

Morgan Stanley Wealth Management
Investor Pulse Poll



New York 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 300 New York Metro-area 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 households that report investable household financial assets of \$1 million or more (32% of those interviewed in the New York Metro area) yielding a 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 respondents in New York Metropolitan area encompassing parts of the states of New York, New Jersey and Connecticut.

Highlights from this survey reveal that most NY Metro HNW investors (74%) feel that the US economy will be the same or better by the end of 2013. Even more (84%) expect their own household’s investment portfolios to be the same or better at year-end. A similarly high proportion of investors (78%) are confident of achieving their long-term financial goals.

- With much optimism expressed at the personal level, the poll, however, reveals some macro worries among NY Metro HNW investors. Increased foreign conflicts tops the list with 90% of those interviewed expressing concern (“very concerned” plus “somewhat concerned”) and 47% saying they are very concerned. Most are also worried about the nation’s economic prospects (86%) and the trade deficit (85%), as well as a downgrade in the government’s debt rating (85%) and the government’s budget deficit (81%).
- Assets do seem to help investors sleep better in some important ways— having enough money to cover the unexpected (39 points lower among millionaires [those with \$1 million or more in assets] than among all NY Metro HNW investors), their family’s overall financial well-being (20 points lower), paying off student loan debt for a spouse or child (25 points lower), and risk of deflation in the economy (22 points lower).
- More NY Metro HNW investors keep their money in equities (40%) than in other choices, but cash and fixed income investments together represent another 44%. 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. Dividend bearing stocks (48%), gold (47%) and S&P 500 Index funds (44%) are investors’ “good” picks for 2013. Federal government bonds or Treasuries and international stocks are much less enticing. As sectors go, Bio-tech, Technology and Energy are seen as good picks by two in three or more NY Metro HNW investors, but Aerospace, Consumer Discretionary and Insurance, for example, are not.
- The U.S. tops the list as a good place to put one’s money in 2013 (62% say it is good), with Brazil (43%) and China (43%) also seen as attractive, indicating that wealthy Americans may put their bucks in the “BUC countries” (Brazil, U.S., and China) in 2013.
- One in three (35%) believe home prices have increased in their local housing market in the past year while 21% say prices have decreased. NY Metro HNW investors are positive about the housing environment in the near future (next three years) for purchasing primary residences

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.

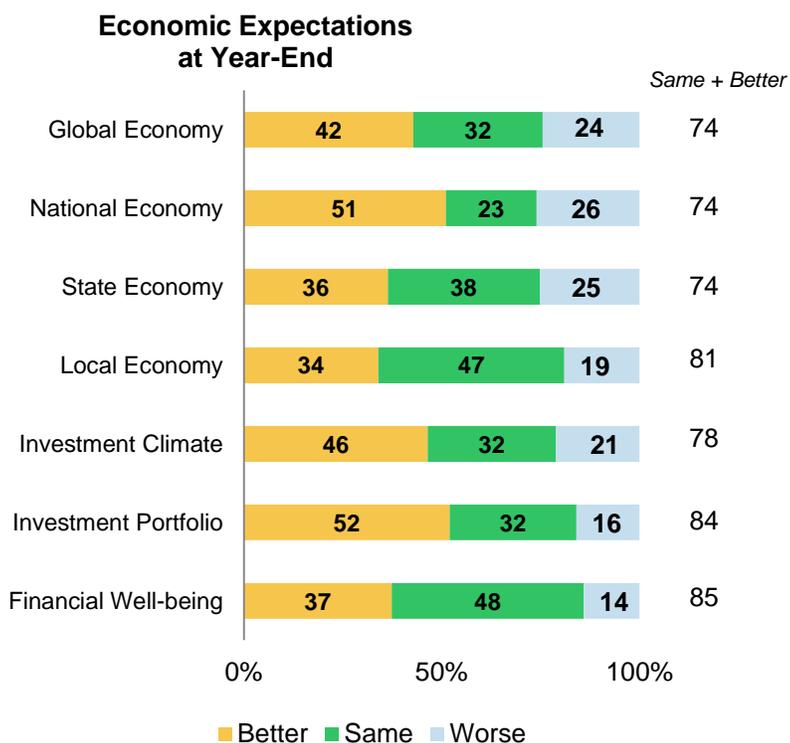
(68%), rental properties (51%) and second homes (41%); millionaires are more likely than those with assets under \$500,000 to report it is a good time to purchase a second home, commercial real estate or REITs.

