Morgan Stanley

Morgan Stanley Wealth Management Investor Pulse Poll

San Francisco 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 305 HNW respondents in the San Francisco metro area.

Highlights from this survey reveal that most San Francisco HNW investors (81%) 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 similarly high proportion of investors are confident of achieving their long-term financial (85%) goals. Overall, these views among San Francisco investors are somewhat more optimistic than 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 possibility of increased foreign conflicts tops the list with 90% of those interviewed expressing concern (“very concerned” plus “somewhat concerned”). Most are also worried about the nation’s economic prospects (87%) and the budget deficit (86%), as well as California’s financial well-being (84%) and the trade deficit (81%).

- Assets do seem to help investors sleep better in some important ways—only 68% are concerned about having enough income during retirement, with even fewer (39%) millionaires concerned (those with $1 million or more in investable assets). “Having enough money to cover the unexpected” worries 58% in San Francisco overall, but only 34% of millionaires.

- More HNW investors keep their money in equities (41%) than in other investment choices at the national level, this is particularly true for Bay Area HNW investors (48%). Cash and fixed income investments together represent another 37%.

- Broad market indices (48% to 49%), REITs (49%), mutual funds (46%), and dividend bearing stocks (42%) are investors’ “good” picks for 2013. Fixed income investments are much less enticing. As sectors go, Technology, Bio-tech, Pharmaceuticals, Real Estate, and Energy are seen as good picks by more than half of San Francisco HNW investors, but Aerospace and Insurance, for example, are not.

- The U.S. tops the list as a good place to put one’s money this year (69% say it is good), with Brazil (54%) and India (48%) also seen as attractive. San Franciscans are notably different than national HNW investors in that they rank China fourth versus third at the national level.

[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.

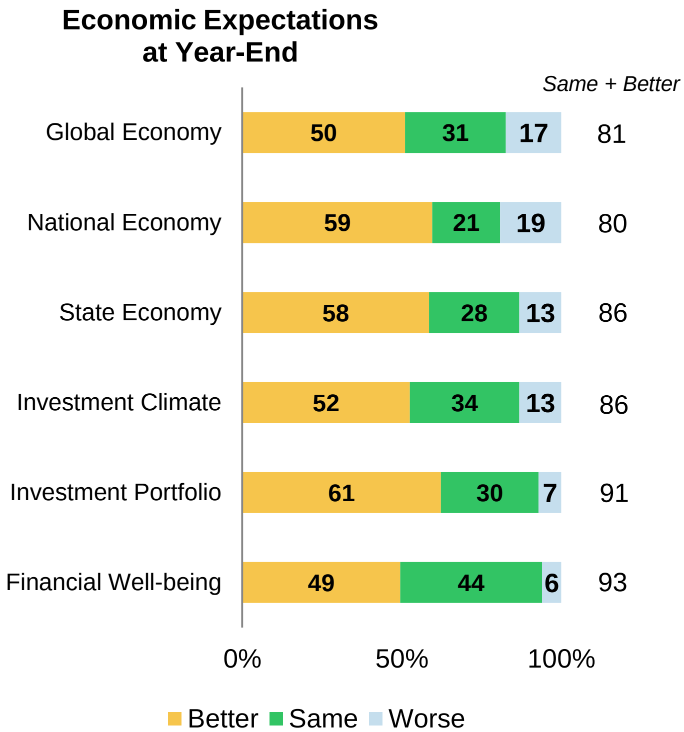
- Almost eight in ten (79%) HNW investors seek the guidance of a professional financial advisor on a broad range of topics, from tax efficiency to asset allocation, to new investment ideas and help with downside protection. Many use more than one type of advisor. For example, certified financial analysts, certified public accountants, and certified financial planners (50%) are consulted about as often as stock brokers (56%). Expectations for these professionals run high, with most seeking more than just facts. They want analysis, clear communication, and guidance.

- Nearly four (37%) in ten San Francisco HNW investors have put funds into a start-up but fewer than one in four (23%) plans to do so within the next three years. Bay Area investors also say that innovative ideas are the most important characteristic when investing in a company, regardless of whether the entity is a start-up (47%) or not (56%). Strong financial backing is second in importance (20% any company, 23% start-up).

