

Morgan Stanley Wealth Management
Investor Pulse Poll



Los Angeles Metro 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).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 300 HNW respondents in the Los Angeles metro area.

Highlights from this survey reveal that three in four Los Angeles HNW investors (76%) feel that the global economy will be the same or better by the end of 2013. Even more (89%) 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 (82%) goals. Overall, these views among LA investors are very similar to those held nationally among this target population.

- With much optimism expressed at the personal level, the poll, however, reveals some macro worries among investors. The government budget deficit tops the list with 87% of those interviewed expressing concern (“very concerned” plus “somewhat concerned”). Most are also worried about California’s economic prospects (86%) and the national trade deficit (83%), as well as increased oil prices (82%) and the prospects for the US economy (82%).
- Assets do seem to help investors sleep better in some important ways—only 64% are concerned about their family’s financial well-being, with even fewer (47%) millionaires concerned (those with \$1 million or more in investable assets). “Having the ability to retire when you want to” worries only half (50%) in LA overall, but even fewer (31%) millionaires.
- More HNW investors keep their money in equities (41%) than in other investment choices at the national level and this is also true for LA HNW investors (39%). Cash and fixed income investments together represent another 42%.
- REITs (58%), gold (49%), dividend bearing stocks (49%), and Broad market indices (40% to 46%) are investors’ “good” picks for 2013. Fixed income investments are much less enticing. As sectors go, Technology, Energy, Bio-tech, Communications, Real Estate, and Pharmaceuticals are seen as good picks by more than half of Los Angeles HNW investors, but Aerospace and Tourism, for example, are not.

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.

- LA investors view the Entertainment sector as middling with 32% rating it as “good” and 46% saying “neutral.” Viewed differently, a plurality sees each of the four sectors within Entertainment—Dance, Theater, Film, and Music—as neither on the rise nor on the decline, but rather, “staying the same.”
- Los Angeles investors are also unaffected by other LA-based sectors: large majorities of HNW investors say they are not looking to invest more in local-tech, nor has growth in the local and statewide tourism and hospitality industries altered the way they invest at all (83%). However, half (54%) say investment opportunities in the transportation infrastructure sector are more promising.
- Nearly half of Los Angeles HNW investors see the next LA development boom happening in Downtown LA or in beach cities. Entertainment-centered Culver City is seen as the next development boom by a smaller, yet notable, plurality. Trendy Highland Park, however, is not seen as up-and-coming.
- The U.S. tops the list as a good place to put one’s money this year (64% say it is good), with Brazil (55%) and India (49%) also seen as attractive. Los Angeles investors are notably different than national HNW investors in that they rank China fourth versus third at the national level.
- Almost eight in ten (80%) 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 guidance on estate planning. Many use more than one type of advisor and certified financial analysts, certified public accountants, and certified financial planners (64%) are consulted more often than 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

As Seen Nationally, Most Investors Feel the Economy Will Be the Same or Better at Year-End

Three in four (76%) of 300 High Net Worth (HNW) investors in Los Angeles 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. Forty-three 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, 72% predict that the national economy will be the same or better before the end of December, with 48% expecting to see improvement in the national economy by that time. More than half (55%) also believe that the national economy is better now than it was a year ago. The proportions are slightly less optimistic on views toward California's economy, with 68% expecting it to be better or the same at year-end and only 41% predicting improvement by January.

Los Angeles Investors Predict Improvement in their Personal Portfolios and Financial Well-Being

At the personal level, optimism is a little higher, with 89% expecting their investment portfolios to be the same or better by next January. Looking back a year, 58% say their portfolio is better than it was at the beginning of 2012 (versus 53% nationally). This *improvement* over last year does not hold as well for lower asset group investors (53%) and those with one-half to a million dollars in assets (57%) versus millionaires (75%). A great majority of all those interviewed (90%) feels that as 2013 closes, they will have the same or a better sense of financial well-being, slightly more optimistic than investors are at the national level (85%).