- About three in four (77%) NY Metro 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 (51%). Expectations for these professionals run high, with most seeking more than just facts. HNW investors 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 New York Metro 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-two percent predict a better global economy before 2014 and 41% feel it is better than it was a year ago. In post-fiscal cliff, pre-federal sequestration interviews, 74% predict that the national economy will be the same or better before the end of December with 51% expecting to see an even better economy by that time. Just over half (53%) believe that the national economy is better now than it was a year ago. Views on year-end expectations are similar toward home state economies and the overall investment climate. NY Metro HNW investors are more optimistic about their local economy than the global, national or state economy: 81% expect local conditions to be the same or better by year's end.



Personal Portfolios and Financial Well-Being Expected to Improve

Nearly half (47%) of NY Metro HNW investors see today's investment climate as better than it was 12 months ago, one-third (33%) perceive no change and fewer (19%) say it has worsened. Nearly half see further improvement by year-end (46%). At the personal level, optimism is a little higher, with 52% reporting an expected improvement in their household investment portfolio by year-end. This is less the case for lower asset group investors (45%) versus millionaires (64%) and those with one-half to a million in assets (68%). But more than half of all surveyed (53%) anticipate better returns by year-end.

With regard to their state economy, the overall investment climate and their own investment portfolio, New York HNW investors are more likely than Connecticut HNW investors to see situations improving looking back on 2012 and looking forward to 2013.

Thinking about the investment climate compared to a year ago, many more NY Metro millionaires (62%) than all NY Metro investors (47%) say it is better now compared to a year ago. Similarly, far more NY Metro millionaires (71%) than all NY Metro HNW investors (48%) say their household's investment portfolio has improved over the past year. However, optimism about 2013 among millionaires is generally similar to all NY Metro investors overall for global, national, state, and personal issues.

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

Three in four NY Metro HNW investors (78%) are confident that they will achieve their long-term financial goals. As many (75%) of those who have not retired are also confident that they are on track in their planning. Both figures are similar to those seen nationally.

Three in four NY Metro HNW Investors (78%) are confident they will achieve their long-term financial goals.

Reality can dampen optimism once retirement actually arrives, however: as many retirees report that their investment portfolio is about what they expected (26%) as say it is better (26%), but 48% say it is worse than expected.

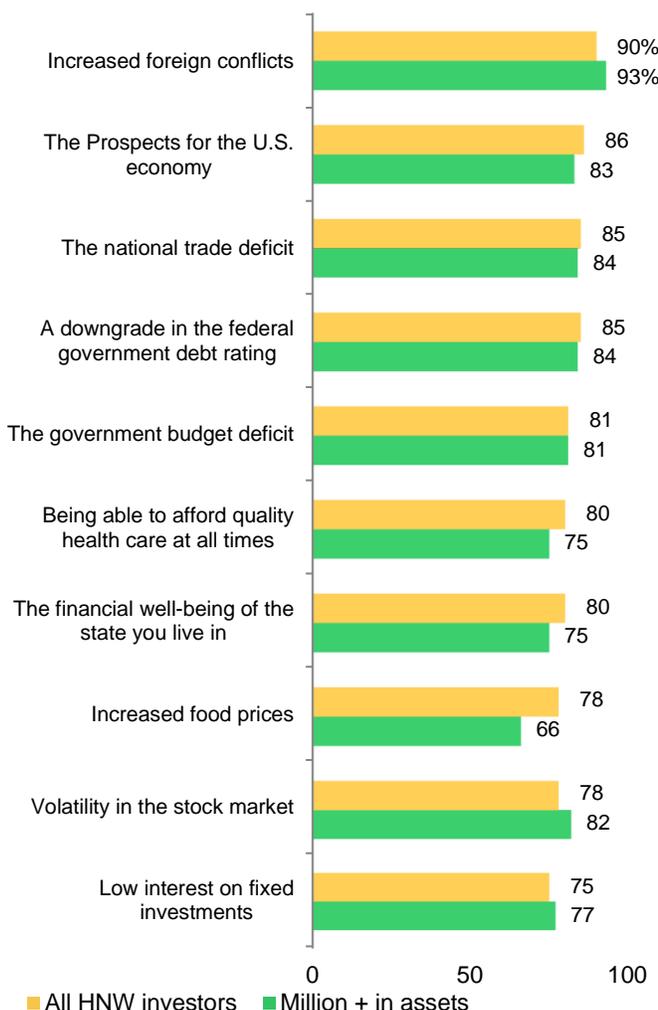
Concerns about Investing and the Economy

