Morgan Stanley

Morgan Stanley Wealth Management Investor Pulse Poll

National Report
April 2013

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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.

Highlights from this survey reveal that most HNW investors (72%) feel that the global economy 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 similarly high proportion of investors are confident of achieving their long-term financial (83%) and retirement (80%) goals.

- With much optimism expressed at the personal level, the poll, however, reveals some macro worries among investors. The budget deficit tops the list with 88% of those interviewed expressing concern (“very concerned” plus “somewhat concerned”) and 65% saying they are very concerned. Most are also worried about the nation’s economic prospects (86%) and the trade deficit (83%), as well as increased foreign conflicts (87%) and terrorism (79%).

- Assets do seem to help investors sleep better in some important ways—only 57% are concerned about having enough money to cover the unexpected, with even fewer (25%) millionaires concerned (those with $1 million or more in assets).

- Investors are mostly satisfied with their access to the financial markets and their ability to get the risk exposure they desire (81%). Fewer are satisfied with the transparency (62%) and the regulation (40%) and integrity (45%) of the markets, but more than half (55%) feel that things are moving in the right direction for investors.

- More HNW investors keep their money in equities (41%) than in other choices, but cash and fixed income investments together represent another 42%. This finding underscores the importance to this group of keeping its capital intact—55% state that preserving their capital is more important today than it was three years ago. Gold (48%), dividend bearing stocks (46%), mutual funds (41%), and broad market indices (41% to 45%) are investors’ “good” picks for 2013. Fixed income investments and international stocks are

[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.

much less enticing. As sectors go, Technology, Energy, Pharmaceuticals, Bio-tech, and Natural Resources are seen as good picks by more than half of HNW investors, but Aerospace, Financial Services, and Insurance, for example, are not.

- The U.S. tops the list as a good place to put one's money this year (56% say it is good), with Brazil (43%) and China (39%) also seen as attractive, indicating that wealthy Americans may put their bucks in the "BUC countries" (Brazil, U.S., and China) in 2013.

- World problems, such as seen in the Euro Zone and a potential slowdown in China, appear to suppress investment appetites for more than half of investors.

- Twice as many (41%) believe there has been an improvement in their local housing market rather than a decrease (20%). Investors are positive about the current housing environment for purchasing primary residences (74%), rental properties(49%) and second homes (39%) with one out of every two millionaires (52%) thinking it is a good time to purchase a second home.

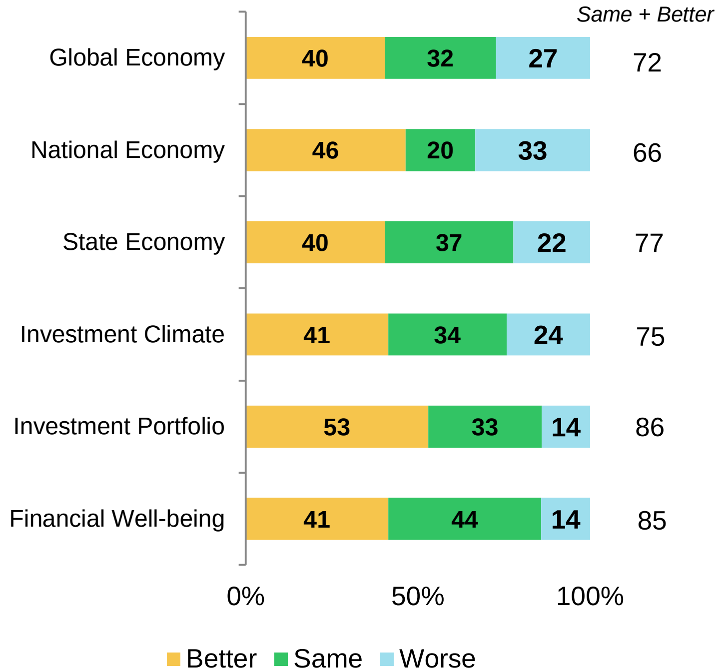
- Almost eight in ten (78%) HNW investors seek the guidance of a professional financial advisor on a broad range of topics, from tax efficiency to asset allocation, to new investment ideas and help with sticking to a financial plan. Many use more than one type of advisor. For example, certified financial analysts, certified public accountants, and certified financial planners (54%) are consulted about as often as stock brokers (52%). 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

