

Morgan Stanley Wealth Management  
Investor Pulse Poll



Chicago Metro Area Report  
April 2013

## Table of Contents

Executive Summary	3
The State of the Economy and the Investment Climate	5
Concerns about Investing and the Economy	6
Portfolios and Investments	8
Housing and Real Estate	11
Use of Financial Professionals	12
Methods	14
Contacts	15

## 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 302 respondents in the city of Chicago and its surrounding areas.

Highlights from this survey reveal that most Chicago-area HNW investors (74%) feel that the global economy will be the same or better by the end of 2013. Even more (91%) expect their own household’s investment portfolios to be the same or better. A high proportion of investors (83%) are also confident of achieving their long-term financial goals.

- What concerns the majority (52%) of Chicago-area HNW investors about their home state is the pension crisis. Only a fifth (20%) are concerned about the Illinois state deficit, and even fewer are concerned about state taxes (13%) and budget cuts (8%).
- With much optimism expressed at the personal level, the poll, however, reveals some macro worries among investors. The budget deficit, the prospects for the U.S. economy, and the financial well-being of the state of Illinois top the list with 93% of those interviewed expressing concern (“very concerned” plus “somewhat concerned”).
- Other items high on investors’ list of concerns include the phase-out of the personal tax exemption and deductions for incomes over \$250,000 (86%), the possibility of inflation in the next five years (82%), a downgrade in the federal government debt rating (82%), and increased foreign conflicts (82%).
- Assets do seem to help investors sleep better in some important ways—fewer (55%) are concerned about outliving their income and assets, something that millionaires are even less concerned about (36%).
- More Chicago-area HNW investors keep their money in stocks or equities (44%) 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—60% state that preserving their capital is more important today than it was three years ago.
- S&P 500 Index Funds (51%), dividend bearing stocks (51%), Dow Jones Average Index Funds (45%), Mutual funds or ETFs (44%), and common stocks (43%) are investors’ “good” picks for 2013. International stocks, treasuries, corporate bonds, and municipal bonds are much less

---

<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.

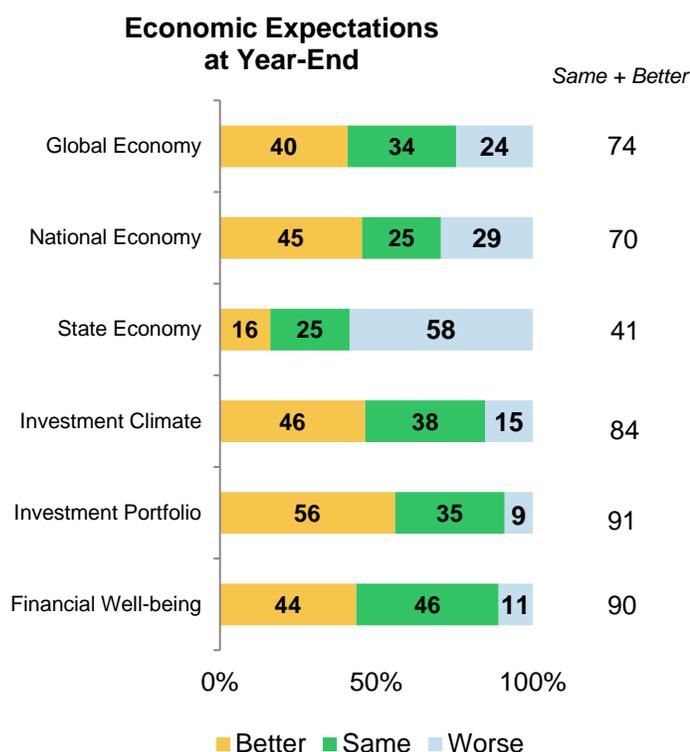
enticing. As sectors go, Pharmaceutical, Technology, Energy, Bio-tech, and Communication are seen as good picks by more than half of Chicago-area HNW investors, but Aerospace, Financial Services, and Insurance, for example, are not.