The State of the Economy and the Investment Climate

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

Eight in ten (81%) of 1,000 High Net Worth (HNW) investors with $100,000 or more in investable liquid assets interviewed in the San Francisco metro area at the beginning of this year feel the global economy will be the same or better by the end of 2013, somewhat more optimistic than views toward the global economy found among all national respondents (72%). Fifty percent in the Bay Area predict a better global economy before January and 55% feel it is already better than it was a year ago. In post-fiscal cliff, pre-federal sequestration interviews, 80% predict that the national economy will be the same or better before the end of December with 59% expecting to see improvement in the economy by that time. More than two in three (68%) also believe that the national economy is better now than it was a year ago. San Franciscans' views are also more optimistic toward their State economy (86% same or better vs. 77% nationally) and toward the investment climate (86% vs. 75%).



Personal Portfolios and Financial Well-Being Expected to Improve

At the personal level, optimism is even higher, with 91% expecting their investment portfolios to be the same or better by next January (vs. 86% nationally). Looking back a year, 65% 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 (58%) versus millionaires (80%). A great majority of all those interviewed (93%), bordering on unanimity, feels that as 2013 closes, they will have the same or a better sense of financial well-being.

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

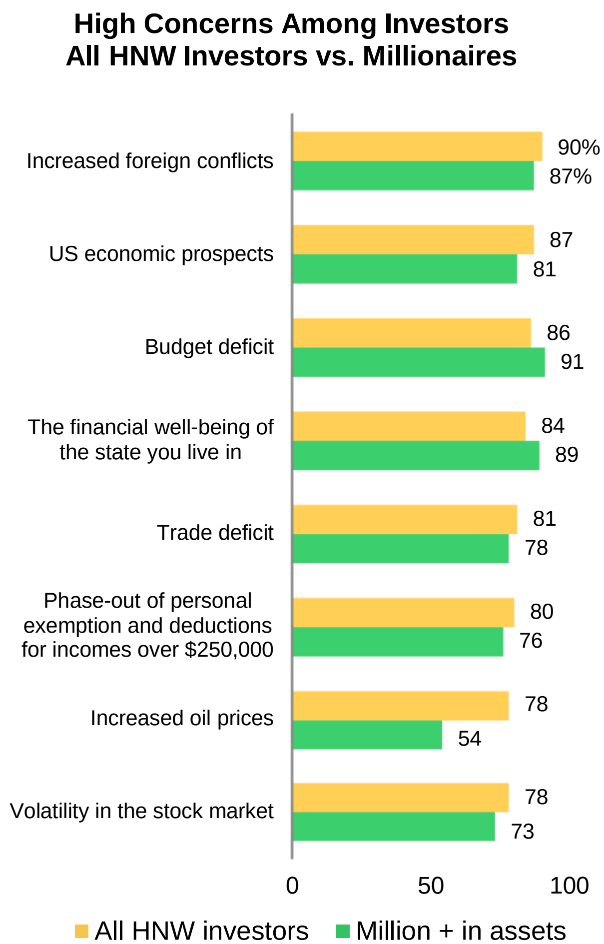
Most HNW Investors (85%) are confident they will achieve their long-term financial goals.

Most of San Francisco's HNW investors are confident (85%; 34% very confident) that they will achieve their long-term financial goals, very similar results to those seen at the national level (83% confident; 27% very confident). A large majority (74%) of those who have not retired are also confident that they are on track in their planning. Reality can dampen optimism once retirement actually arrives, however. A plurality of retirees (41%) report that their investment portfolio is about what they expected it would be, but results are split between those who feel it is worse than expected (30%) and those who say it is better (29%).

Concerns about Investing and the Economy

What Keeps HNW Investors Awake the Most At Night?

Topping the list of San Francisco HNW investors' concerns is the possibility of increased foreign conflicts (90%), an apparently nettlesome topic that is shared almost equally by investors overall and millionaires living in the Bay Area. This is very similar to the 88% figure seen on this topic at the national level. Economic and financial issues round out the rest of the top concerns. US economic prospects come in second, at 87%, and the federal budget deficit is third, worrying 86% vs. 88% nationally, with only half (49%) describing themselves as "very concerned," indicating less intensity of concern on this topic than seen at the national level (65% "very concerned"). The financial well-being of California (84%) also looms large for San Franciscans, given the severe budgetary problems California has experienced during the recession over the last few years.



The trade deficit (81%) and volatility in the stock market (78%) worry investors in San Francisco at about the same rate as nationally (83% and 75%, respectively), as does concern over the phase-out of personal exemptions and deductions for incomes over $250K (80% vs. 75%). Higher oil prices, a problem in the eyes of nearly eight in ten from San Francisco (78%), tracks with the national result of 79%, but SF millionaires are far less worked up about oil prices (54%), which is not the case for millionaires nationally (76%).