Most Investors Feel the Economy Will Be the Same or Better at Year-End

Seven in ten (72%) of 1,000 High Net Worth (HNW) investors with $100,000 or more in investable liquid assets interviewed across the United States at the beginning of this year feel the global economy will be the same or better by the end of 2013. Forty percent predict a better global economy before January and 36% feel it is already better than it was a year ago. In post-fiscal cliff, pre-federal sequestration interviews, 66% predict that the national economy will be the same or better before the end of December with 46% expecting to see improvement in the economy by that time. Nearly half (49%) also believe that the national economy is better now than it was a year ago. Views are similar toward home state economies and the overall investment climate.

Economic Expectations at Year-End



Personal Portfolios and Financial Well-Being Expected to Improve

At the personal level, optimism is a little higher, with 86% expecting their investment portfolios to be the same or better by next January. Looking back a year, 53% say their portfolio is better than it was at the beginning of 2012. This *improvement* over last year does not hold as well for lower asset group investors (45%) versus millionaires (68%) and those with one-half to a million dollars in assets (65%). A great majority of all those interviewed (85%) 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

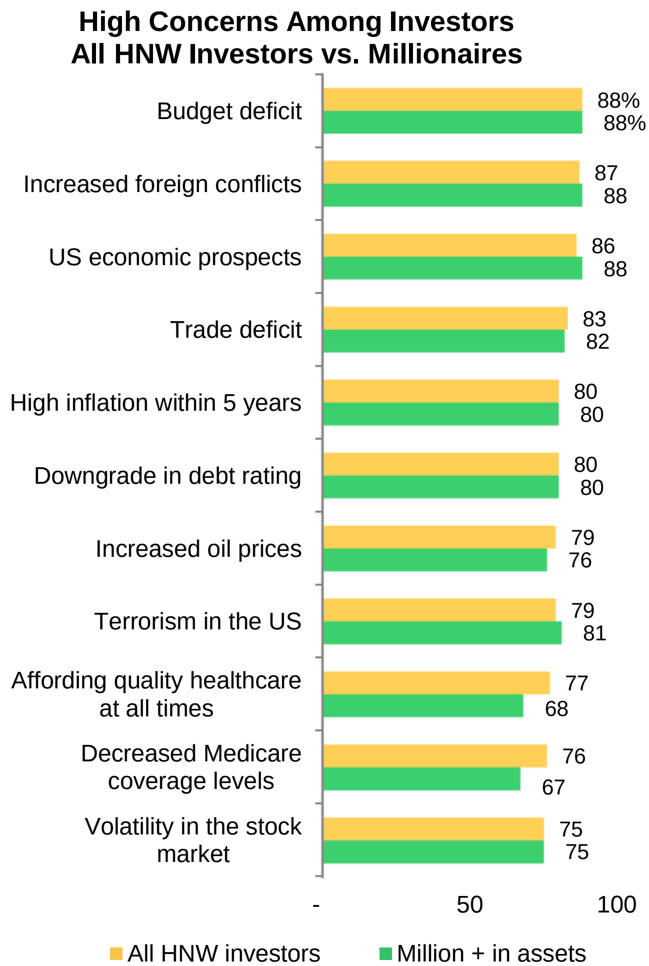
Most HNW investors are confident (83%; 27% very confident) that they will achieve their long-term financial goals. A large majority (80%) of those who have not retired are also confident that they are on track in their planning. Reality can dampen optimism once retirement actually arrives, however. A plurality of retirees (38%) report that their investment portfolio is about what they expected, but 36% say it is worse than expected with only 24% saying it is better.

Most HNW Investors (83%) are confident they will achieve their long-term financial goals.

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 88%, with 65% describing themselves as very concerned. Other top economic concerns include the nation's economic prospects (86%) and the trade deficit (83%). Two other highly worrisome matters are more global in nature, that is, increased foreign conflicts (87%) and terrorism (79%), with healthcare concerns such as being able to afford quality healthcare (77%) and decreased Medicare coverage levels (76%) also reaching up to the top grouping on the list.