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

Most Los Angeles HNW investors are confident (82%; 29% very confident) that they will achieve their long-term financial goals. A large majority (79%) of those who have not retired are also confident that they are on track in their planning. Reality can differ from expectations once retirement actually arrives. Some retirees (28%) report that their investment portfolio is about what they expected and one in three say it is better (34%), but nearly four in ten say it is worse (37%).

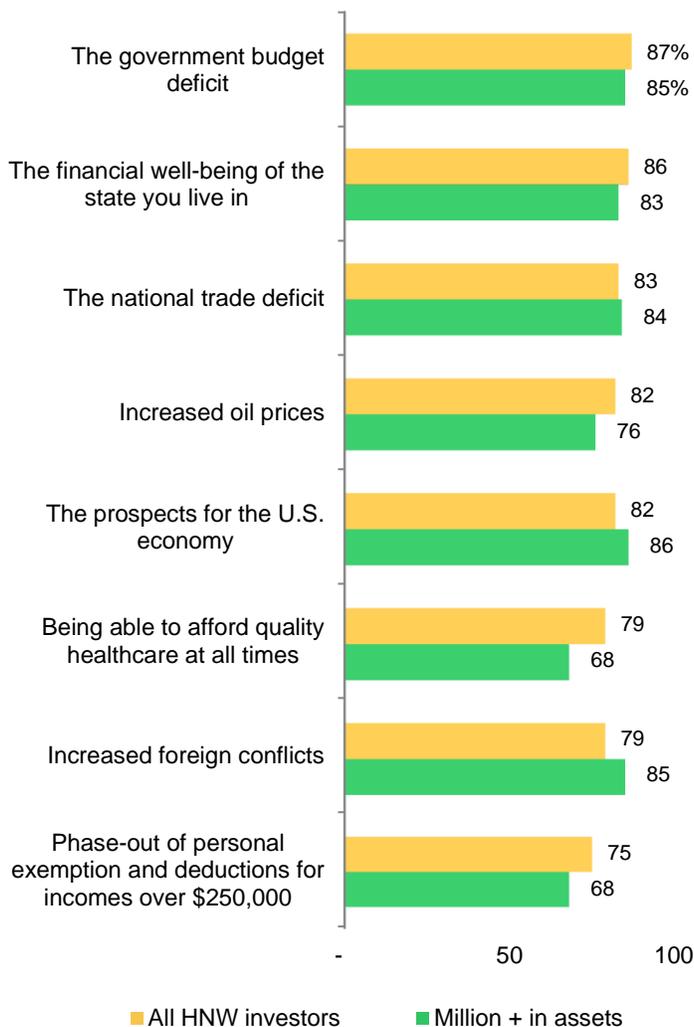
Most HNW Investors (82%) are confident they will achieve their long-term financial goals.

Concerns about Investing and the Economy

What Keeps HNW Investors Awake the Most At Night?

Just as seen nationally, economic issues that concern the nation and are not within the realm of personal control, such as the budget and trade deficits (87% and 83% concern, respectively), oil prices, and US economic prospects (both 82%) top the list of Los Angeles HNW investors' concern. A global matter that is worrisome is increased foreign conflicts, which bothers 79% in LA vs. 87% nationally. At the state level, Los Angeles investors express more concern about the financial well-being of California (86%) than national investors do about their own home states (74%), which is likely indicative of the difficulty California has endured during the recession. Also consistent with views nationally (77%), LA investors are quite concerned about being able to afford quality health care at all times (79%). And on a more personal level, an item which causes worry that is in the hands of politicians and, therefore, out of investors' personal control, is the phase-out of the personal exemption and deductions for incomes over \$250,000, which garners a 75% rate of concern, the same proportion seen among national investors.