What Keeps HNW Investors Awake the Most At Night?

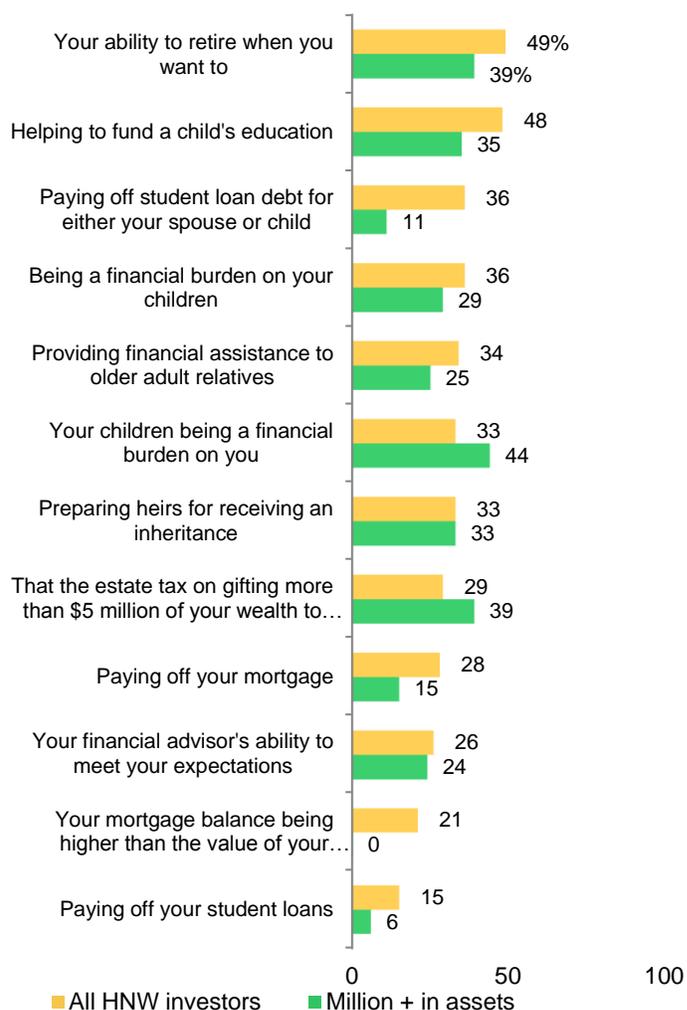
Many issues, national and personal, face today's investors. Of greatest concern to New York Metro HNW investors is increased foreign conflicts (90%). Given that New York is the center of much of the nation's financial power (and wealth), it follows that financial concerns related to the US economy form a second tier of issues, highlighted by US economic prospects (86%), the trade deficit (85%) and a downgrade in the government's debt rating (85%). Healthcare costs (80%) and increased food prices (78%) are part of a third tier of top concerns.