Millionaires' views on these top concerns track fairly closely to those of overall HNW investors, even in relation to the intensity of worry expressed. Of note, only the federal budget deficit garners a "very concerned" rating higher than the mid-forties for either millionaires or investors.

Nine points do separate HNW investors as a group from millionaires on the two healthcare-related concerns: millionaires are less concerned about affording quality healthcare at all times (77% vs. 68%) and are less worried about potentially decreased Medicare coverage levels (76% vs. 67%). In these two cases, possessing greater assets logically appears to be helpful in assuaging what are normally strongly felt concerns.

What Worries Investors Less?

Potential problems over which investors feel they have greater control—worries that can be addressed personally or mitigated via having greater financial means—do not tend to keep HNW investors awake quite as much at night, as seen in the list of "Lower Concerns." Retirement is one example: millionaires are less concerned about having enough income during retirement (54%) than are other HNW investors (65%) and they are not as bothered over being able to retire when they want to (39% vs. 53%). Social Security being available for their generation is another item of lower concern (61% vs. 71%), as is fear of outliving one's income and assets (43% vs. 54%).

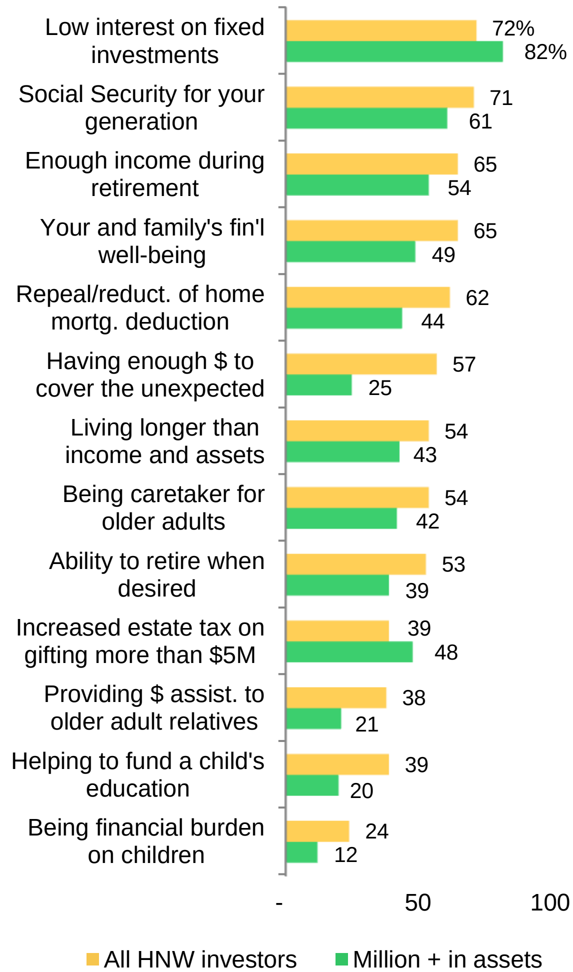
Being able to provide for and help one's family is yet another area where millionaires sleep better. Notable are concern over the family's financial well-being (millionaires are 16 percentage points lower in concern), providing financial assistance to older relatives (17 points lower), helping to fund a child's education (19 points lower), being a financial burden on children (12 points lower) and being a caretaker for older adults (12 points lower).

Millionaires Have Some Different Concerns

The biggest difference of all between millionaires and all HNW investors strongly illustrates how assets can help to alleviate concerns. “Having enough money to cover the unexpected,” while a substantial worry for HNW investors overall (57% are concerned or very concerned), is a much lower level problem in the minds of millionaires. Only 25% are very or somewhat concerned about money to cover the unexpected.