Some notable healthcare-related concerns are important for San Franciscans, if somewhat less so than at the national level. Important to both millionaires and all investors alike, "affording quality healthcare at all times" worries 77% overall nationally, but 72% of San Francisco investors. And "decreased Medicare coverage levels" is worrisome to 71% versus 76% nationally.

What Worries Investors Less?

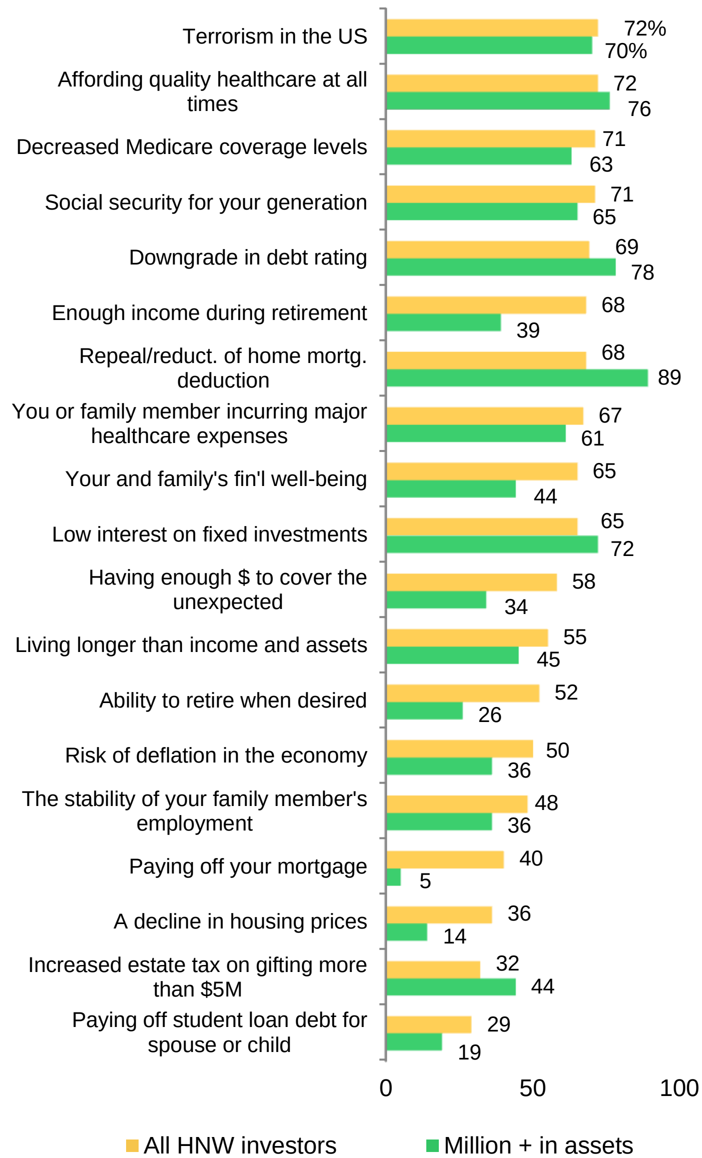
Potential problems over which investors feel they have greater control—worries that can be addressed personally or mitigated via possessing greater financial means—do not tend to keep HNW investors awake quite as much at night, especially millionaires. Retirement is one very notable example: the millionaire-to-all investor split on "having enough income during retirement" for Bay Area investors is 68% all investors to 39% for millionaires, an even bigger gap than seen nationally (65% versus 54%). A similar split is found for "being able to retire when desired," where twice as many investors in San Francisco are concerned overall (52%) versus millionaires (26%) compared to a 53% to 39% difference nationally. San Franciscans are also not terribly bothered about being able to pay off their mortgages (40% vs. 5% for millionaires) nor about a decline in housing prices, which are already among the highest in the country (36% vs. 14% for millionaires). While almost two in three HNW investors in San Francisco are concerned about their own and their family's financial well-being (65%), millionaires don't lose too much sleep (44%).

What Worries Millionaires More?

Where millionaires do show greater concern than the whole group of investors is in regard to a possible repeal or reduction in the home mortgage deduction (89% vs. 68% for all investors) and to a lesser extent, low interest on fixed investments (72% vs. 65%) as well as a downgrade in the government's debt rating (78% vs. 69%). Though lower overall in priority, 44% of millionaires, vs. 32% of all investors, see an increased estate tax on gifting more than $5M as bothersome.