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 NY Metro HNW investors awake quite as much at night, as seen in the list of "Lowest Concerns." For example, paying off a mortgage or paying off personal student loans concern fewer than three in ten HNW investors.

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



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



For a number of topics, there is little different between the HNW investors living in New York, New Jersey and Connecticut. However, compared to their neighbors in New Jersey and Connecticut, New York HNW investors tend to express greater concern about long-term topics and issues that may occur one day: phase-out of personal exemption and deductions for incomes over \$250,000; being a financial burden on their children; their children being a financial burden on them; plus volatility in the stock market. At the same time, Connecticut HNW investors express somewhat greater concern about issues of today and the near future than others in the region: their family's overall financial well-being; being able to afford quality health care at all times; the possibility of high inflation in the next 5 years; being a caretaker for older adults; helping to fund a child's education; and their ability to retire when they want to. New Jersey HNW investors tend to place more concern than their neighbors on bigger-picture issues: the national trade deficit; low interest on fixed investments; risk of deflation in the economy; plus being able to pay off student loan debt for either a spouse or child.

While NY Metro millionaires' views on the top investors' concerns track fairly closely to those of all NY Metro HNW investors, they express considerably less concern about increased food prices. For issues outside the top 10, there are critical differences at the personal level: having enough money to cover the unexpected (39 points lower among millionaires), their family's overall financial well-being (20 points lower), paying off student loan debt for a spouse or child (25 points lower), and risk of deflation in the economy (22 points lower). NY Metro millionaires express somewhat greater concern than all NY Metro HNW investors about children being a financial burden (11 points higher) and that the estate tax on gifting more than \$5 million of your wealth to others will increase from 35% to 40% (10 points higher).

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 NY Metro HNW investor's portfolios (40%) and many have likely benefitted from the recently soaring market, especially millionaires, who report that 46% of their investments are in equities. Just over one in five dollars of NY Metro HNW investors (22%) is parked in fixed income investments and the same proportion is in cash (22%). The

	Current Average Allocations	Current— Among Those Who Do <u>Not</u> Plan to Adjust (n=235)	Current— Among Those Who Plan to Adjust (n=65)	Planned Adjustment (n=65)
Cash	22%	21%	23%	18%
Stocks or equities, stock funds, ETFs	40	39	43	43
Fixed income: bonds, treasuries, CDs, etc.	22	22	20	23
All other investments	17	18	15	16

remaining 17% is in "all other" investment vehicles, which includes commodities, etc. These holdings are similar to national HNW investors. Additionally, there is little variation between HNW investors in New York, New Jersey and Connecticut regarding the makeup of their current investment portfolio.

Two in ten NY Metro HNW investors plan to adjust their allocations during the coming year, although these "adjustors" do not expect to alter their cash and equities proportions much: the target positions are within four percentage points of current positions. The current portfolio of NY Metro HNW millionaires is generally similar to all NY Metro investors, though they have somewhat higher exposure to stocks and

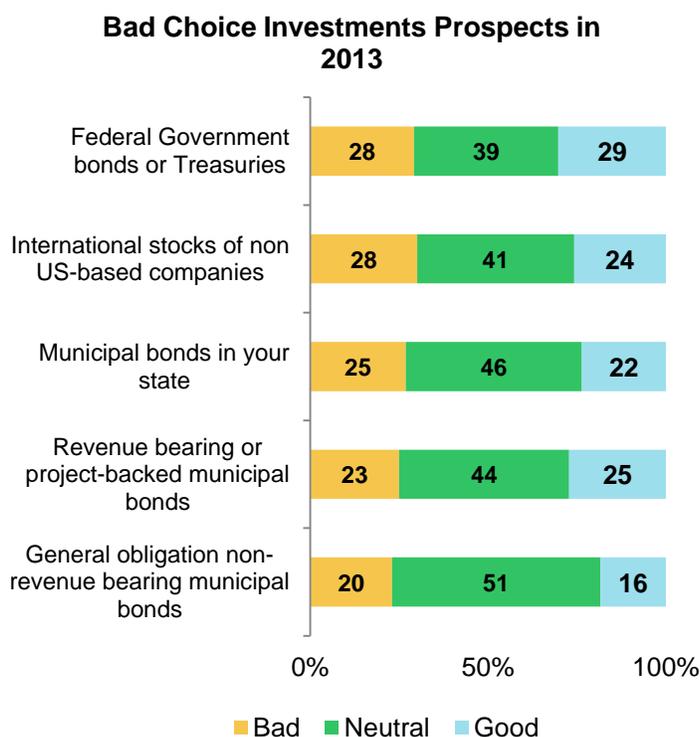
equities. (Note: At n=18, the sample size for NY Metro millionaires who “plan to adjust” is too small for analysis.)