- The U.S. tops the list as a good place to put one's money this year (54% say it is good), with India (47%) and China (44%) also seen as attractive.
- About as many believe there has been an improvement in their local housing market (32%) as believe there has been a decrease (30%). Investors are positive about the current housing environment for purchasing primary residences (78%) and rental properties (48%), but not quite as positive for second homes or REITs (39% each), or commercial real estate (25%).
- More than three-quarters (77%) of Chicago-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 providing downside protection. Many use more than one type of advisor. For example, certified financial analysts, certified public accountants, and certified financial planners (56%) are consulted about as often as stock brokers (51%). 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

Three in four (74%) Chicago-area High Net Worth (HNW) investors with \$100,000 or more in investable liquid assets interviewed at the beginning of this year feel the global economy will be the same or better by the end of 2013, similar to the national average (72%). Forty percent predict a better global economy before 2014, and 41% feel it is already better than it was a year ago. In post-fiscal cliff, pre-federal sequestration interviews, 70% predict that the national economy will be the same or better before the end of December with 45% expecting to see improvement in the economy by that time. More than half (54%) also believe that the national economy is better now than it was a year ago. Views on year-end improvement expectations are similar toward the overall investment climate; however, they are much worse for the Illinois-state economy – only 16% believe the state economy will be better by the end of 2013, What concerns the majority of Chicago-area HNW investors about their home state is the pension crisis (52%). Only one in five (20%) are concerned about the Illinois state deficit, and even fewer are concerned about state taxes (13%), budget cuts (8%), or “something else” (7%).



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

At the personal level, optimism is higher, with 91% expecting their investment portfolios to be the same or better by next January. This is a bit higher than the national average of 86%. Looking back a year, 60% (compared to the national average of 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 (53%) versus millionaires (77%) and to a lesser extent those with half a million to a million dollars in assets (67%). A great majority of all those interviewed in the Chicago area (90%) feels that as 2013 closes, they will have the same or a better sense of financial well-being.

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

**Most Are Confident They Will Reach Their Long-Term Financial and Retirement Goals but Two in Five Retirees Are Disappointed With Their Portfolios**

Most Chicago-area HNW investors are confident (83%) that they will achieve their long-term financial goals—the same as the national average; 25% are very confident. 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. Not much different from the national average, about a third of

retirees (35%) report that their investment portfolio is about what they expected, but 39% say it is worse than expected, with only 25% saying it is better.

## Concerns about Investing and the Economy

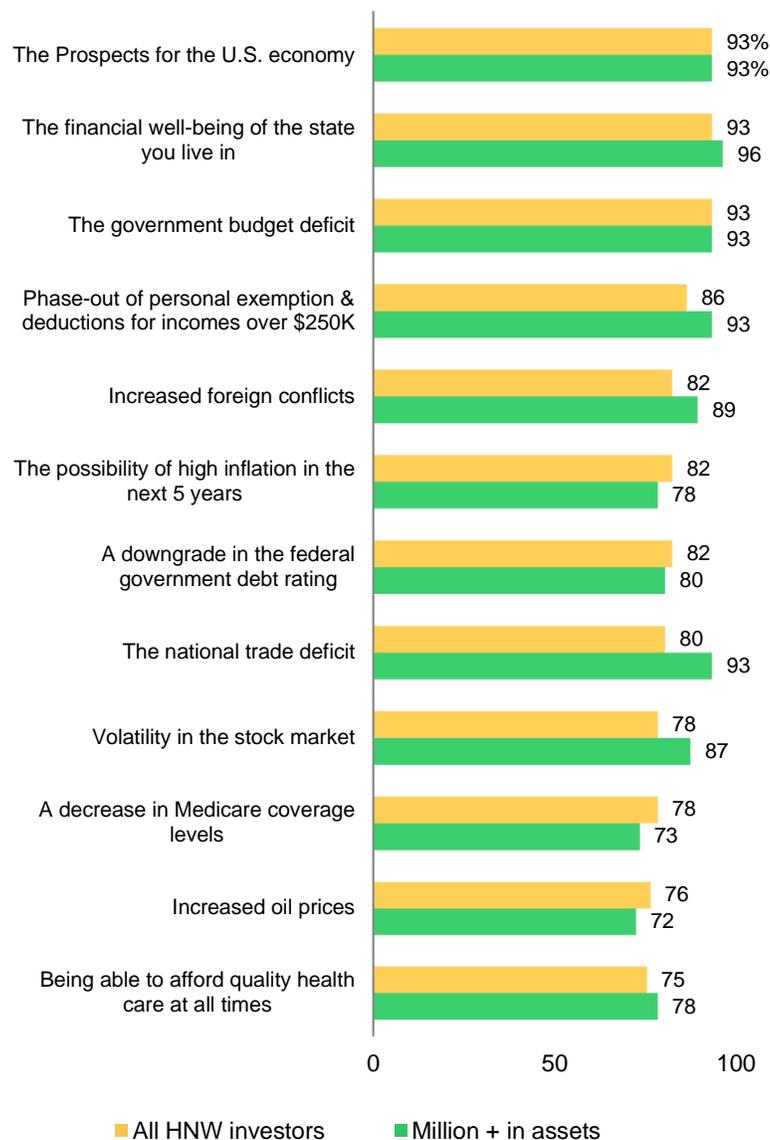
### What Keeps HNW Investors Awake the Most At Night?

