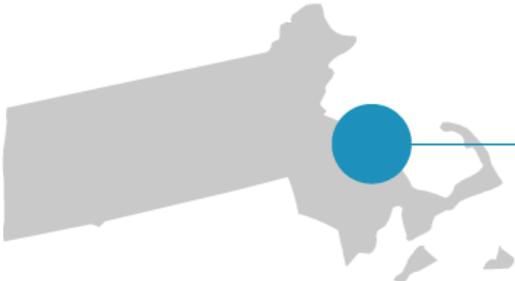


Morgan Stanley Wealth Management  
Investor Pulse Poll



Boston Area 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).<sup>1</sup> 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.<sup>2</sup> All told, households with \$100,000 or more in investable assets account for 94% of total investable assets by value.<sup>3</sup> All results reported are from the Morgan Stanley Wealth Management Investor Pulse Poll. This special summary report focuses upon an oversample of 301 respondents in Boston.

Highlights from this survey reveal that most Boston-area HNW investors (77%) feel that the economy will be the same or better by the end of 2013. Even more (87%) expect their own household’s investment portfolios to be the same or better. A similarly high proportion of investors (85%) are confident of achieving their long-term financial and retirement 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 91% of those interviewed expressing concern (“very concerned” plus “somewhat concerned”) and 58% saying they are very concerned. Most are also worried about the nation’s economic prospects (87%) and the trade deficit (76%), as well as increased foreign conflicts (80%).
- Assets do seem to help investors sleep better in some important ways. Millionaires (31%) are less concerned about having enough money to cover unexpected events than all investors (51%).
- More Boston-area HNW investors keep their money in equities (44%) than in other choices, but cash and fixed income investments together represent another 41%. This finding underscores the importance to this group of keeping its capital intact—57% state that preserving their capital is more important today than it was three years ago. S&P 500 Index funds (57%), dividend bearing stocks (53%), Dow Jones Average Index funds (52%), mutual funds (48%), and stocks (42%) are investors’ “good” picks for 2013. Fixed income investments and international stocks are much less enticing. As sectors go, Energy, Bio-tech, Technology, Natural Resources, and Healthcare are seen as good picks by more than half of Boston-area 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 (61% say it is good), with Brazil (51%), China (49%), and India (45%) also seen as attractive in 2013.
- Far more investors see improvement (54%) in the Boston housing market rather than a decrease (8%). Investors are positive about the current housing environment for purchasing primary residences (73%), rental properties (49%) and second homes (39%).

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<sup>1</sup> 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.

<sup>2</sup> “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.

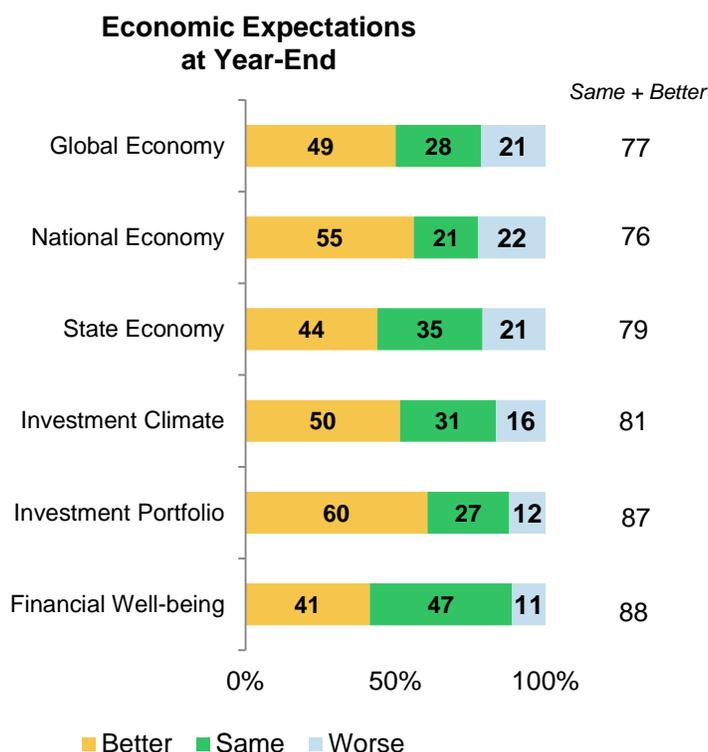
<sup>3</sup> “A statistical Analysis of the Survey of Consumer Finances Data.” October 2010, a CEB data analysis of the Federal Reserve Board’s 2010 Survey of Consumer Finances.