Higher assets levels are not enough to assure a good night’s sleep regarding all non-global issues, however. Millionaires’ have *higher* concern than HNW investors as a whole regarding low interest on fixed investments. This is a top-5 concern for millionaires, engendering 82% concern versus 72% for the group overall. Similarly, but much farther down the list of concerns, millionaires are more worked up about the estate tax increase from 35% to 40% on gifting of more than $5 million to others (48% vs. 39% for all investors) and they are also “very concerned” at a higher rate (31%) than all investors on this recent change (21%).[4]

Other Concerns Among Investors
All HNW Investors vs. Millionaires



Satisfaction with the Operation and Regulation of the Financial Markets

Investors are mostly satisfied with the access they have to the financial markets and with their ability to get the risk exposure they desire. Eight in ten (81%) are “very” or “somewhat” satisfied on this level with three in ten (31%) saying very satisfied. From a value perspective—that is, value for time and value for money—satisfaction with the financial markets also runs fairly high (74-75%) Six in ten (62%) are also content with the transparency of the markets, accessing the fair value information they want. Problems show up, however, when it comes to the regulation (40% very/somewhat satisfied) and integrity (45%) of the financial markets. More than half of investors in both cases are not satisfied. Taking all of these aspects of the financial markets into perspective, however, 55% of investors respond that they do feel that things are moving in the right direction for investors.

> *“I think there's a lack of transparency. I think that only the big guy can truly compete and get ahead. I just don't think the little guy can do it anymore by himself.”*

Reasons vary among investors who voice dissatisfaction with the regulation of the financial markets. In open-ended

[4] Sample bases vary for these concerns. All are approximately n=500 (split sample). “Your and family’s financial well-being” is n=1,000. “Helping to fund a child’s education” and “Being a financial burden on children” are both n=410, based on respondents with children and/or grandchildren.

responses, 68% cite regulations themselves as the source of their discontent. Among these, key gripes surround calls for *more* regulations (23%), with many preferring *fewer* rules (17%), and others desirous of greater transparency (7%). Enforcement is a theme that also comes to the fore (21%), with complaints ranging from allegations that the markets are rigged or manipulated (5%) to a need for stricter rules (4%) and just plain enforcement (4%) as well as calls for consequences for violators (9%). Several respondents blame regulators themselves for perceived problems (14%), which includes allegations ranging from "regulators don't know what they're doing" to distaste over "…the way they bailed out financial services, allowing executives to be paid bonuses from bailout money…" Agency capture is alluded to by some (5%), with one respondent pointing out that "the regulations were written by the people they're supposed to be governing." Another investor states that "You cannot put a fox to watch the chicken house." A few more feel that regulations favor or protect the banks and financial industry, not the consumers.

Portfolios and Investments

A Lot of Investors' Money is in Equities, Much Remains In Fixed Income and Cash

On average, stocks and equities make up the largest portion of HNW investor's portfolios (41%) and many have likely benefitted from the recently soaring market, especially millionaires, who report that 46% of their investments are in equities. One in five dollars (20%) is parked in fixed income investments and 17% is in "all other" investment vehicles, which includes commodities, etc. Just over another fifth of all money sits in in cash.

	Current Average Allocations	Current—Among Those Who Do Not Plan to Adjust (n=758)	Current—Among Those Who Plan to Adjust (n=242)	Planned Adjustment
Cash	22%	22%	23%	24%
Stocks or equities, stock funds, ETFs	41	42	39	38
Fixed income: bonds, treasuries, CDs, etc.	20	20	19	22
All other investments	17	16	19	16

Just a quarter of 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 current equities allocation (39%) versus those who do not plan any changes (42%). These "adjustors" do not expect to alter their cash and equities proportions much, but they do intend to end the year with 22% in fixed income investments versus 19% currently, while also lowering their positions in "all other" types of investments from 19% down to 16%. By comparison, the 27% of millionaires who intend to adjust their portfolios expect to have 45% of their money in equities at the end of the year, lighten their cash positions to 18%, and to have 22% in fixed income vehicles.

Preservation of Capital Is More Important to Investors Today

A majority (55%) of HNW investors admit that preserving their capital or holdings is more important to them now than it was three years ago, while 41% say its importance has not changed. Only 3% assign it lower importance. Those with assets between half a million to under one million dollars are particularly concerned about preserving capital (64%) compared with millionaires (57%) and those with assets under half a million (53%). 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.

