say it should be a high priority.

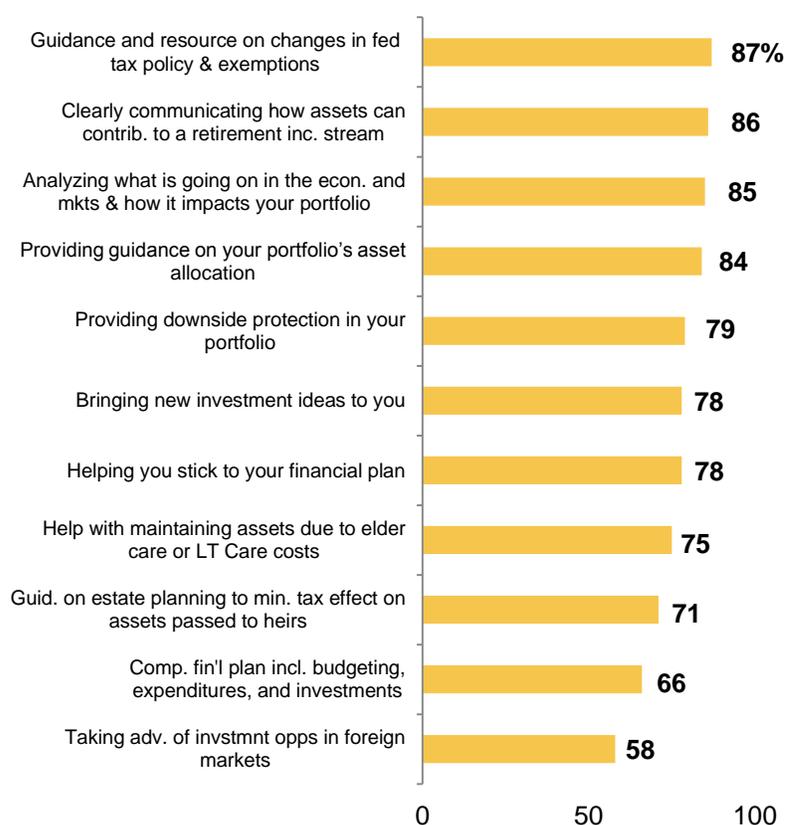
Use of Financial Professionals

High Expectations of FAs

As seen nationwide, professional financial advisors are highly in demand in the Houston area. Three-quarters (75%) of Houston-area HNW investors currently use an advisor. CFAs, CPAs, or CFPs (53%) are consulted about as often as stock brokers (48%); many HNW investors use more than one type of advisor. Overall use of these professionals is roughly similar across all asset and age groups.

HNW investors want a lot from their professional financial advisors. About four-fifths or more of those with an advisor want guidance on topics ranging from tax efficiency to asset allocation, as well as new investment ideas and help sticking to their financial plan. Echoing the theme noted earlier, that American high net worth investors are focused more on domestic opportunities, the only noticeable laggard on what they seek from their advisors is “taking advantage of investment opportunities in foreign markets”—although a majority (58%) do want their FAs to help them with this goal.

Economic Expectations at Year-End (Among those with an FA)



These investors seem to want more than “just the facts” about today’s investment opportunities. They want their FAs to provide market insight that helps them prepare for the future—and to do so in a way they can understand.

But these investors, again like those across the country, seem to want more than “just the facts” about today’s investment opportunities. They want their FAs to provide market insight that helps them prepare for the future—and to do so in a way they can understand. Indeed, *communicating*, *guiding*, and *analyzing* are the keywords in some of the top items on the list: “Clearly communicating how your assets can

contribute to a retirement income stream” and “Analyzing what is going on in the economy and markets and how it impacts your portfolio.”

Among HNW investors who **do not** currently have any sort of financial advisor, the order of top priorities is broadly similar, but to lesser degrees of importance. “Providing guidance and acting as a resource on new changes in federal tax policy and exemptions that may affect return on your portfolio” (66%) nearly ties with “analyzing what is going on in the economy and markets and how it impacts your portfolio” (67%) as the top issue for which this group sees the need for professional help.

Methods

The Morgan Stanley Wealth Management Investor Pulse Poll was conducted via telephone interviews from January 14 through March 3, 2013 by GfK Public Affairs and Corporate Communications. One thousand respondents across the United States were contacted using listed sample of landline phone numbers pre-identified as high net worth households (\$100,000 or more in liquid investable assets). Respondents were required to be between the ages of 25 and 75 years old and to be one of the primary decision makers in the household for financial decisions. In addition, confirmation of \$100K or more in household net investable assets was also done. Quotas were applied in order to obtain one-third in each of the following categories: \$100K to \$499K, \$500K to \$999K, and \$1 million or more in investable assets. Results were then weighted to age within each of these three asset classes using the Federal Government's Survey of Consumer Finances data.

Regional oversamples of 300 respondents were also obtained in 8 regions across the country. These regional samples required the same screening criteria as the national sample, except that respondents had to live in the metro areas of San Francisco, Los Angeles, Denver, Chicago, Boston, New York, Atlanta, or Houston. For New York, one-third of the 300 respondents were targeted to be from the New York, New Jersey, and Connecticut areas. The regional oversamples were weighted using the same targets from the Survey of Consumer Finances as was the national study.

Contacts

Morgan Stanley

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Corporate Communications

Mr. James Wiggins
Managing Director
Corporate Communications
Morgan Stanley
(914) 225-6161
James.Wiggins@MorganStanley.com

Ms. Christine Jockle
Executive Director
Corporate Communications
Morgan Stanley
(914) 225-6827
Christine.Jockle@MorganStanley.com

Marketing Research

Dr. George Szybillo
Executive Director
Marketing Research
Morgan Stanley
(914) 225-5450
George.Szybillo@MorganStanley.com

Mr. Anthony Guglielmucci
Vice President
Marketing Research
Morgan Stanley
(914) 225-5531
Anthony.Guglielmucci@MorganStanley.com



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