Economic issues top the list of Chicago-area HNW investors' concerns. The financial well-being of the state of Illinois worries 93%, with 80% describing themselves as "very" concerned. Other top economic concerns include the nation's economic prospects and the government budget deficit (93%). Another highly worrisome matter is more global in nature; that is, increased foreign conflicts (82%). Other concerns cited by more than four-fifths are the phase-out of personal exemption and deductions for incomes over \$250,000 (86%), the possibility of high inflation in the next five years (82%), and a downgrade in the federal government debt rating (also 82%).

Millionaires' views on these top concerns track fairly closely to those of overall HNW investors, even in relation to the intensity of worry expressed. However, there are two instances that do separate HNW investors as a group from millionaires: millionaires are more concerned about the national trade deficit (93% vs. 80%) and volatility in the stock market (87% vs. 78%). To a lesser degree of difference, millionaires are also more concerned about increased foreign conflicts (89% vs. 82%) and the phase-out of personal exemption and deductions for incomes over \$250,000 (93% vs. 86%).

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 for the type of retirement they want (58%) than are other HNW investors (66%) and they are not as bothered over being able to retire when they want to (28% vs. 58%). Social Security being available for their generation is another item of lower concern (51% vs. 72%), as is fear of outliving one's income and assets (36% vs. 55%).