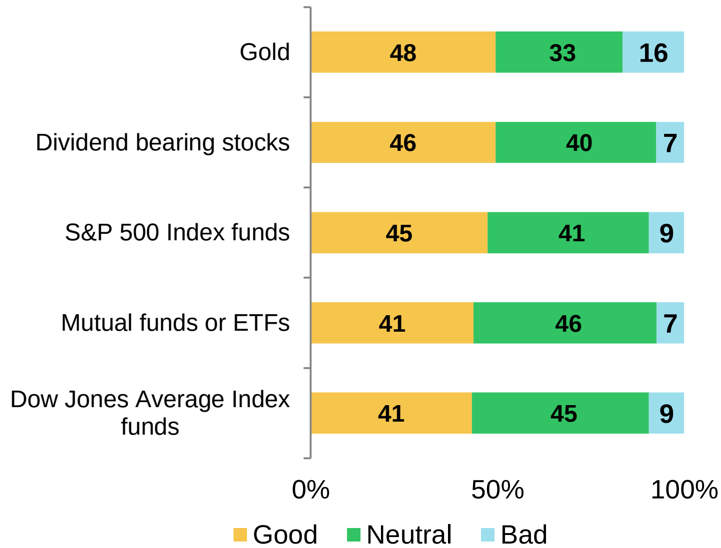
Capital appreciation as an investment objective is also more important now than three years ago to 48% of investors, as is generating income (45%). But 45% have not shifted on either of these two objectives during this period.

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

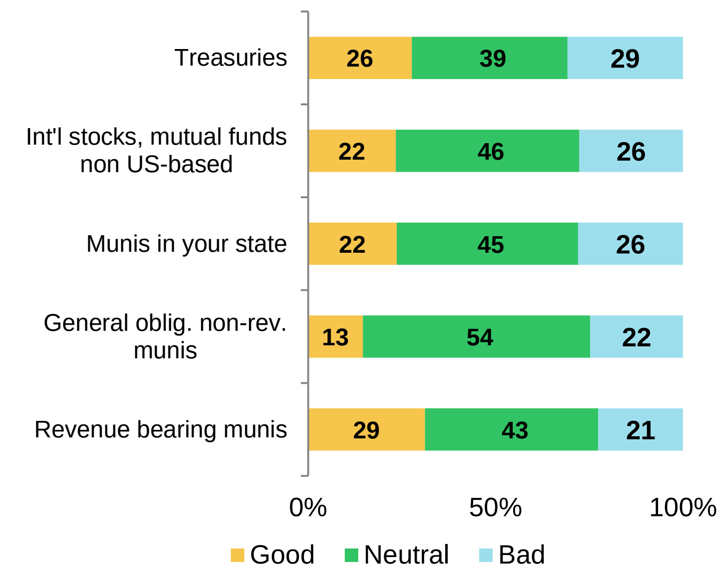
Topping the list of "good" investments for 2013 are gold (48%), dividend bearing stocks (46%), and S&P 500 Index funds (45%). Each of the top three also receives higher "good" than "neutral" ratings. All top picks beyond these three display higher "neutral" than "good" ratings, indicating investors' tepid embrace of these vehicles. This may indicate some risk aversion and supports the high importance that HNW investors place on preservation of capital, noted previously.

Topping the "bottom" list are "treasuries" (29%), "international stocks of non US-based companies or international mutual funds that do not own shares of US-based companies" (26%)," "municipal bonds in your state" (26%), "general obligation non-revenue bearing munis" (22%), and revenue bearing or project-backed munis (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 fourth item) may just be considered too risky.