Finally, one of the biggest differences of all between millionaires and all HNW investors again strongly illustrates how assets can help to alleviate concerns. "Having enough money to cover the unexpected," while a substantial worry for HNW investors overall—58% are concerned or very concerned in San Francisco)—is a much lower level problem in the minds of millionaires. Only 34% are very or somewhat concerned about money to cover the unexpected. Nationally, the split is even a bit broader, at 57% versus 25% for millionaires.

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 nationally (41%), but this is especially the case in the Bay Area (48%), where investors may very much have benefitted from the recently soaring market, particularly 25-54 year-olds with 52% of their portfolios in inequities versus 43% for 55-64 year-olds and 44% for the 65 and older category. Men (52%) versus women (43%) also seem to be heavier on equities and millionaires have 50% in this category. The youngest investors at the national level also have more money in equities, but not as much proportionally as San Franciscans (43% 25-54 year-olds vs. 36% for those 65 and older). About one in five dollars (18%) is parked in fixed income investments and 15% is in "all other" investment vehicles, which includes commodities, etc. Just under another fifth of all money sits in in cash, which appears to be less appealing to millionaire investors in the San Francisco (15%).

A quarter of investors plan to adjust their allocations during the coming year nationally, which is the same in San Francisco. And millionaires seem to be a little more restless regarding their portfolios with 41% planning to shuffle things around. There are not many differences, however, in existing allocations between those who plan to make a change versus those who do not. The biggest difference is in cash, which is a little lower among "adjusters" (17% versus 20%) and they plan to go a little lower yet (down to 15% cash), resulting in a 5-point difference between those who plan no changes.

	Current Average Allocations	Current—Among Those Who Do Not Plan to Adjust (n=228)	Current—Among Those Who Plan to Adjust (n=77)	Planned Adjustment
Cash	19%	20%	17%	15%
Stocks or equities, stock funds, ETFs	48	47	49	48
Fixed income: bonds, treasuries, CDs, etc.	18	17	20	21
All other investments	15	16	14	16

By comparison, Bay Area millionaires who intend to adjust their portfolios (a small group), expect to have 43% of their money in equities at the end of the year (down from 45% now), lighten their cash positions to 14% from 17% currently, and to have 20% in fixed income vehicles (same currently). The biggest change expected is in "all other investments," which includes commodities. Here, millionaires intend to go from 19% up to 24%. (The sample size for millionaires who "plan to adjust" is very small and results should be considered directional: n=28.)

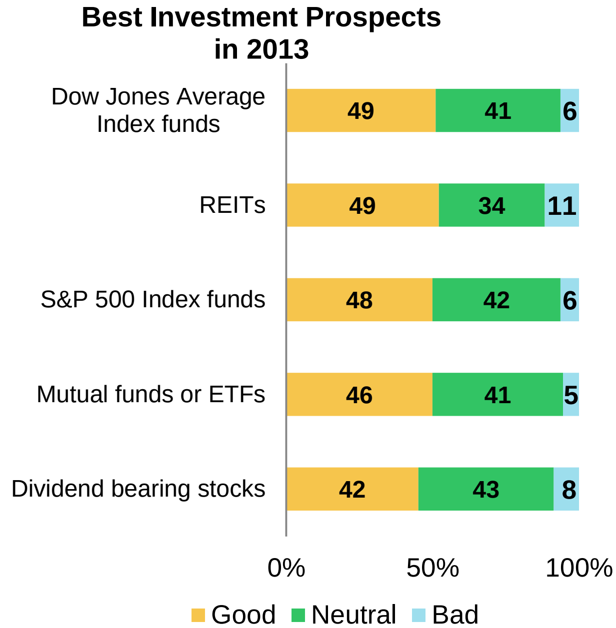
Preservation of Capital Is More Important to Investors Today