- Seven in ten (71%) Boston-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 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 (51%) are consulted about as often as stock brokers (47%). 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

Nearly eight in ten (77%) of the 301 High Net Worth (HNW) investors with \$100,000 or more in investable liquid assets interviewed across the Boston area at the beginning of this year feel the global economy will be the same or better by the end of 2013. Forty-nine percent predict a better global economy before January and 44% feel it is already better than it was a year ago. In post-fiscal cliff, pre-federal sequestration interviews, 76% predict that the national economy will be the same or better before the end of December with 55% expecting to see improvement in the economy by that time. Six in ten (61%) also believe that the national economy is better now than it was a year ago. Views are similar, if not a bit more positive, toward Massachusetts's economy and the overall investment climate. On each of these measures, HNW investors in the Boston area tend to be at least somewhat more optimistic than HNW investors nationally.



### Personal Portfolios and Financial Well-Being Expected to Improve

At the personal level, optimism is a little higher, with 87% expecting their investment portfolios to be the same or better by next January. Looking back a year, 63% 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 (57%) versus millionaires (72%) and those with one-half to a million dollars in assets (73%). A great majority of all those interviewed (88%) feels that as 2013 closes, they will have the same or a better sense of financial well-being.

*Most Boston-area HNW Investors (85%) are confident they will achieve their long-term financial goals.*

### Most Are Confident They Will Reach Their Long-Term Financial and Retirement Goals But Nearly Half of Retirees Are Disappointed With Their Portfolios

Most Boston-area HNW investors are confident (85%; 23% very confident) that they will achieve their long-term financial goals. A large majority (81%) 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. Close to half (48%) of retirees say their investment portfolio is worse than they expected, while the balance says it is better than (27%) or about the same as (24%) expected. These figures stand in sharp contrast to HNW investors nationally, where fewer say that their investment portfolio is worse than expected (36%).

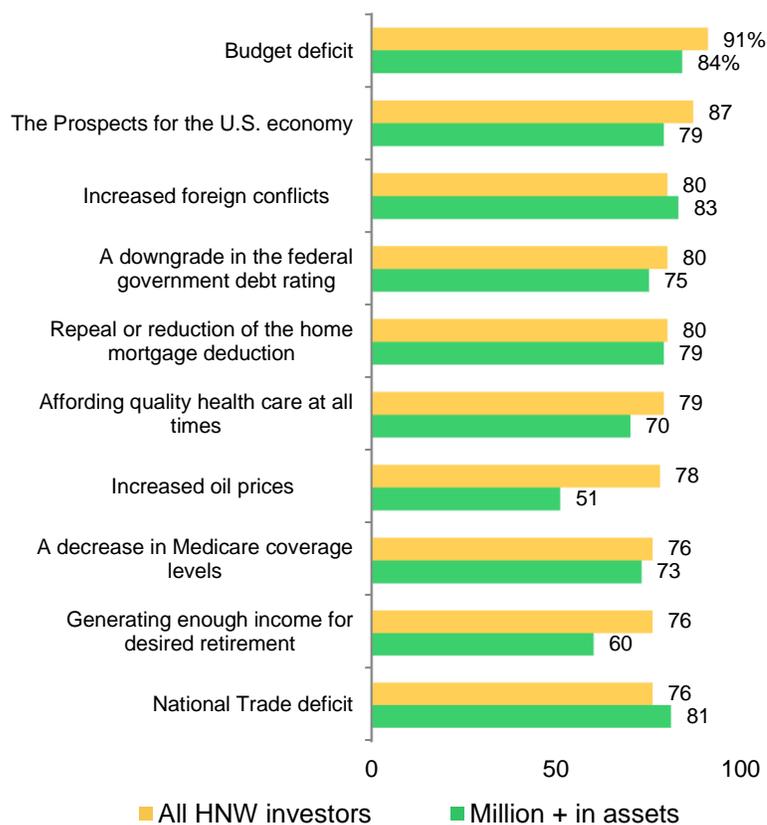
## Concerns about Investing and the Economy