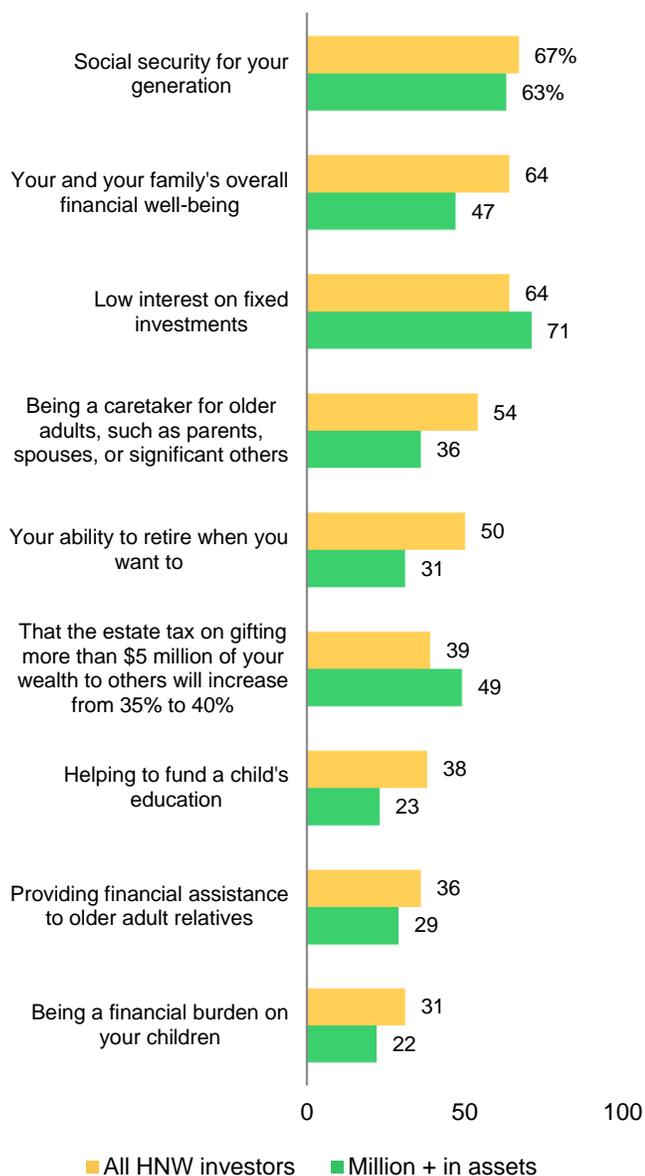
**High Concerns Among Investors
All HNW Investors vs. Millionaires**



Los Angeles HNW investors are also bothered when they think about having adequate social security for their generation. Though this item falls at the top of the list of “lower concerns” it still elicits a 67% rating, indicating that even with fairly sizable asset bases, these investors still worry about the health of the social security system, likely because it is a problem that is beyond their control. Conversely, concerns over which Los Angeles 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, a pattern also seen at the national level. Examples of these, are “being a caretaker or financial provider for older adult relatives” (54%), “funding a child’s education” (38%), and, at the bottom of the list, “being a financial burden on your children” (31%). Concern over one’s family’s financial well-being, providing financial assistance to older relatives, and being able to retire when desired are further examples. For all of these noted items, millionaires are even less concerned (as seen in the chart to the right), which illustrates that financial assets do help to reduce worry (caution: the millionaire sample size is small for these questions).

Millionaires are more bothered, however, by certain items, such as an increased estate tax on gifting \$5 million or more and earning low interest on fixed investments. Once again, these are items that cannot be controlled, but which affect certain investors more, inspiring greater concern.

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 HNW investor's portfolios (39%) and many have likely benefitted from the recently soaring market, especially millionaires, who report that 44% of their investments are in equities. One in five dollars each (18%) is parked in fixed income investments or "all other" investment vehicles (19%), which includes commodities, etc. Another fourth of all money sits in in cash (24%).