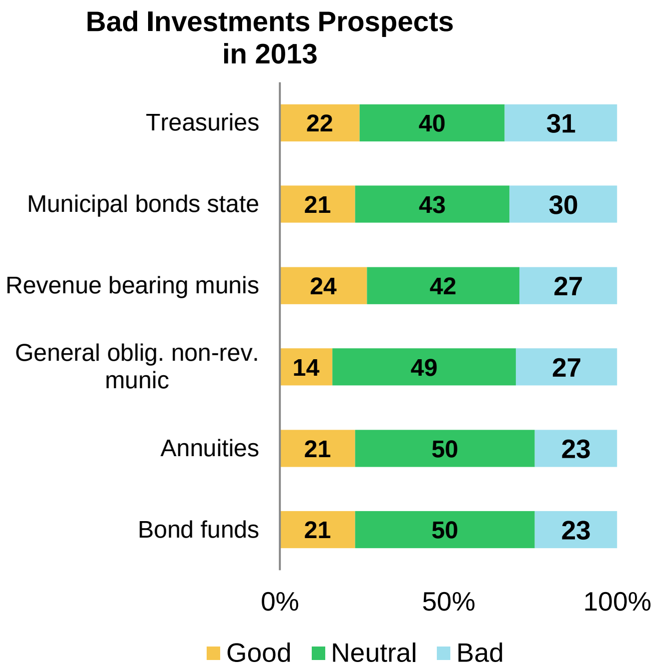
A majority (53%) of HNW investors in San Francisco admit that preserving their capital or holdings is more important to them now than it was three years ago, while 42% say its importance has not changed. Only 2% assign it lower importance. Those with assets between half a million to under one million dollars are particularly concerned about preserving capital (65%) compared with millionaires (50%) and those with assets under half a million (51%). Considering that stocks and equities—more volatile than fixed income investments—make up the largest proportion of HNW investors' wealth, it appears that investors are fairly comfortable with equities at the present time.

Capital appreciation as an investment objective is also more important now than three years ago to 41% of investors, as is generating income (44%). About half of investors have not shifted in importance on either of these two objectives during this period (51% "capital appreciation" and 49% "generating income").

San Francisco Investors' Top List of Good Investments in 2013 is Mostly Risk Averse

Broad Index funds—the Dow Jones and the S&P—take the first (49%) and third (48%) spots on the five best investment prospects list in 2013 according to San Francisco investors. Both are fairly risk averse investments. Mutual funds (46%) and dividend bearing stocks (42%) come in fourth and fifth, also not particularly risky investment options. REITs, second on the list, while fairly high return investments, do bring potentially high risk, reflected in the fact that REITs also get a higher "bad" rating than the other top picks do. Two notable differences between Bay Area investors' versus national investors' top picks is the absence of gold, number one on the national list, and the presence of REITs for San Franciscans.

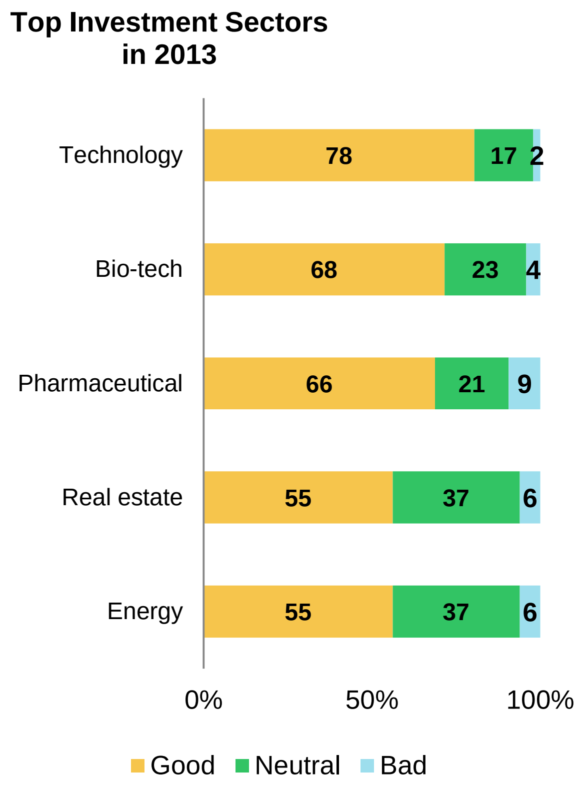




Topping the "bottom" list are "treasuries" (31% saying "bad" investment), three types of munis (27%-30% disfavoring), annuities (23%), and bond funds (23%), all investments with limited return, lower risk. These investment vehicles evoke mostly ambivalence from San Franciscans, with only one in five or more saying they are good investments (except for general obligation munis, at 14%). Nationally, opinions are very similar regarding the less favorable investments, with four in the same grouping selected. The exception is annuities, which replaces international stocks and mutual funds on the national list.

Good Investment Sectors

The top five investment sectors for this year in the eyes of HNW investors in the San Francisco area are Technology, Bio-Tech, Pharma, Real Estate, and Energy, diverging from the top national choices only in that Real Estate takes the place of Natural Resources on the list. Though the rankings are different, both place Technology on top, with San Franciscans even more enthusiastic about technology (78% say it is a "good" investment) than investors are nationally (69% "good").