### What Keeps HNW Investors Awake the Most At Night?

As seen nationally, economic issues top the list of Boston-area HNW investors' concerns. The budget deficit worries 91%, with 58% describing themselves as very concerned. Other top economic concerns include the nation's economic prospects (87%), a downgrade in the federal government debt rating (80%), and the trade deficit (76%). Two other highly worrisome matters are more global in nature: increased foreign conflicts (80%) and increased oil prices (78%). Healthcare concerns such as being able to afford quality healthcare (79%) and decreased Medicare coverage levels (76%) also reach the top grouping on the list—as does concern for repealing or reducing the home mortgage deduction (80%) and, more generally, generating enough income for the type of retirement desired (76%).

Millionaires' views on these top concerns track fairly closely to those of Boston-area HNW investors overall, with the exception of concern for oil prices (51% versus 78%) and generating enough income for the type of retirement desired (60% versus 76%), where millionaires are less concerned than HNW investors overall. In the latter case, possessing greater assets logically appears to be helpful in assuaging what is normally a strongly felt concern.

**High Concerns Among Investors  
All HNW Investors vs. Millionaires**



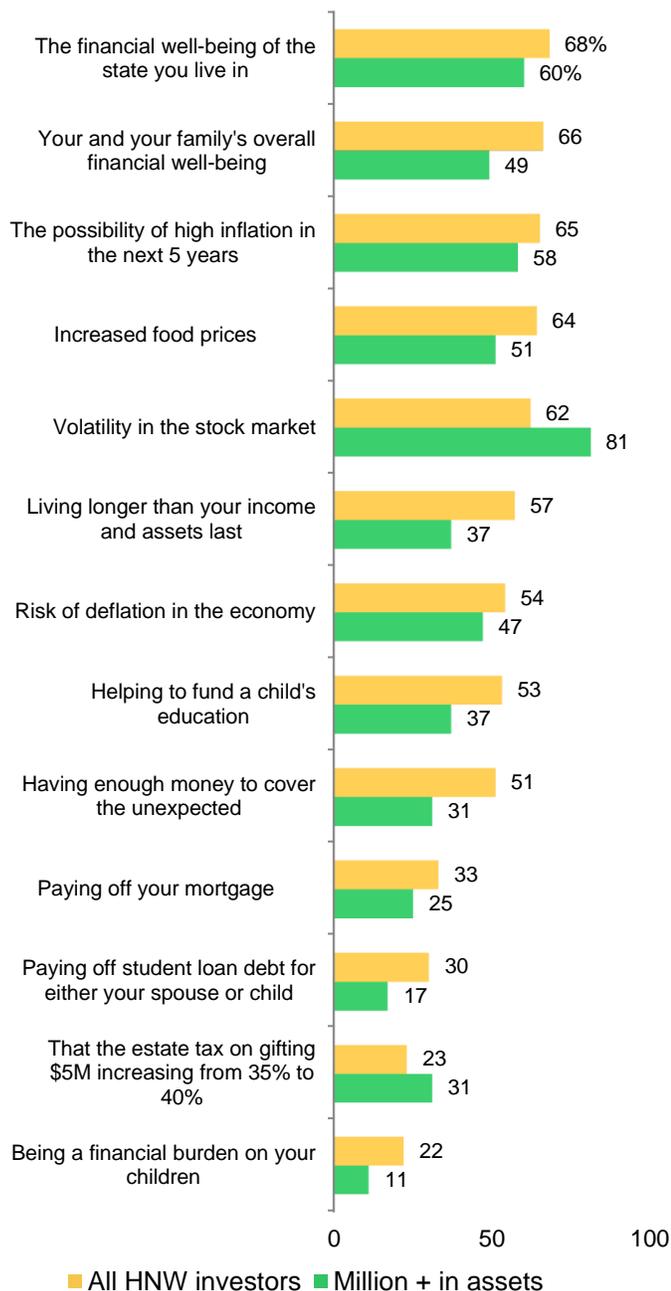
Potential problems over which investors feel they have greater control—worries that can be addressed personally or mitigated via having greater financial means—do not tend to keep HNW investors awake quite as much at night, as seen in the list of “Lower Concerns.” The unexpected is one example: millionaires are less concerned about having enough money to cover the unexpected (31%) than are other HNW investors (51%) and they are less afraid of outliving one’s income and assets (37% vs. 57%).