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

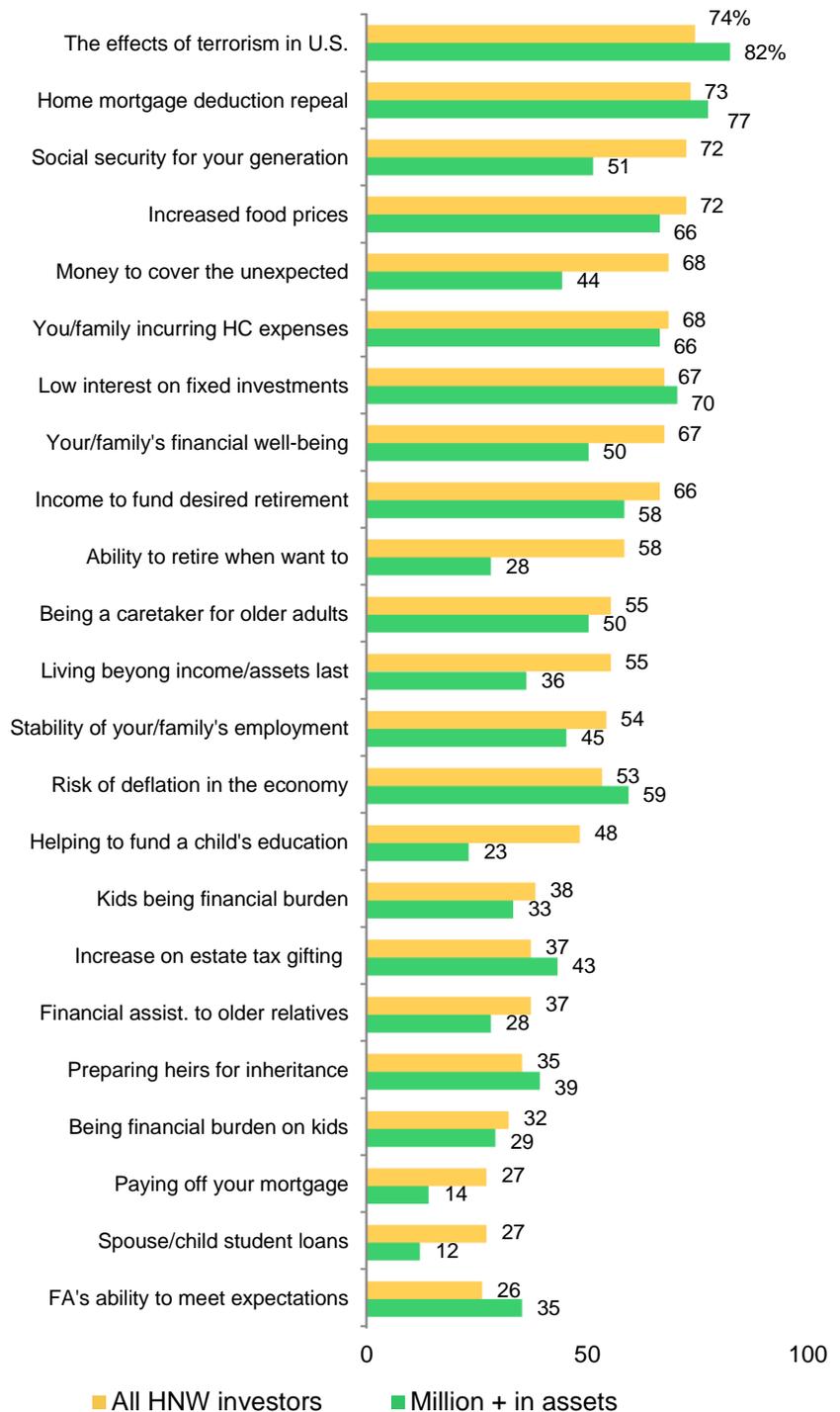


Being able to provide for and help one's family is yet another area where millionaires sleep better. Notable are concern over the family's financial well-being (millionaires are 17 percentage points lower in concern), helping to fund a child's education (25 points lower), paying off student loan debt for either a spouse or child (15 points lower), and providing financial assistance to older relatives and the stability of their own or a family member's employment (each 9 points lower).

One of the biggest differences 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 Chicago-area HNW investors overall (68% are very or somewhat concerned), is a much lower level problem in the minds of millionaires (44%).

Higher asset 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 the effects of terrorism in the U.S., engendering 82% concern versus 74% for the group overall. Similarly, but much farther down the list of concerns, millionaires are more worked up about their financial advisor's ability to meet their expectations (35% vs. 26% for all Chicago-based investors).

### 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 Chicago-area HNW investors' portfolios (44%) and many have likely benefitted from the recently soaring market, especially millionaires, who, on average, report that 49% of their investments are in equities. One in five dollars (19%) is parked in fixed income investments and 14% is in "all other" investment vehicles, which includes commodities, etc. Just over another fifth of all money sits in cash (23%). These holdings are similar to nationwide HNW investors.

A little less than one-in-three (31%) of investors in the Chicago area plan to adjust their allocations during the coming year. This is compared to 25% among HNW investors nationally. Right now those who plan to make a change are a little heavier in their current equities allocation (47%) versus those who do not plan any changes (43%). These "adjustors" do not expect to alter their cash and fixed income proportions much, but they do intend to end the year with 45% in equities versus 47% currently, while also increasing their positions in "all other" types of investments from 15% up to 17%.

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

A majority (60%) of Chicago-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 1% assigns it lower importance. These figures are in line with nationwide HNW investors.