Preservation of Capital Is More Important to Investors Today

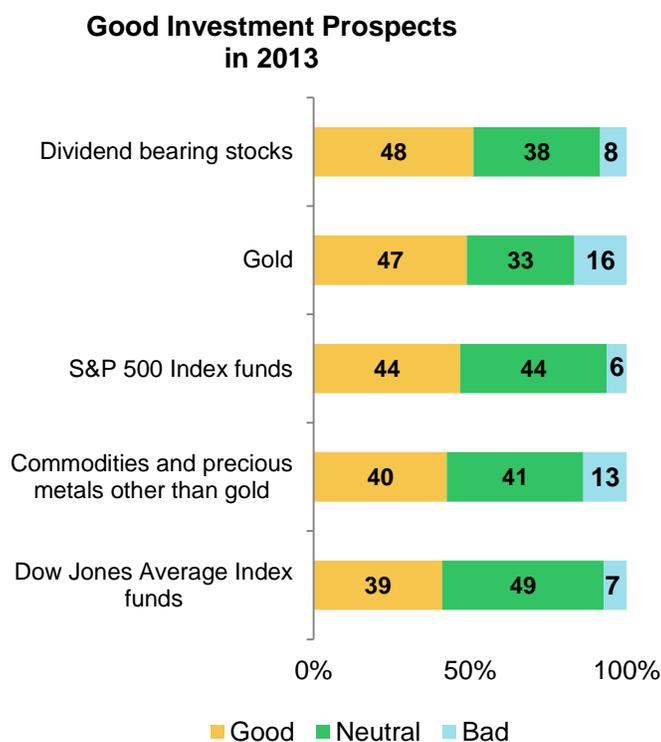
A majority of NY Metro HNW investors (57%) admit that preserving their capital or holdings is more important to them now than three years ago, similar to the national average (55%); the importance of preserving capital rises to 63% of those in Connecticut (somewhat higher than 56% in New Jersey and 53% in New York). Considering that stocks and equities—more volatile than fixed income investments—make up the largest proportion of HNW investors’ wealth, as seen earlier, it appears that investors are fairly comfortable with equities at the present time. Generating income from investments is key for 52% (vs. 45% nationally), while capital appreciation as an investment objective is also more important now than three years ago to 45% of NY Metro HNW investors (vs. 48% nationally).

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

Topping the list of “good” investments for 2013 in the eyes of NY Metro HNW investors are dividend bearing stocks (48%), gold (47%), and S&P 500 Index funds (44%). All top picks beyond the top three display the same or higher “neutral” than “good” ratings, indicating investors’ tepid embrace of these vehicles. This may indicate some risk aversion and supports the finding of high importance that HNW investors place on preservation of capital, noted previously.



five of these investments are fairly low risk, lower return investments, which goes along with the



At the bottom of the list, i.e. prospects with a “bad” outlook, are “treasuries” (28% “bad”), “international stocks of non US-based companies or international mutual funds that do not own shares of US-based companies” (28%), “municipal bonds in your state” (25%), revenue bearing or project-backed munis (23%) and “general obligation non-revenue bearing munis” (20%). Four out of