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 17 percentage points lower in concern), helping to fund a child’s education (16 points lower), and being a burden to children (11 points lower).

Higher assets levels are not enough to assure a good night’s sleep regarding all issues, however. Millionaires have *higher* concern than HNW investors as a whole regarding volatility in the stock market (81% versus 62% overall), as well as an increase in the estate tax from 35% to 40% on gifts over five million dollars (31% versus 23%).

When it comes to Massachusetts’s financial well-being, millionaires (60%) are nearly as concerned as HNW investors overall (68%).

### Other Concerns Among Investors All HNW Investors vs. Millionaires



## Portfolios and Investments

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

On average, stocks and equities make up the largest portion of Boston-area HNW investors' portfolios (44%) and many have likely benefitted from the recently soaring market, especially millionaires, who report that 51% of their investments are in equities. One in five dollars (21%) is parked in fixed income investments and 15% is in "all other" investment vehicles, which includes commodities, etc. Another fifth of all money sits in in cash. These figures are all in line with HNW investors overall, at the national level.

A quarter (24%) of investors plan to adjust their allocations during the coming year. These "adjustors" do not expect to alter their cash and equities proportions much, but they do intend to end the year with just slightly more allocated to cash (21% up from 20%) and somewhat less in "all other" types of investments (11%, down from 12%).

#### Preservation of Capital Is More Important to Investors Today

As seen nationally, a majority (57%) of Boston-area HNW investors admit that preserving their capital or holdings is more important to them now than it was three years ago, while 38% say its importance has not changed. 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.

	Current Average Allocations	Current—Among Those Who Do <u>Not</u> Plan to Adjust (n=224)	Current—Among Those Who Plan to Adjust (n=77)	Planned Adjustment
Cash	20%	20%	20%	21%
Stocks or equities, stock funds, ETFs	44	43	45	45
Fixed income: bonds, treasuries, CDs, etc.	21	20	23	23
All other investments	15	16	12	11

Capital appreciation as an investment objective is also more important now than three years ago to 43% of investors, as is generating income (also 43%). But half (49% and 50%, respectively) have not shifted on either of these two objectives during this period.