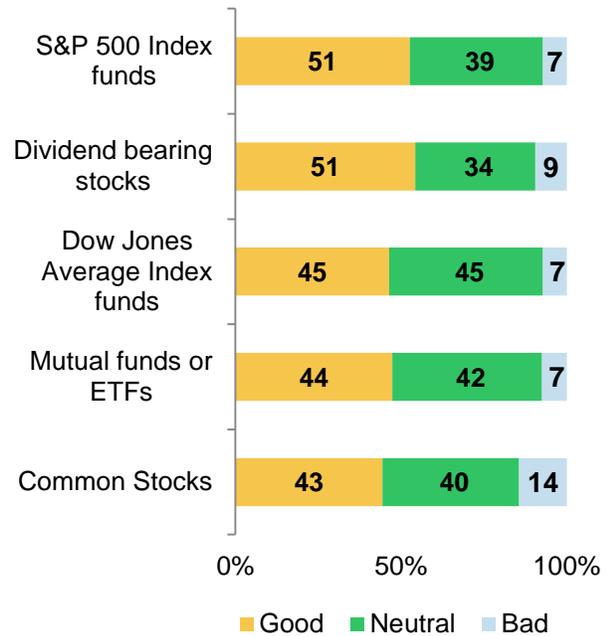
	Current Average Allocations	Current— Among Those Who Do <u>Not</u> Plan to Adjust (n=208)	Current— Among Those Who Plan to Adjust (n=94*)	Planned Adjustment
Cash	23%	26%	17%	17%
Stocks or equities, stock funds, ETFs	44	43	47	45
Fixed income: bonds, treasuries, CDs, etc.	19	18	21	22
All other investments	14	13	15	17

As seen nationally, capital appreciation as an investment objective is also more important now than three years ago to nearly half (47%) of Chicago-area investors, as is generating income (46%). But, about as many (each 47%) have not shifted on either of these two objectives during this period.

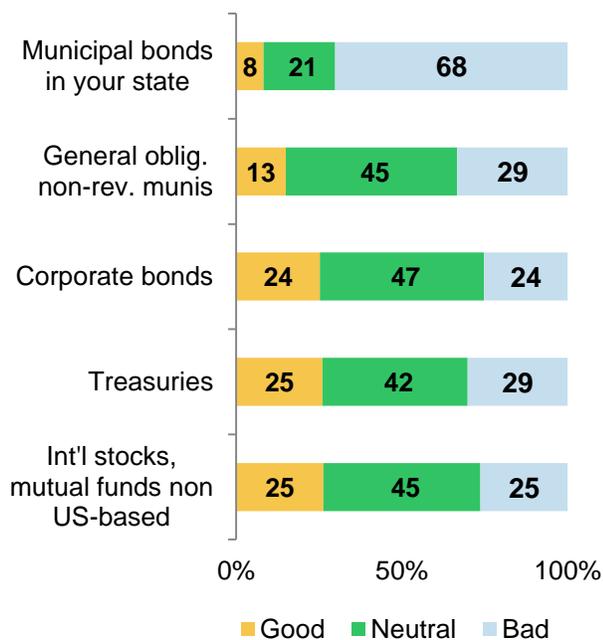
## Investors' Top List of Good Investments in 2013 Betrays Aversion to Risk

Topping the list of “good” investments for 2013 are S&P 500 Index funds and dividend bearing stocks (51% each). Each of these also receives higher “good” than “neutral” ratings. All top picks beyond these two display about even ratings for “neutral” and “good,” indicating investors’ tepid embrace of these vehicles. This may indicate some risk aversion and supports the high importance that Chicago-area HNW investors place on preservation of capital, noted previously.