Good Investment Prospects in 2013

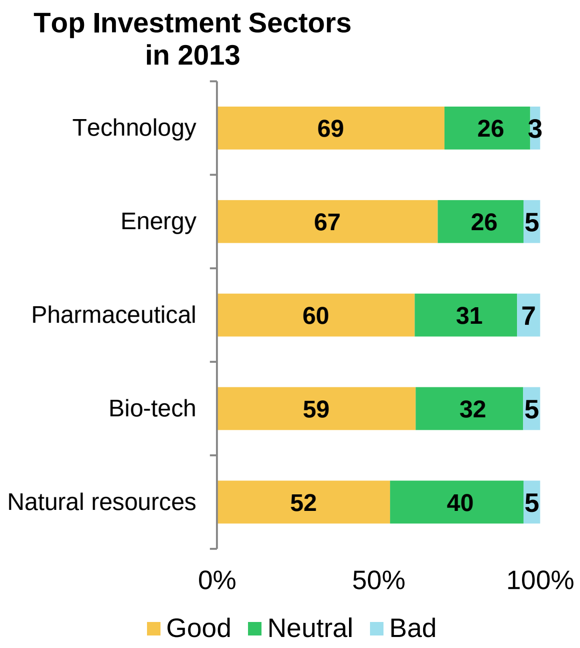


Bad Investment Prospects in 2013



Good Investment Sectors

The top five investment sectors for this year in the eyes of HNW investors are Technology, Energy, Pharma, Bio-Tech, and Natural Resources. Endorsement of all other sectors falls below 50%, with the exception of the Healthcare sector. Healthcare, while thought of as a good investment by 52% of investors, also received the second highest "bad" investment rating (21%), with 25% neutral. The only other sector to get a higher negative rating is "Aerospace" (34%). Financial Services is favored by just over one in four (27%), with more than half neutral toward the sector (54%). Only 18% consider aerospace a "good" investment area and 44% are neutral about it. The insurance sector (20% "bad") is also not highly recommended (25%) and the housing sector gets a stamp of caveat emptor, with 18% saying it is a "bad" area in which to put one's money this year, but a modest 40% each say it is a good or neutral sector in which to invest. The broader real estate sector finds very slightly higher support (16% bad, 40% neutral, and 44% good). Millionaires buck the trend on real estate, however, endorsing this sector with a 54% "good" rating, 35% neutral, and 10% bad. In a subsequent series of questions (below), investors are more favorable toward real estate overall for the next three-year outlook.



Foreign and International Investing: Shunning the BRICs to Make a BUC?

American HNW investors 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.

In fact, this may be the year that we start speaking of the "BUCs" instead of the "BRICs" as the destination for smart money. Brazil and China join the U.S. as the only places where even a plurality sees good investment opportunities this year. But Russia's abysmal ranking among investors (a mere 12% see Russia as a good investment area) and India's more neutral one leave a hole in the middle of the BRIC category. And despite investors' lingering concerns about the fiscal direction of the United States, the U.S. has secured a place in the center of the "BUC" trio—Brazil, the United States, and China—as one of the best places to put money this year.

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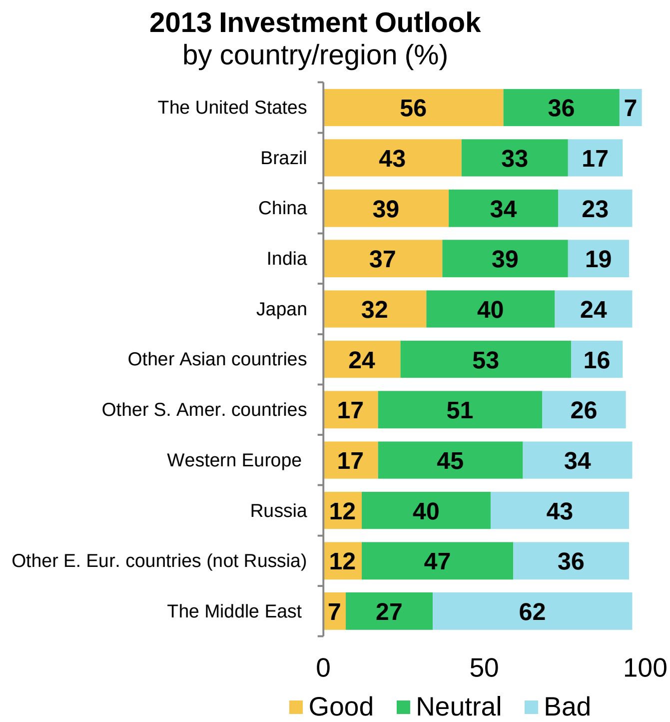
Brazil and China outshine other countries in their respective regions, with majorities saying they are neutral toward the investment opportunities in other South American and Asian countries. And the Eurozone crisis may be taking a toll on U.S. investor confidence, with nearly half neutral and about a third negative toward investment in both Western and Eastern Europe. With civil war in Syria and concerns about Iran's nuclear ambitions overshadowing whatever optimism "the Arab Spring" may have spawned, U.S. HNW investors are decidedly negative about investment opportunities in the Middle East.