### Four in Ten Say Massachusetts's Income and Capital Gains Taxes Affect Their Investment Decisions

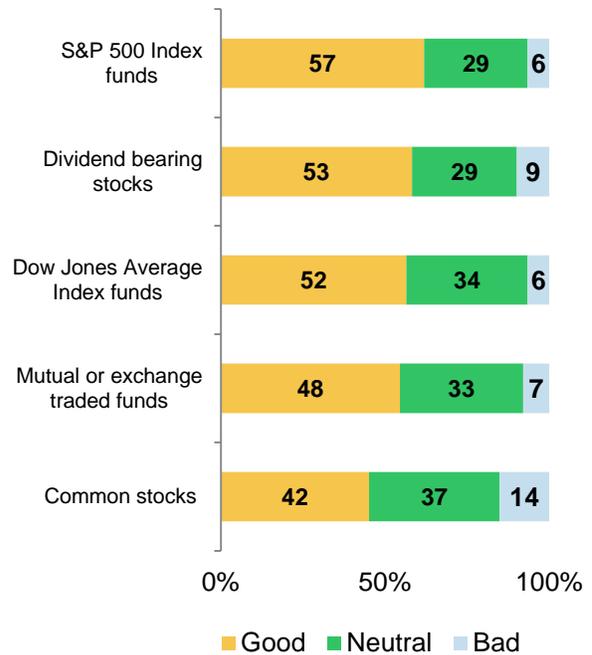
Four in ten (42%) Boston-area HNW investors say that income and capital gains taxes in Massachusetts have had an impact on their investment decisions. Those who do use a financial advisor, however, are less likely to report that these taxes have had an impact on their decisions (51% vs. 67% without an advisor), suggesting that advice from professionals has somewhat reduced the number of people concerned about this issue.

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

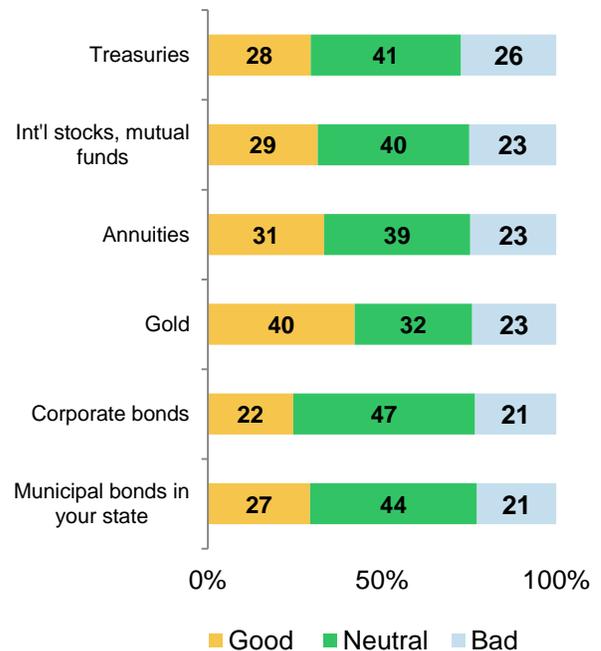
Topping the list of “good” investments for 2013 are S&P 500 Index funds (57%), dividend bearing stocks (53%), and Dow Jones Industrial Average Index funds (52%). Mutual funds and common stocks round out the top-five prospects. Notably, HNW investors in the Boston area are at least somewhat more favorable toward each of these prospects than HNW investors nationally—especially S&P 500 and Dow Jones Industrial Average funds, where there is a 12- and 11-point increase for Boston relative to national HNW investors on “good” ratings. Gold, which is the top prospect nationally, does not even make the top-five among Boston-area HNW investors.

Topping the “bottom” list—ranked by “bad” investment prospect—are treasuries (26%); international stocks of non US-based companies or international mutual funds that do not own shares of US-based companies, annuities, and gold (each 23%), and corporate bonds and municipal bonds in Massachusetts (each 21%). Boston-area HNW investors' views on poorer investment prospects align a bit better with the national figures; treasuries, international stocks and mutual funds, and state municipal bonds make both top-five “bad” lists.