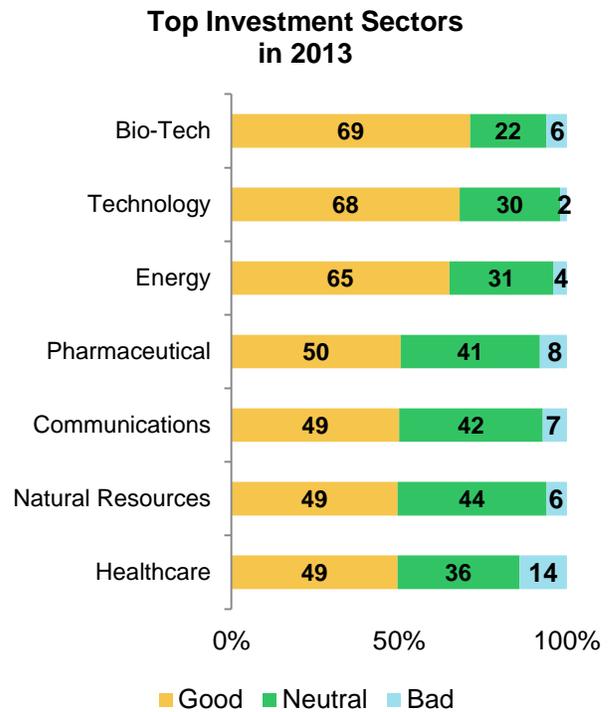
previously stated concern of many about low returns on fixed investments. International stocks may just be considered too risky.

Good Investment Sectors

Three investment sectors stand out in the eyes of NY Metro HNW investors: Bio-Tech, Technology, and Energy; each is seen as a good investment by at least two in three investors. Pharmaceuticals, Communications, Natural Resources and Healthcare are sectors endorsed by about half of NY Metro HNW investors. Four of the top five sectors in the NY Metro area are the same as the best vehicles seen nationally, with the exception that Communications and Natural Resources join Healthcare in fifth place. At the bottom of the list of good investment choices are the Aerospace (13%), Consumer Discretionary (15%) and Insurance (22%) sectors.

Attitudes toward the 16 sectors are generally consistent across the states in the NY Metro area, with two exceptions: Connecticut investors are more optimistic about the Bio-tech sector than are New Jersey investors (80% vs. 58% “good”), and perhaps because their state is home to locations of aerospace companies such as Boeing, Lockheed Martin, Pratt & Whitney, United Technologies, Connecticut investors are more optimistic about the Aerospace sector than are New York investors (22% vs. 5% “good”).

Millionaires buck the trend on three sectors: real estate (at 61%, 20 points higher than all HNW investors in the NY Metro region), technology (at 85%, 17 points higher than all NY Metro HNW investors), and utilities (at 20%, 20 points lower than all NY Metro HNW investors).



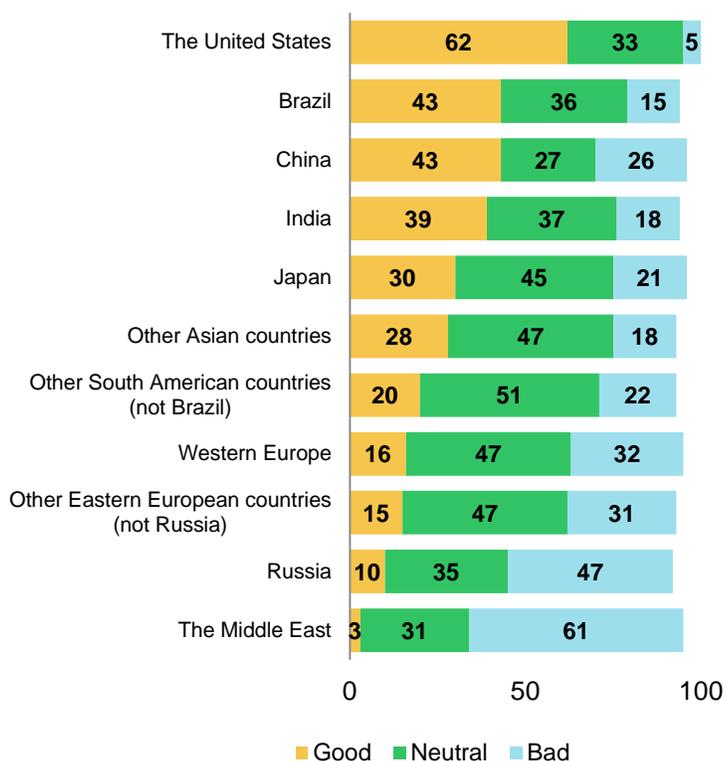
Foreign and International Investing: Keeping Investments Close to Home