### Good Investment Prospects in 2013



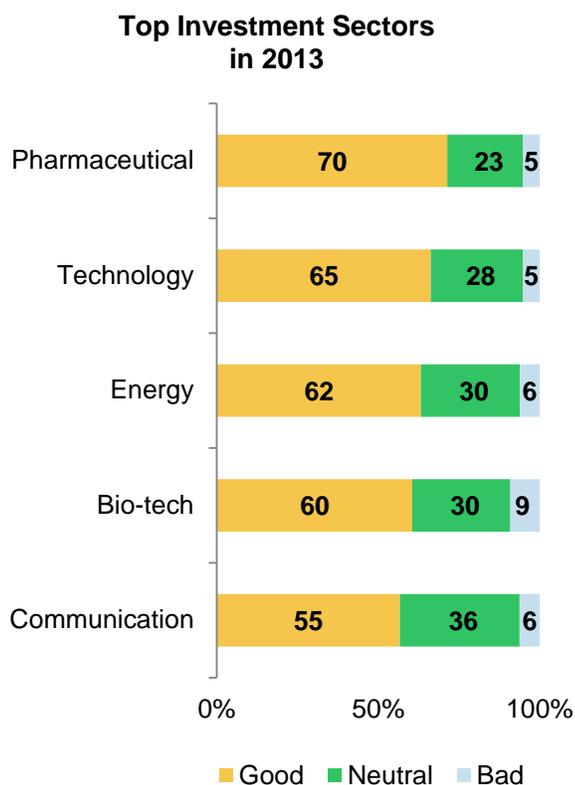
### Bad Investment Prospects in 2013



Topping the “bottom” list are “international stocks of non US-based companies or international mutual funds that do not own shares of US-based companies” (25%), “treasuries” (25%), “corporate bonds” (24%), “general obligation non-revenue bearing municipal bonds” (13%), and “municipal bonds in your state” (8%). 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 Sectors

The top-five investment sectors for this year in the eyes of Chicago-area HNW investors are Pharma, Technology, Energy, Bio-Tech, and Communication. This differs slightly among nationwide HNW investors, who cite Natural Resources as the fifth-most attractive sector rather than Communication. As seen nationally, endorsement of all other sectors falls below 50%, with the exception of the Healthcare sector (54%). Aerospace gets the highest rating as a “bad” investment area (24%); only 20% think it is a good investment, and 51% are neutral about it. The Insurance and Housing sectors (23% and 22% “bad,” respectively) are also not very highly recommended (26% and 31%, respectively). The broader Real Estate sector finds similar levels of support (23% bad, 43% neutral, and 33% good). However, like millionaires nationwide, Chicago-area millionaires buck the trend on real estate, endorsing this sector with a 54% “good” rating, 32% “neutral,” and 13% “bad.” In a subsequent series of questions, investors are more favorable toward real estate overall for the next three-year outlook.



## Foreign and International Investing

Chicago-area HNW investors are not unlike the average American HNW investor: they say there is no place like home when it comes to investment opportunities. A majority (54%) say that the United States is a good place to invest in 2013—more so than any other country or region named.

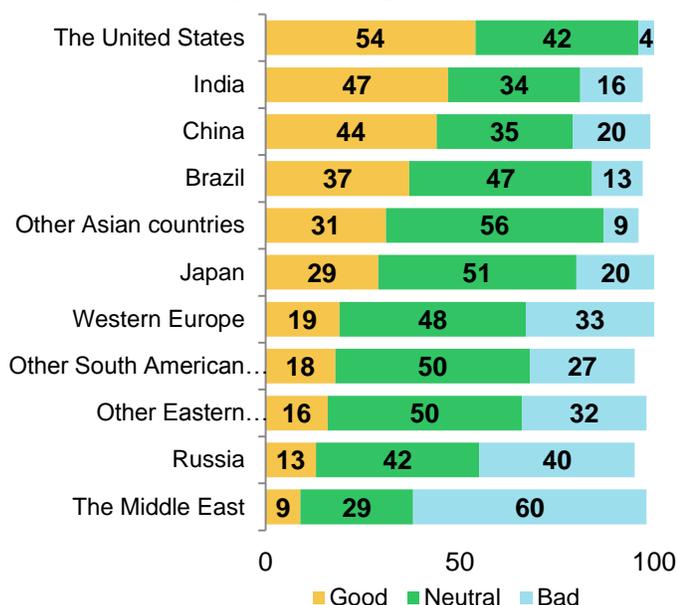
India and China join the U.S. as the only places where even a plurality sees good investment opportunities this year. But Russia's abysmal ranking among investors (a mere 13% see Russia as a good investment area) and Brazil's more neutral one leave a hole in the "BRIC" category. Despite

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

investors' lingering concerns about the fiscal direction of the United States, the U.S. is now seen as the destination for smart money this year.

India and China outshine other countries in Asia, with majorities saying they are neutral toward the investment opportunities in other 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, Chicago-area HNW investors, like those across the country, are decidedly negative about investment opportunities in the Middle East.