A quarter of investors plan to adjust their allocations during the coming year (24%). Right now those who plan to make a change are slightly lighter in their current equities allocation (37%) versus those do not plan any changes (40%), with somewhat more money in cash (28% vs. 23%). Interestingly, these "adjustors" do not expect to alter their allocations very much, merely moving 2% out of equities (37% to 35%) and into "other investments" (16% to 18%).

Similar to National Trends, Preservation of Capital Is More Important to Investors Today

A majority (55%) of Los Angeles HNW investors admit that preserving their capital or holdings is more important to them now than three years ago, while 41% 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 Los Angeles 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 51% of investors, but generating income is not a growing objective—49% have not shifted on this objective during this period.

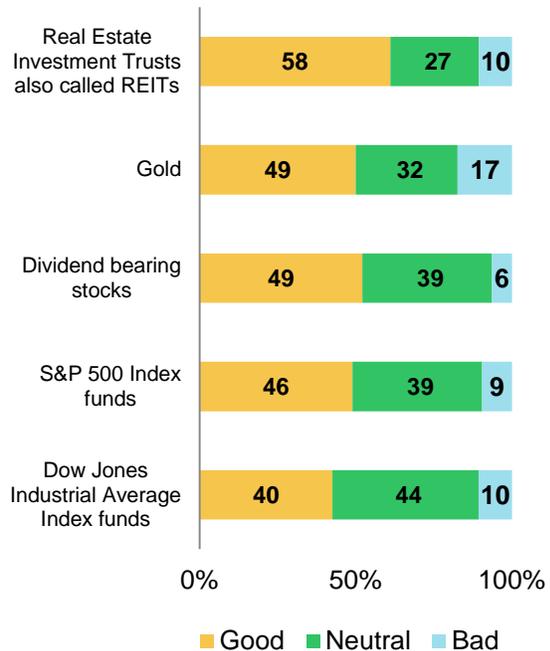
| | Current Average Allocations | Current— Among Those Who Do <u>Not</u> Plan to Adjust (n=228) | Current— Among Those Who Plan to Adjust (n=72) | Planned Adjustment |
|--|-----------------------------|---|--|--------------------|
| Cash | 24% | 23% | 28% | 27% |
| Stocks or equities, stock funds, ETFs | 39 | 40 | 37 | 35 |
| Fixed income: bonds, treasuries, CDs, etc. | 18 | 17 | 20 | 20 |
| All other investments | 19 | 20 | 16 | 18 |

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

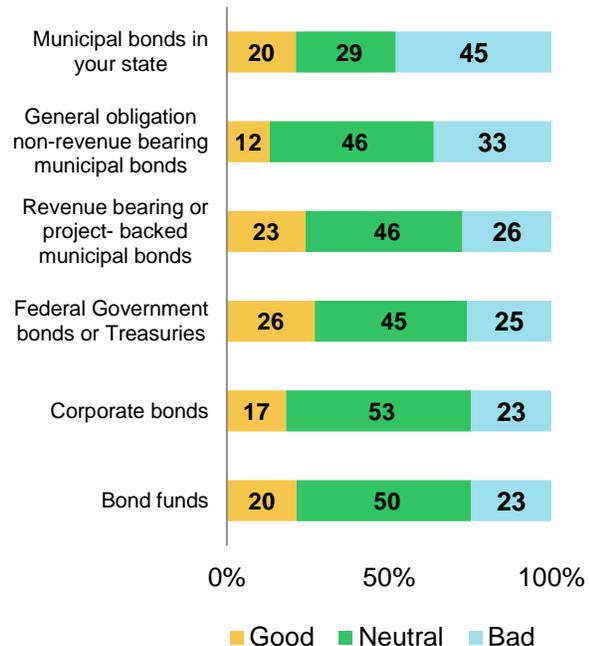
Among Los Angeles HNW investors, REITs top the list of “good” investments for 2013 (58%)—an investment option that does not make the national list. Gold, dividend bearing stocks, and broad index funds round out the list, though none breaks 50%. No other investment option exceeds a 40% “good” rating. Each of these top prospects also receives higher “good” than “neutral” ratings. Among millionaires, it is notable that preferred stocks make the top prospect list.