### Best Investment Prospects in 2013



### Bad Investments Prospects in 2013



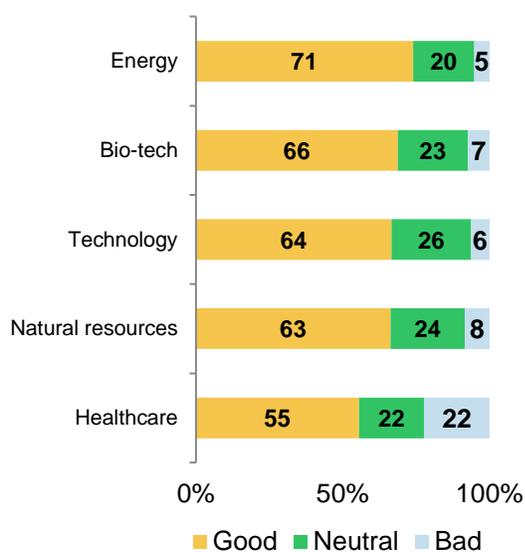
## Good Investment Sectors

Similarly to HNW investors nationally, the top-five investment sectors for this year in the eyes of Boston area HNW investors are Energy, Bio-Tech, Technology, Natural Resources, and Healthcare. (The only exception is healthcare, which is replaced by Pharma among HNW investors nationally.) Though not in the top five, the Communications and Pharma sectors are endorsed by more than half of Boston-area HNW investors (54% and 52%, respectively).

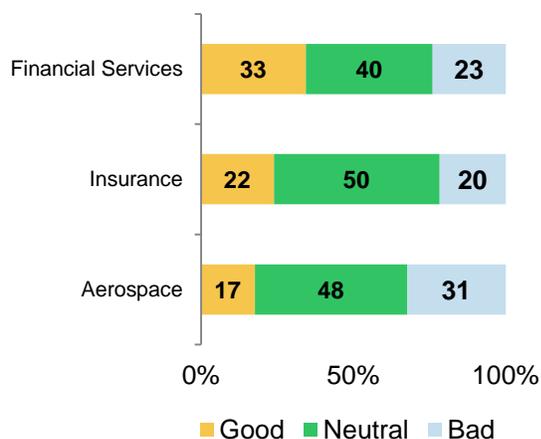
Healthcare, while thought of as a good investment by 55% of investors, also received the third highest “bad” investment rating (22%), with 22% neutral. The only other sectors to get a higher negative rating are “Aerospace” (31%) and “Financial Services” (23%), where far more investors are far more likely to

give the sectors a “neutral” over a “good” rating. The insurance sector (20% “bad”) is also not highly recommended. The housing sector gets a stamp of caveat emptor, with 21% saying it is a “bad” area in which to put one’s money this year, but about twice as many say it is a good (39%) or neutral (37%) sector in which to invest. The broader real estate sector finds somewhat higher support (16% bad, 46% good, and 34% neutral). Millionaires buck the trend on real estate, however, endorsing this sector with a 63% “good” rating, 23% neutral, and 5% bad. 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**



**Local Investment Sectors in 2013**



## Foreign and International Investing

As seen nationally, Boston-area HNW investors say there is no place like home when it comes to investment opportunities. A sizable majority (61%) say that the United States is a good place to invest in 2013—more so than any other country or region named.

Brazil, China, and India join the U.S. as the only places where a majority or near-majority sees good investment opportunities this year. But Russia's abysmal ranking among investors (a mere 12% see Russia as a good investment area) leaves a hole in the middle of the BRIC category. HNW investors in the Boston area lean a bit more positive toward India—compared to those nationally, who are virtually split between a neutral and positive outlook on India.