**2013 Investment Outlook**  
by country/region



## Housing and Real Estate

*One in three HNW investors (32%) senses 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.*

### Investors are Seeing Opportunities in Real Estate

About a third (32%) of Chicago-area HNW investors sense an improvement in their local housing markets. This is a bit less than the nationwide average of 41%. They estimate that prices within 25 miles of their primary home have increased 9%, on average, over the past year (similar to the national investor average of 10%). Roughly as many say prices have remained the same (36%). Still, 30% believe there has been an average 12% decrease.

Foreclosures have affected 61% of respondents' neighborhoods "somewhat" or "a great deal," but only 5% say "a great deal." About two-fifths (39%) have seen no foreclosure problems close to home. The foreclosure figures among Chicago-area HNW investors differ substantially from those nationwide where only 43% have seen foreclosures in their neighborhood, and more than half (56%) say their neighborhood has "not at all" been affected by foreclosures.

Chicago-area HNW investors are fairly bullish on investing in the real estate market now. More than two out of five believe real estate will outperform bonds (44%), about a quarter believe real estate will eclipse stocks (25%) and commodities (26%), and nearly half think it will be a better investment than cash (49%) over the next three years. The timing is good, they say, to buy primary residences (78%) and rental properties (48%) but not quite as good for second homes or REITs (39% each), or commercial real estate (25%).

As seen nationwide, the great majority of these investors already own a primary home (97%), in many cases with a mortgage (70%). Very few of those mortgages are “under water” (4%). Ownership of second homes (26%), rental (14%), or commercial property (9%) is much less common. Fewer hold mortgages on these investments. 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 (16%) and commercial (35%) properties.

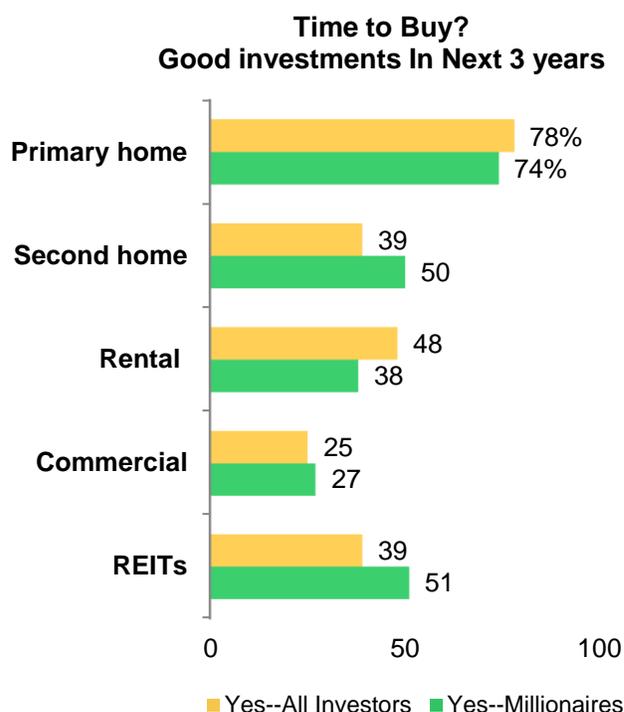
As reported by national investors, in the past three years, 46% of Chicago-area investors have made some type of real estate transaction, mostly in primary homes (38%). Many have taken advantage of historically low interest rates via re-financing (31%), especially younger investors (40%). But relatively few have made new property purchases (9%), and cash transactions (5%) have not been the vehicle of choice with today’s interest rates so low. Second mortgages (2%) and home equity loans (6%) have been fairly scarce among the HNW set, both nationally and within the Chicago area.

Chicago area investors are conservative on real estate policy. While two in five (38%) feel that the government should place a high priority on loan modifications for at-risk borrowers, only one in five (20%) 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 15% say it should be a high priority.