At 45%, “state munis” tops the “bottom” list, with Los Angeles investors more wary of California munis than national investors are of their own states’ munis overall (state munis receive a 26% “bad” score nationally). The remaining items on the “bad” investment list are all fairly low risk, lower return items that receive higher “neutral” than “bad” ratings. With low interest on fixed investments a concern of nearly two in three Los Angeles HNW investors (64%), it becomes clear why these investments do not curry favor.

Good Investment Prospects in 2013



Bad Investments Prospects in 2013

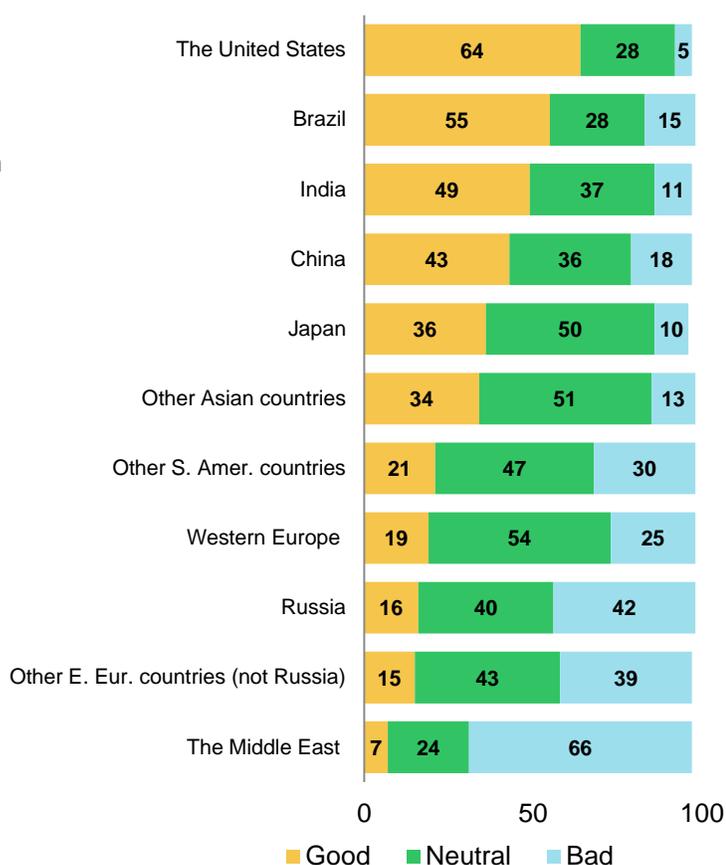


Foreign and International Investing

Like American HNW investors, Los Angeles investors say there is no place like the U.S. when it comes to investment opportunities. A majority (64%) say that the United States is a good place to invest in 2013—more so than any other country or region named. Brazil, India, and China join the U.S. as the only places where a majority or a plurality sees good investment potential this year. Notably, Los Angeles investors are also more optimistic about Japan’s investment outlook than national investors—although only a small plurality sees its outlook as positive.

Brazil outshines other countries in its region with half of LA investors saying they are neutral toward the investment opportunities in other South American countries. The Eurozone crisis may be taking a toll on investor confidence, with more than a half neutral and one quarter negative toward investment in Western Europe. Investors’ views toward Russia are among the most negative; views toward neighboring Eastern Europe’s outlook are similarly negative, though slightly more neutral. With civil war in Syria and concerns about Iran’s nuclear ambitions overshadowing whatever optimism “the Arab Spring” may have spawned, LA investors are decidedly negative about investment opportunities in the Middle East.