With financial or governmental crises in many parts of the globe, it is not surprising that NY Metro HNW investors see the US a good place to put money in 2013.

NY Metro HNW investors say there is no place like home when it comes to investment opportunities. Six in ten (62%) say that the United States is a good place to invest in 2013—more so than any other country or region.

Brazil, China and India 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 10% 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. Few see Russia or the Middle East as good regions for investment.

2013 Investment Outlook
by country/region



Housing and Real Estate

One in three NY Metro HNW investors (35%) sense an improvement in their local housing markets; however this is not even across the region: those living in New York (45%) are more likely than those in Connecticut to report that housing prices have improved (26%).

Investors are Becoming Bullish on Real Estate Again

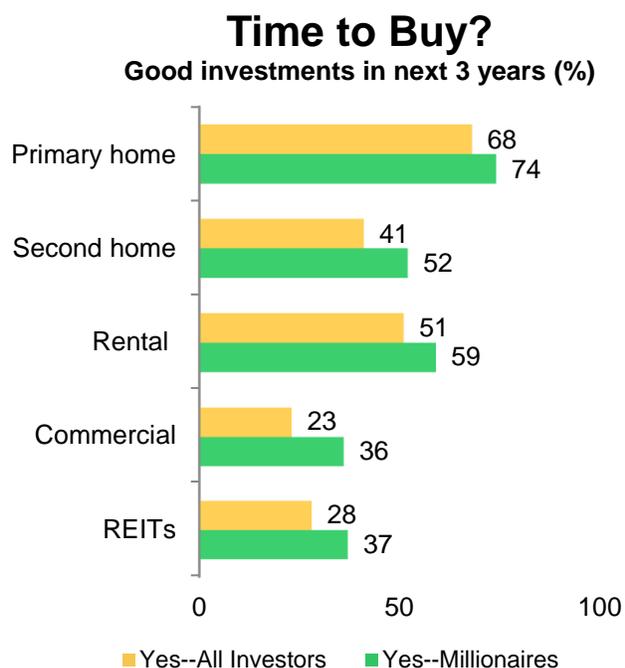
One in three NY Metro HNW investors (35%) sense an improvement in their local housing markets compared to a year ago, slightly below the national average of 41%; those living in New York (45%) are more likely than those in Connecticut to report that housing prices have improved (26%). Prices within 25 miles of their primary home have increased just over 8% on average over the past year (versus 10% nationally). About four in ten say home prices in the NY Metro area have remained the same (42%), while 21%

estimate that local home prices have decreased an average of 16%. Foreclosures have affected 34% of NY Metro neighborhoods “somewhat” or “a great deal” (lower than the national figure of 43%); in tandem with less improvement in housing prices in Connecticut than New York is data showing that foreclosures are impacting Connecticut neighborhoods somewhat more than New York neighborhoods.