World Crises Suppress Appetites for Investment Overall and Abroad

Six in ten investors (63%) believe the debt crisis risk in the Euro Zone has increased over the past year and a plurality (42%) sees increased potential for an economic slowdown in China. These situations have suppressed appetites for investing *overall* in the next 12 months (51% admit a decreased appetite due to the Euro crisis, 54% due to a potential China slowdown), and the Euro Crisis has *directly* dampened enthusiasm for investing in Europe (60%). The prospect for a China slowdown has also directly decreased the lure of investing in emerging markets (43%). The recent change in Japan's political leadership has similarly caused 41% of investors to think twice about investing *overall*, as well as directly in Japan (44%).

Housing and Real Estate

Investors are Seeing Opportunities in Real Estate Again

Four in ten HNW investors (41%) sense an improvement in their local housing markets. They estimate that prices within 25 miles of their primary home have increased 10%, on average, over the past year. Roughly as many say prices have remained the same (38%). Twenty percent, however, believe there has been an average 15% decrease. Foreclosures have affected 43% of respondents' neighborhoods "somewhat" or "a great deal," but only 5% say "a great deal." More than half (56%) have seen no foreclosure problems close to home.

HNW investors are fairly bullish on investing in the real estate market now. Approximately one out of three believe real estate will outperform stocks (35%) and commodities (33%) over the next three years and will eclipse bonds (42%) and cash (49%). The timing is good, they say, to buy primary residences (74%) and rental properties (49%) but not quite as good for second homes (39%), commercial real estate (28%), or REITs (30%). Millionaires, however, are keen on buying a second home (52%).

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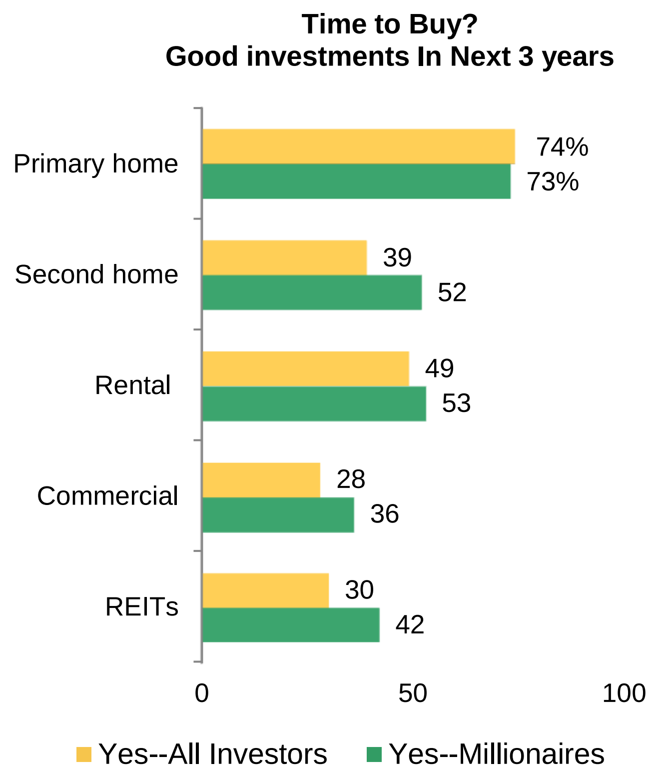
The great majority of these investors already own a primary home (96%), in many cases with a mortgage (66%). Very few of those mortgages are "under water" (4%). Ownership of second homes (20%), rental (17%), or commercial property (9%) is much less common. Fewer hold mortgages on these investments because HNW *millionaires* are more likely to own them (often without a mortgage). That said, those who do have mortgages on these types of real estate investments are a bit more likely to be under water, particularly for rental (8%) and commercial (7%) properties.