**2013 Investment Outlook
by country/region (%)**

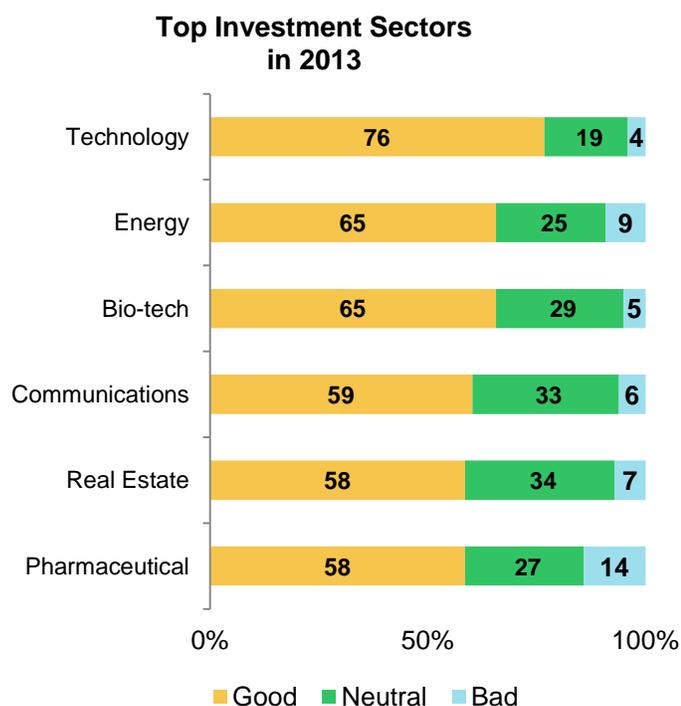


Good Investment Sectors

The top six investment sectors for this year in the eyes of Los Angeles HNW investors are Technology, Energy, Bio-Tech, Communications, Real estate, and Pharmaceutical. Endorsement of all other sectors falls below 50%, with the exception of the Healthcare sector. Healthcare, while thought of as a good investment by 54% of investors, also gets a relatively high “bad” investment rating (20%), with 25% neutral. Notably, real estate is seen as a top investment sector by Los Angeles HNW investors, with nearly six in ten (58%) calling the sector a “good” investment (compared to 44% nationally). Millionaire

investors, however, are less confident in the real estate sector (45%), which is the converse of the national scenario, where 54% of millionaires (vs. 44% for all investors) see the sector as “good.”

Even with Disney World in their midst, Los Angeles HNW investors view Tourism as among the *worst* investment sectors, with 21% rating it as “bad.” However, topping the list of “bad” investment sectors is Aerospace, with nearly four in ten (38%) rating it poorly. Investors also do not see the consumer discretionary or insurance sectors as promising (21% and 20% bad, respectively).



Entertainment: Not Too Promising Investment Sector among Los Angeles Investors

Along with the tourism, aerospace, consumer discretionary and insurance sectors, Los Angeles investors are critical of a sector that hits close to home: the Entertainment sector. Near the top of the “bad” investment list, 18% of Los Angeles investors believe the Entertainment sector is a weak investment prospect in 2013. But Los Angeles investors are not entirely negative towards Entertainment, as the sector ranks in the middle of the “good” investment list (32%), alongside Industrials and Tourism. However, the largest group of Los Angeles investors is “neutral” (46%) towards the Entertainment sector. These perceptions are consistent across the different asset groups.