NY Metro HNW investors are also fairly bullish on investing in the real estate market now. Approximately one in three believe real estate will outperform stocks (34%) and commodities (36%) over the next three years and will eclipse bonds (40%) and cash (53%); these sentiments are similar to those seen nationally. The timing is good, they say, to buy a primary residence (68%) or rental properties (51%) but not quite as good for second homes (41%), REITs (28%) or commercial real estate (23%). Investing in commercial real estate is higher in New York (32%) than in Connecticut (17%). Men are more optimistic than women for all real estate investments in the near future except a second home: primary residence (76% vs. 60%); rental property (59% vs. 42%); commercial real estate (30% vs. 15%); and REITS (35% vs. 21%).

NY Metro millionaires are more likely to say home prices in their neighborhood have improved (43%) and are more keen than low asset HNW investors to say the near future is a good time buy a second home (52%, 17 points higher), commercial real estate (36%, 19 points higher) or REITS (37%, 13 points higher).

The great majority of NY Metro HNW investors own a primary home (95%, nearly identical to the national average of 96%). Ownership of a primary residence is higher in Connecticut, 100%, and New Jersey, 98%, than in apartment-heavy New York, 87%. Two in three of those who own their home in the NY Metro area have a mortgage on it (67%, similar to 66% nationally); as with home ownership, possession of a mortgage against the primary home is higher among HNW investors in Connecticut (79%) and New



Jersey (73%) than New York (47%). NY Metro millionaires are less likely to have a mortgage on their primary home (61%) than all investors in the region.

However, 8% of NY Metro HNW investors' primary home mortgages are “under water” – twice the national average of 4%. Owing more than the primary home is worth in the NY Metro is driven by those with assets under \$500,000; no millionaires report that their mortgage is under water.

Ownership of a second home (20%), rental property (14%) or commercial property (7%) is much less common and in-line with the nation overall.

In the past three years, 35% of NY Metro HNW investors have engaged in a real estate transaction, lower than the national figure (43%). Most of the transactions in the NY Metro area were related to the primary home (30%, somewhat lower than 37% nationally). Mortgage re-financing is the preferred vehicle for primary home real estate transactions among NY Metro HNW investors, cited by 22%, compared to 6% who took out a first mortgage, 3% who took a home equity loan and 1% whose transaction was in cash. New Jersey and Connecticut HNW investors are somewhat more likely than New York HNW investors to turn to re-financing for their primary home.

NY Metro HNW investors are not as conservative on real estate policy as investors nationwide. Nearly half (47%) feel that the government should place a high priority on loan modifications for borrowers who are having difficulty paying their mortgages, compared to 34% nationally. At the same time, about one in five NY Metro HNW investors (22%) want to see a strong focus on backing low down payment loans for low income borrowers, slightly higher than 17% nationally. 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 18% (13% nationally) say it should be a high priority.

Fully 60% of New York HNW investors want the government to prioritize loan modifications for at-risk borrowers, much higher than the 42% of Connecticut HNW investors and 39% of New Jersey HNW investors who want to see this happen.

Use of Financial Professionals

High Expectations of FAs

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.

About three in four (77%) NY Metro HNW investors currently use a financial advisor. CFAs, CPAs, or CFPs (54%) 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 increases with age and asset group, and women in the NY Metro area are more likely than men to have an advisor (82% vs. 73%).

What specifically do HNW NY Metro investors want from their financial advisor? Beyond simply the facts about today’s investment opportunities, they want guidance and analysis. Most important is providing guidance asset allocation (87%), although nearly as many desire clear communications about their retirement income stream (84%), guidance on the impact of changes in federal tax policy (83%) and analysis of how current economic conditions impact their portfolio. Echoing the theme noted earlier, that American high-net worth investors are focused more on domestic opportunities, “taking advantage of investment opportunities in foreign markets” is at the bottom of the list – although a majority (52%) want their FA’s to help them even with this goal.

Within the NY Metro area, New Jersey HNW investors are the most likely to want their financial advisor to be able to assist them with most of these services.

Among NY Metro HNW investors who **do not** currently have any sort of financial advisor, expectations of an advisor's responsibilities are lower, with portfolio analysis based on current economic conditions the most desired assistance (60%), followed closely by clear communications about their retirement income stream (59%).

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



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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