Similar to the national rankings, Healthcare, while thought of as a good investment by 52% of investors, also received the second highest "bad" investment rating (19%), with 26% neutral. The only other sector to get a higher negative rating is "Aerospace" (27%). Only 16% consider aerospace a "good" investment area and 50% are neutral about it. The Housing sector is endorsed by 52%, with only 8% saying it is bad, similar ratings to the broader Real Estate sector in the Bay Area. San Francisco distinguishes itself from the national results on Housing, where 40% say it is "good" this year and 18% say "bad." Bay Area respondents are also much more positive on Real Estate (55% "good") than are national investors overall (44% "good"). Interestingly, it is the middle asset category ($500K to under $1M) that is more bullish on both Housing (66% say "good" vs. 52% for the lower asset grouping and 39% for millionaires) and Real Estate (69% "good," vs. 52% for the lower asset group and 54% for millionaires). Nationally, it is the millionaires who distinguish themselves on real estate (54% "good" vs. 44% overall). Home to the famous Transamerica Pyramid, San Francisco looks very neutrally, however, toward the insurance sector (58% neutral, 20% "good," and 16% "bad").

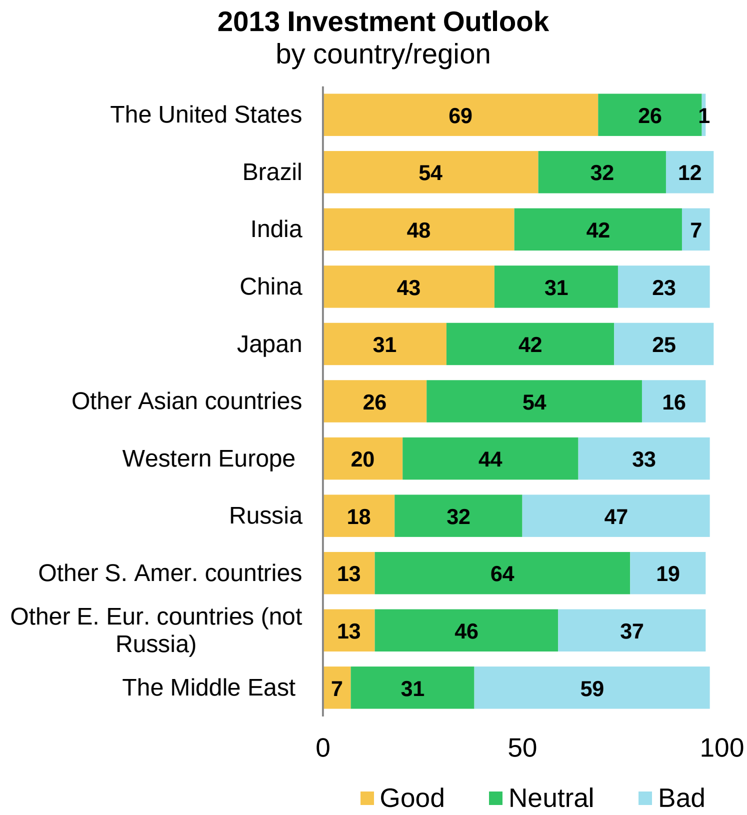
The US Is the Leading Destination for Investment in 2013

Bay Area HNW investors say there is no place like home when it comes to investment opportunities. A substantial majority (69%) view the United States as a good place to invest in 2013—far more so than any other country or region named. This outlook is even higher than the 56% "good" rating bestowed on the US by national investors overall.

The U.S. is seen as the best place to put money this year according to San Francisco HNW investors.

Brazil, India, and China all handily take the rest of the top four slots, each scoring higher "good" than "neutral" percentages. Beginning with Japan, however, the positive investment outlook drops considerably to lower than one in three, making investments in the rest of the world neutral to dubious in the eyes of San Francisco investors. Russia, with growing concerns over the US relationship with the Putin regime and the Middle East, experiencing civil upheaval and concerns over Iran's nuclear ambitions, receive notably "bad" investment stamps, at 47% and 59%, respectively.

Brazil and China outshine other countries in their respective regions, with majorities saying they are neutral toward the investment opportunities in other South American and Asian countries. And the Eurozone crisis may be taking a toll on U.S. investor confidence, with nearly half neutral and about a third negative toward investment in both Western and Eastern Europe.