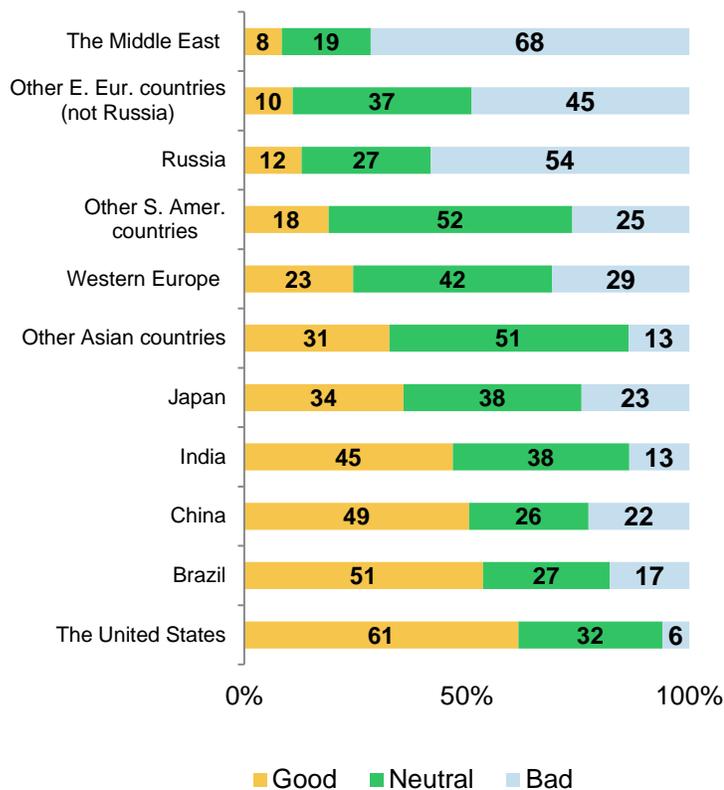
Brazil and China outshine other countries in their respective regions, with majorities saying they are neutral toward the investment opportunities in other South American and Asian countries. The Eurozone crisis may be taking a toll on U.S. investor confidence, with about four in ten neutral—and more leaning negative over positive—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

*Brazil, China, and India join the U.S. as the only places where a majority or near-majority sees good investment opportunities this year.*

have spawned, U.S. HNW investors are decidedly negative about investment opportunities in the Middle East.

**2013 Investment Outlook  
by country/region**



## Housing and Real Estate

### Investors are Seeing Opportunities in Real Estate Again

Fully half (54%) of Boston HNW investors sense an improvement in the greater-Boston housing market. They estimate that prices within 25 miles of their primary home have increased 7%, on average, over the past year. Still, many say prices have remained the same (37%), while 8% believe there has been a decline (of 18%, on average). Foreclosures have affected 23% of respondents' neighborhoods "somewhat" or "a great deal"—about half of what is recorded at the national level, among HNW investors overall (42%). Most (77%) Boston-area HNW investors 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 (30%) and commodities (38%) over the next three years, while more foresee real estate eclipsing bonds (45%) and cash (54%). The timing is good, they say, to buy primary residences (73%) and rental properties (49%), but not quite as good for second homes (39%), REITs (32%), or commercial real estate (27%). Millionaires, however, are keen on REITs (50%).

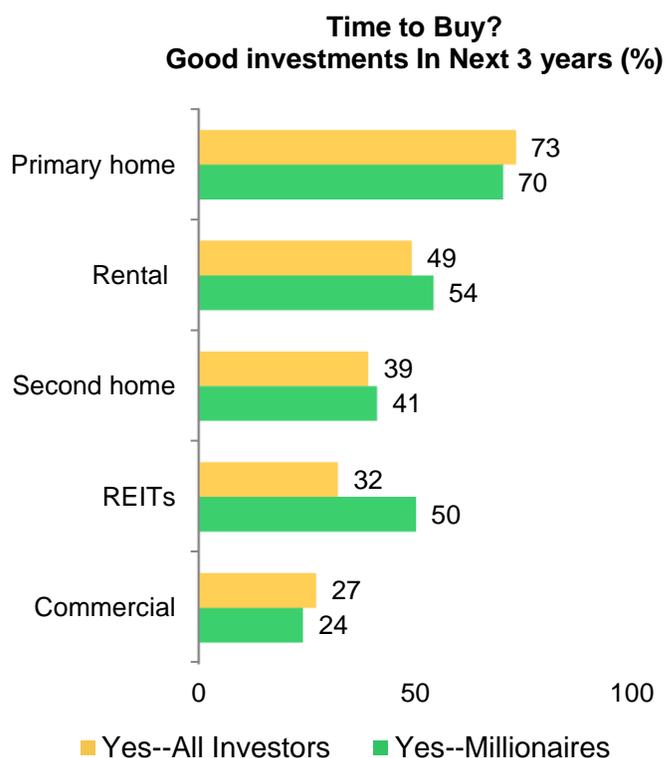
The great majority of these investors already own a primary home (96%) in many cases with a mortgage (71%). Very few of those mortgages are "under water" (2%). Ownership of second homes (20%), rental (15%), or commercial property (6%) is much less common.