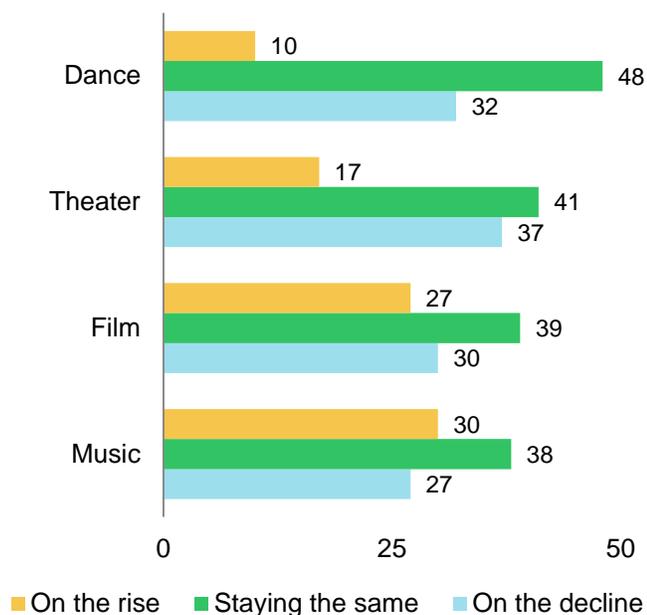
Entertainment Investment Potential is Mostly Static

A plurality of Los Angeles HNW investors believe the entertainment sector's investment potential is fairly static—a finding that holds across the various individual entertainment genres. Some sectors, however, are seen as holding more potential than others.

Dance and Theater fare weakly. About one in three HNW investors or more in LA think of these two sectors as declining, while only a small minority sees either one as rising in investment potential. Investors are roughly split on whether Music and Film are rising or a declining (close to 30% on each side). The largest group (about four in ten) sees Music and Film as holding steady.

Consistent with the overall view of the sector as static, the vast majority of LA investors does not currently put money into Entertainment (6%)—and probably because of this limited penetration, most do not think the changes (or perhaps lack of changes) in this sector will have an impact on their investments (76%).

Investment Potential of Each Entertainment Sector (%)



Ongoing and Upcoming Projects Make Transportation Sector Investment More Promising

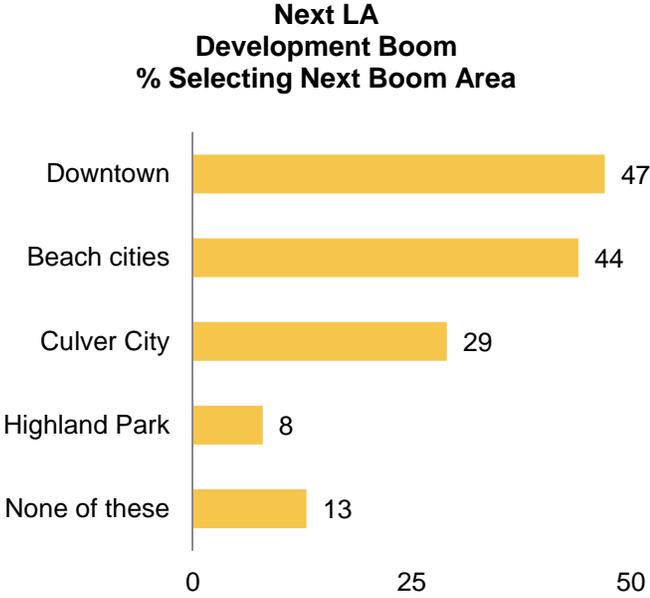
While Los Angeles HNW investors are not easily lured by developments in the entertainment sector, this is not unique to entertainment. Los Angeles investors are also unaffected by other Los Angeles-based sectors: large majorities of HNW investors say they are not looking to invest more in local-tech as the tech sector migrates from Silicon Valley to LA, nor has growth in the local and statewide tourism and hospitality industries altered the way they invest at all (83%). However, half (54%) say investment opportunities in the transportation infrastructure sector are more promising due to ongoing and upcoming public and private transportation projects.

The Impact of Commercial Development

A Few Geographic Areas Are Booming

Nearly half of Los Angeles HNW investors see the next LA development boom happening in Downtown LA or in beach cities—two diverse areas. Entertainment-centered Culver City is seen as the next development boom by a smaller, yet notable, plurality. Trendy Highland Park, however, is seen as up-and-coming by less than one in ten investors. More than one in ten says the next LA development boom won't happen in *any* of these areas.