Investing in Start-Ups

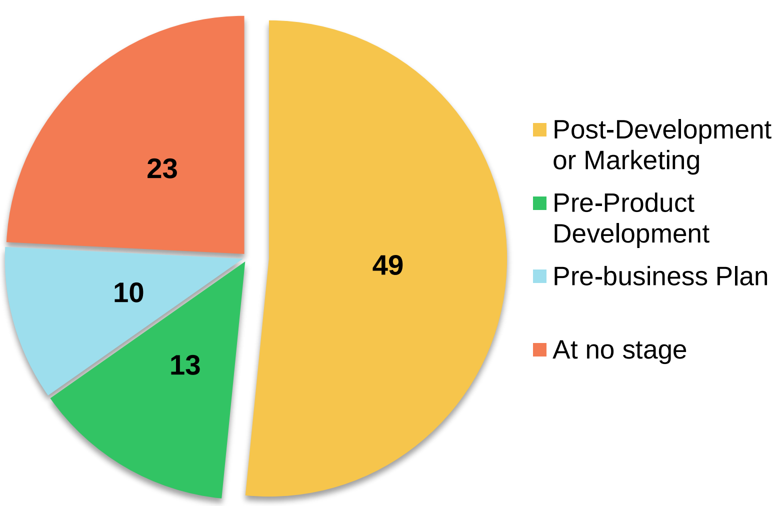
Nearly Four in Ten San Francisco HNW Investors Have Put Funds Into a Start-Up But Fewer Than One in Four Plans to Do So Within the Next Three Years

In the entrepreneurially spirited San Francisco Bay Area nearly four in ten investors have put money into a start-up business in the past (37%), with men more likely to do this than are women (46% vs. 29%). Nearly a quarter of those who have not had a start-up investment experience report having considered taking such a step (23%), but relatively few of these "contemplators" are 65 years or older (8%), likely because of the risk involved in start-up investing. In the next three years, however, only 23% of all Bay Area HNW investors say they are likely (6% very likely) to invest in a start-up company; those in the 25-54 year-old bracket are more likely to do so (30%).

All Bay Area respondents were asked which stage in a start-up business development cycle would interest them most in terms of actually making a commitment. The biggest proportion (49%) selects the post-development or marketing stage, trailed by the pre-product development (13%) and pre-business plan (10%) stages. Almost one quarter of investors (23%) have no interest in being involved at any stage.

Given the choice of investing in a start-up via a group or solo, 58% favor doing so within a group, 16% would go it alone, 9% express no preference, and 15% will not invest either way. Once a decision to invest in a start-up is made, however, nearly one in five (19%) would expect to take a significant role in the venture.

Stage at Which Investors Interested in Start-Up Commitment (%)



Investors have different reasons for involvement in start-ups. Should they make such an investment, 44% feel that such a decision, for them, is best explained by seeking to maximize investment return, 21% say "to help build a successful business," 13% say "to advance the career of a protégé or relative, one in ten (10%) cite "something else," another 9% are unable to decide a particular reason. A handful (2%) say they want "to create a personal legacy."

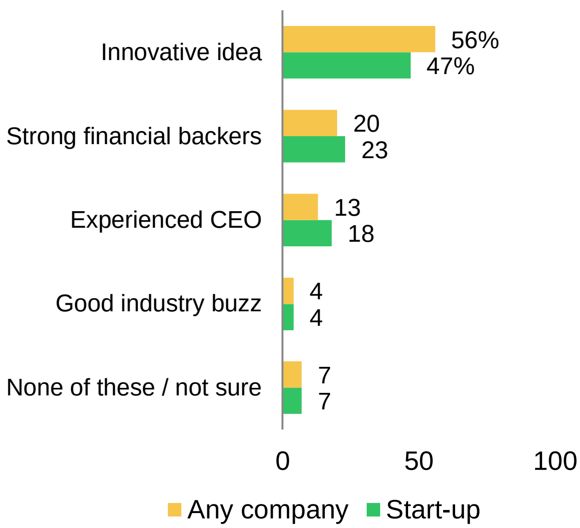
Reasons Investors Hesitate to Invest in a Start-Up

There are many reasons investors may hesitate to invest in a start-up. The most obvious is risk, expressed in terms of fear of losing one's investment (73% agree). Here, the greater wealth of millionaires speaks to their somewhat lower concern over start-up risk (61%) than those with $100K to $499K in assets (77%); middle asset group respondents with $500K to less than $1M fall between the two (70%). Perhaps not as obvious until one thinks closely about making such an investment is concern over possible legal difficulties involved in the venture (34% agree). There are also personal reasons, such as not wanting to hurt one's relationship with protégés and relatives who may be involved in the start-up (17%), fear of personal failure (16%), among other reasons (21%). The reasons selected reflect multiple responses but 6% are not able to choose any reasons at all for hesitating to invest in a start-up.