In the past three years, 44% have made some type of real estate transaction, mostly in primary homes (39%). Many have taken advantage of historically low interest rates via re-financing (31%), especially younger investors (44%). But relatively few have made new property purchases (5%), and cash transactions (5%) have not been the vehicle of choice with today's interest rates so low. Second mortgages (1%) and home equity loans (7%) have been fairly scarce among the HNW set.

Boston-area HNW investors are conservative on real estate policy. More than four in ten (44%) feel that the government should place a high priority on loan modifications for at-risk borrowers—a figure that is 10 points higher than the national average.

*Fully half (54%) of HNW investors sense an improvement in the greater-Boston housing market. They estimate that prices within 25 miles of their primary home have increased 7%, on average, over the past year.*

Only one in five (21%) 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 17% say it should be a high priority.



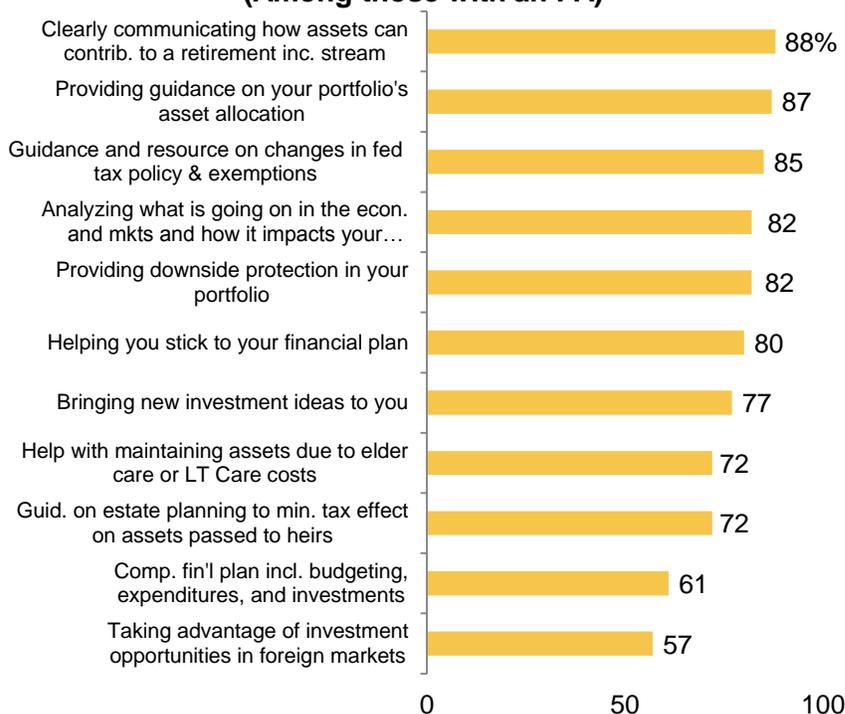
## Use of Financial Professionals

### High Expectations of FAs

Professional financial advisors are highly in demand. About seven in ten (71%) Boston-area HNW investors currently use an advisor. CFAs, CPAs, or CFPs (51%) are consulted about as often as stock brokers (47%); many HNW investors use more than one type of advisor. Overall use of these professionals is roughly similar across age and gender groups, although millionaires are most the apt of the asset classes to work with a professional (90%).

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”—

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



although a majority (57%) do want their FAs to help them with this goal.

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*, *guiding*, 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. Providing clear communication around retirement income (73%), downside protection (70%), and asset allocation guidance (69%) are the top areas from which this group could benefit from having a professional advisor.

*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.*

## Methods

The Morgan Stanley Wealth Management Investor Pulse Poll was conducted via telephone interviews from January 14 through March 3, 2013. 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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