## Use of Financial Professionals

### High Expectations of FAs

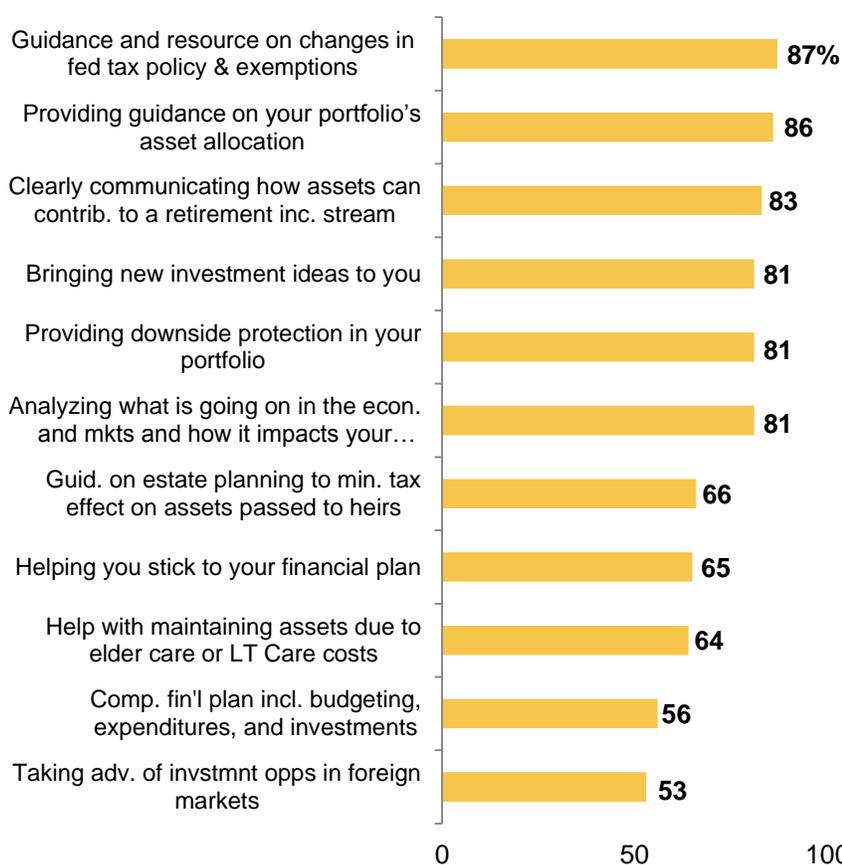
Professional financial advisors are highly in demand. About three in four (77%) Chicago-area HNW investors currently use an advisor. CFAs, CPAs, or CFPs (56%) are consulted about as often as stock brokers (51%); many HNW investors use more than one type of advisor. Overall use of these professionals is higher among millionaires and those with assets between \$500,000 and \$1 million (88% each) than among those with \$100,000 to \$500,000 (71%). Those who are 65 or older (87%) are more likely to turn to a financial professional than are those between 25 and 54 (72%).



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 downside protection. 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 (53%) do still 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,

### 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.*

*communicating, guiding, and analyzing are the keywords in some of the top items on the list; for example, “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 lower overall. The exception is “creating a comprehensive written financial plan that includes your budgeting, expenditures, and investments,” where the two

groups are about on par—58% for those without an FA would like help with this vs. 56% of those who do use an FA. “Clearly communicating how your assets can contribute to a retirement income stream” (75%) is the top priority for this group that does not use a financial advisor.

## 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

Morgan Stanley is a leading global financial services firm providing a wide range of investment banking, securities, investment management and wealth management services. Morgan Stanley Wealth Management, provides access to products and services to individuals, businesses and institutions, including brokerage and investment advisory services, financial and wealth planning, credit and lending, cash management, annuities and insurance, retirement and trust services. The Firm's employees serve clients worldwide including corporations, governments, institutions and individuals from more than 1,200 offices in 43 countries. For further information about Morgan Stanley, please visit [www.morganstanley.com](http://www.morganstanley.com).

#### Corporate Communications

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

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

#### Marketing Research

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

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



GfK is one of the world's largest research companies, with more than 11,000 experts working to discover new insights into the way people live, think and shop, in over 100 markets, every day. GfK is constantly innovating and using the latest technologies and the smartest methodologies to give its clients the clearest understanding of the most important people in the world: their customers. In 2010, GfK's sales amounted to EUR 1.29 billion. To find out more, visit [www.gfk.com](http://www.gfk.com) or follow GfK on Twitter: [www.twitter.com/gfk\\_group](http://www.twitter.com/gfk_group)