In the past three years, 43% have made some type of real estate transaction, mostly in primary homes (37%). Many have taken advantage of historically low interest rates via re-financing (29%), especially younger investors (39%). But relatively few have made new property purchases (7%), and cash transactions (8%) have not been the vehicle of choice with today's interest rates so low. Second mortgages (1%) and home equity loans (4%) have been fairly scarce among the HNW set.



Investors are Conservative on Real Estate Policy

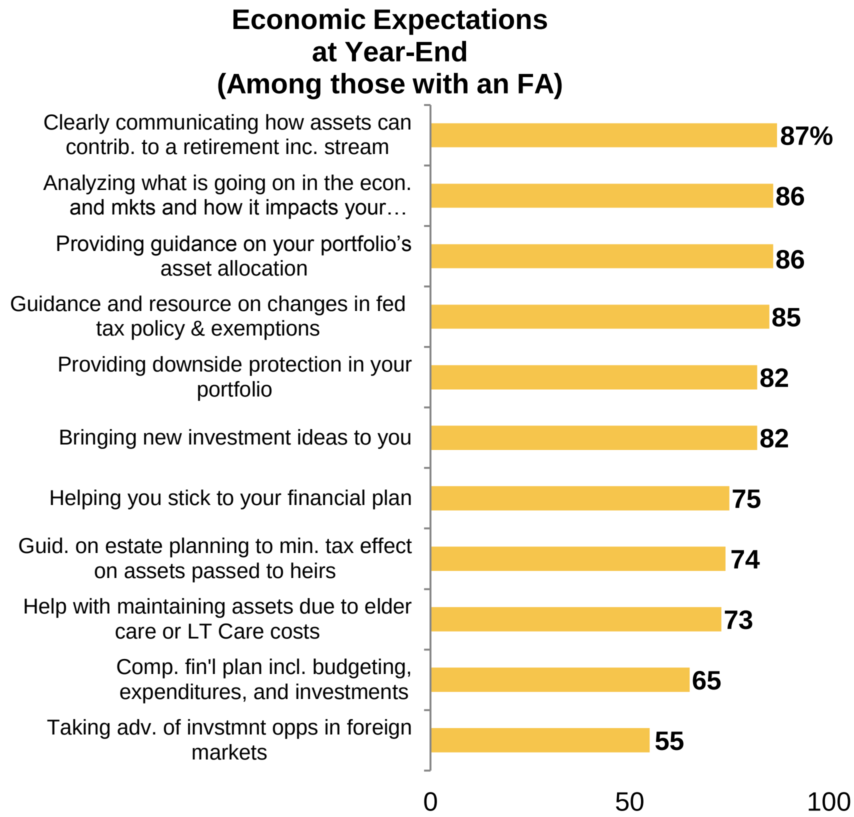
HNW investors are conservative on real estate policy. Only one in three (34%) feel that the government should place a high priority on loan modifications for at-risk borrowers and fewer than one in five (17%) want to see a strong focus on backing low down payment loans for low income borrowers. Even a topic closer to home—raising the threshold for government loan guarantees in high value housing areas—sparks little support in this group, as merely 13% say it should be a high priority.

Use of Financial Professionals

High Expectations of FAs

Professional financial advisors are highly in demand. About four in five (78%) HNW investors currently use an advisor. CFAs, CPAs, or CFPs (54%) are consulted about as often as stock brokers (52%); many HNW investors use more than one type of advisor. Overall use of these professionals is roughly similar across all asset and age groups, although women are more likely than men (83% vs. 73%) to have an advisor.

HNW investors want a lot from their professional financial advisors. About three-quarters 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 (55%) do want their FAs to help them with this goal.



Investors Want More than Just the Facts

But 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. Indeed, *communicating* and *analyzing* are the keywords in the top two 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, priorities are broadly similar, although tax guidance appears to be a particularly unmet need for this group. "Providing guidance and acting as a resource on new changes in federal tax policy and exemptions that may affect return on your portfolio" (68%) nearly ties with providing guidance with asset allocation (69%) as the top issue for which this group sees the need for professional help.

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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

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