Important Corporate Attributes for Investors

Innovative ideas are the most important characteristic when investing in a company, regardless of whether the entity is a start-up (47%) or not (56%), according to Bay Area investors. Strong financial backing is second in importance (20% any company, 23% start-up). Start-ups are also held to a slightly higher standard for leadership, with 18% of investors saying an experienced CEO is the most important attribute versus 13% for "any company." Industry buzz appears to be readily ignored (4% each), however. Some investors did not agree with any of these priorities or could not decide (7% for both "any company" and for start-ups).

Most Important Reasons to Invest in a Company



The San Francisco Chronicle is the Go-To Business and Investment Information Source for Bay Area Investors

Bay Area investors are more likely to turn to the San Francisco Chronicle (38%) than any other medium for business and investment information. The Silicon Valley Mercury News (15%) and Business Times (13%) are also consulted, as are other local newspapers (26%). Nearly one in three, however, do not use any of these media (30%).

Use of Financial Professionals

High Expectations of FAs

Professional financial advisors are highly in demand. Nearly eight in ten (79%) HNW investors currently use an advisor. CFAs, CPAs, or CFPs (50%) are consulted nearly as often as stock brokers (56%); many HNW investors use more than one type of advisor. Overall use of these professionals is roughly similar across all asset and age groups.

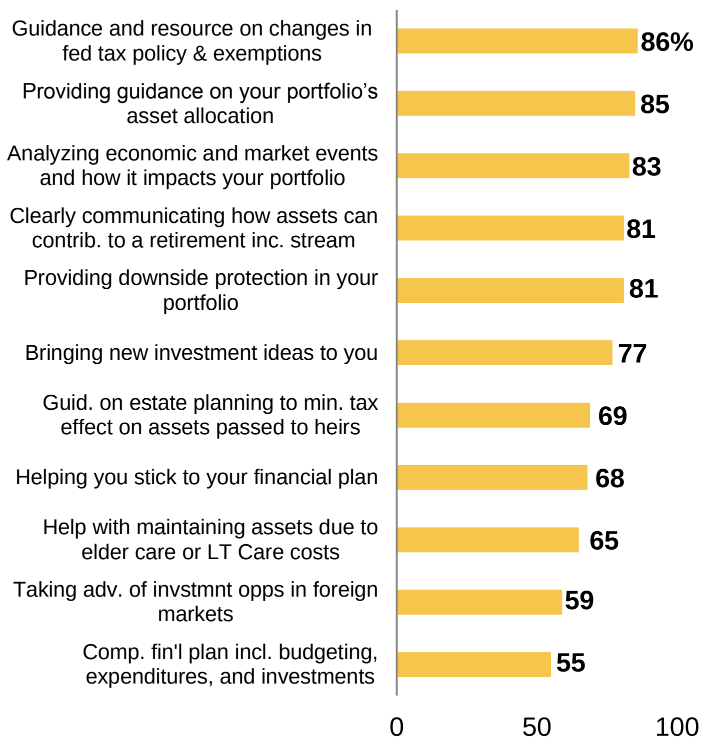
HNW investors want a lot from their professional financial advisors. Close to eight in ten or more of those with an advisor want guidance on topics ranging from tax efficiency to asset allocation, as well as new investment ideas and help with downside protection. Echoing the theme noted earlier, that American high net worth investors are focused more on domestic opportunities, one noticeable laggard on what they seek from their advisors is "taking advantage of investment opportunities in foreign markets"—although nearly six in ten (59%) do want their FAs to help them with this goal. Another function of FAs, still desired by more than half of San Francisco investors, but lowest on the list, is comprehensive financial planning, including budgeting, expenditures, and investments. These two FA functions are also at the bottom of the national list.

> *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.*

HNW investors seem to want more than "just the facts" about today's investment opportunities. They want their FAs to provide market insight that helps them prepare for the future—and to do so in a way they can understand. Indeed, *communicating* and *analyzing* are the keywords in two of the top four 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 a financial advisor, intensity of help desired is lower across the board, but priorities are broadly similar. Guidance on asset allocation (67%) and on changes to federal tax policy (65%) both remain at the top of the list.

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.

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GfK

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