However, recent shifts in commercial development do not affect a large majority of HNW investors' approach to commercial development at all (72%) and this is true across the asset groups. Looking at the remaining 28% of investors, less than one in ten (7%) say shifts have affected their approach a great deal, while 18% say "somewhat" (3% don't know).



Use of Financial Professionals

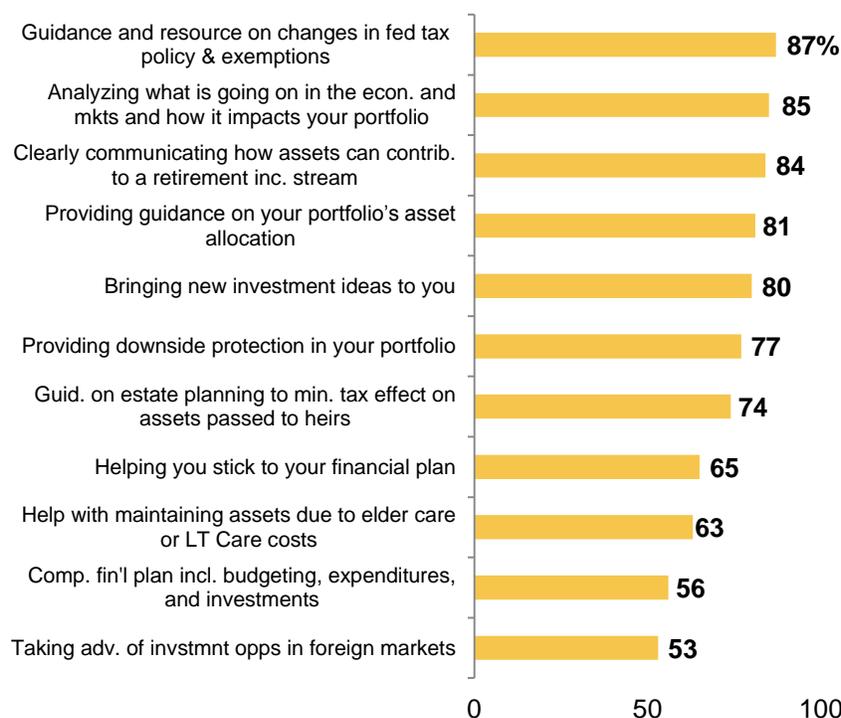
High Expectations of FAs

Professional financial advisors are highly in demand. About four in five (80%) Los Angeles HNW investors currently use an advisor. CFAs, CPAs, or CFPs (64%) are consulted more often than stock brokers (51%). Overall use of these professionals is roughly similar across asset groups, but millionaires rely on stock brokers more frequently (56% vs. 29% overall).

As seen nationally, Los Angeles HNW investors want a lot from their professional financial advisors. More than half of those with an advisor want guidance on topics ranging from tax efficiency to asset allocation, as well as new investment ideas and guidance on estate planning. However, Los Angeles HNW investors are less reliant on professionals than national investors when it comes to creating and sticking to a financial plan (65% LA vs. 75% national), as well as planning for elder care (63% vs. 73% national). Echoing the theme noted earlier, that Los Angeles high-net worth investors are focused more on domestic opportunities, the lowest priority is “taking advantage of investment opportunities in foreign

markets”—although a majority (53%) do want their FAs to help them with this goal.

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



As with national investors, Los Angeles 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, *guiding*, *communicating*, and *analyzing* are the keywords in the top three items on the list: “Providing guidance... on new changes in federal tax policy and exemptions,” “Analyzing what is going on in the economy and

markets and how it impacts your portfolio,” and “Clearly communicating how your assets can contribute to a retirement income stream.”

Among HNW investors who **do not** currently have any sort of financial advisor, priorities are broadly similar. While fewer see the value-add of each expectation, the general order of priorities is mostly unchanged. However, HNW investors *without* an advisor see lesser value in a professional’s ability to analyze how the economy impacts a personal portfolio (49% vs. 85% for users of an advisor).

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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