

What is “wealthy”?

Top insights:

1. Wealth equals no financial constraints on activities
2. Cash is still “king”
3. Investors control risk by bucketing their money
4. Four out of five investors provide financial support for adult children or aging parents
5. Comprehensive financial planning must include long-term care and financial support across generations

Wealth redefined

Investors are telling us that wealth isn't just about having a certain amount of money. The majority of investors define wealth as having no financial constraints on what they do. But when asked to assign a dollar amount to being wealthy, they say it takes \$5 million. The security that comes with cash also plays a critical role, and we've seen investors holding 20% in cash on average over the past three years. It appears that having a large cash cushion allows investors to be more aggressive with their other investments. Investors are also bucketing money based on use, which makes them feel more in control of investment risk.

One of the most surprising findings is that four out of five investors are providing financial support for adult children or aging parents. And one in five is sharing a home with those adults. This has a real impact on the definition of a comprehensive financial plan. The top two personal concerns for investors are long-term care and the financial situation of children and grandchildren. When a financial plan addresses those two concerns, confidence in achieving goals skyrockets to 85%.

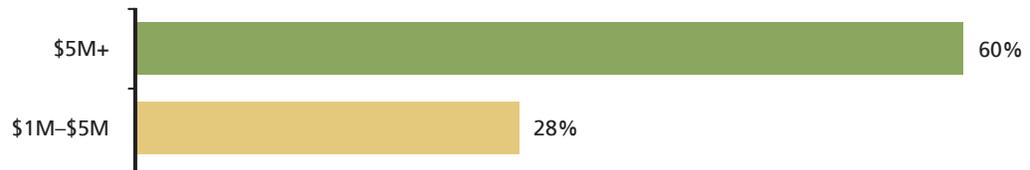
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Wealth equals no financial constraints on activities

Most millionaires do not consider themselves to be wealthy (only 31% do). Having \$5 million in investable assets seems to be the key threshold, as 60% of these investors feel wealthy.

View of own wealth

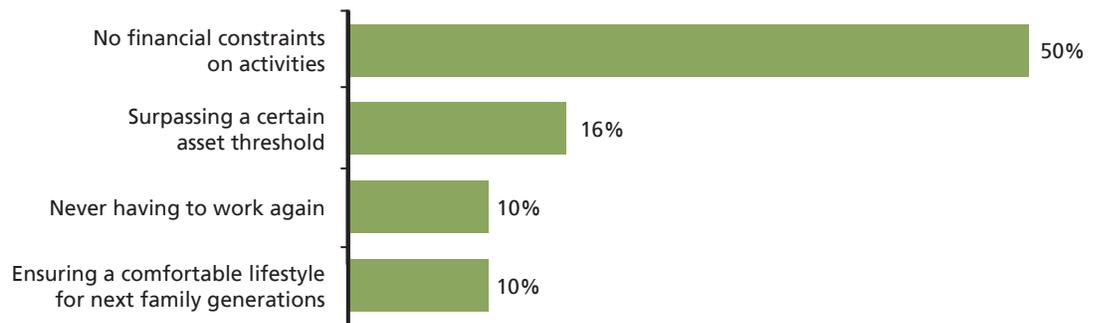
Question: "Do you consider yourself wealthy?"



However, while assets clearly matter, investors define wealth as not having financial constraints on their activities (50%).

View of what it takes to be wealthy

Question: "What does it take to be considered 'wealthy'?"



Money alone is not enough to bring today's investors confidence. While \$5M+ investors are twice as likely to feel wealthy as investors with \$1 million – \$5 million in assets, there is little difference between these groups in confidence that they will achieve their goals.

Confidence in achieving financial goals

Question: "How confident are you that you will be able to achieve your financial objectives for the future?"

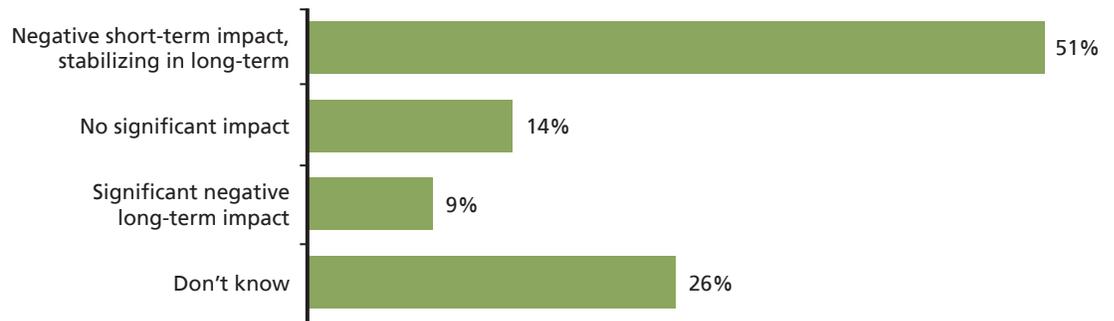


A long-term perspective appears as critical as ever. The vast majority of investors expect markets to be volatile in the next six months and believe the economy is fragile, but their long-term outlook remains optimistic. Six in 10 investors have an optimistic long-term economic outlook compared with only 17% having a pessimistic view. And they continue to feel very good about their personal financial situation (64% feel their financial situation is excellent or very good).

In addition, the recent market volatility brought on by the impending Fed action to end the stimulus did not impact long-term investors' psyche or investing behavior, as they believe any actions will ultimately stabilize the economy in the long run. Fifty-one percent of investors expect this change to have a negative short-term impact on the economy but will stabilize the economy in the long run. Only 9% expect this to have a negative long-term impact. The majority of investors (59%) are not changing their investment strategy as a result of the Fed announcement. Regarding timing, investors expect the Fed to start pulling back on the stimulus in late 2013 or early 2014, and end the program in late 2014 or in 2015.

Expected impact of Fed reducing stimulus

Question: "What do you anticipate will be the impact to the economy once the Federal Reserve reduces its bond-buying program?"



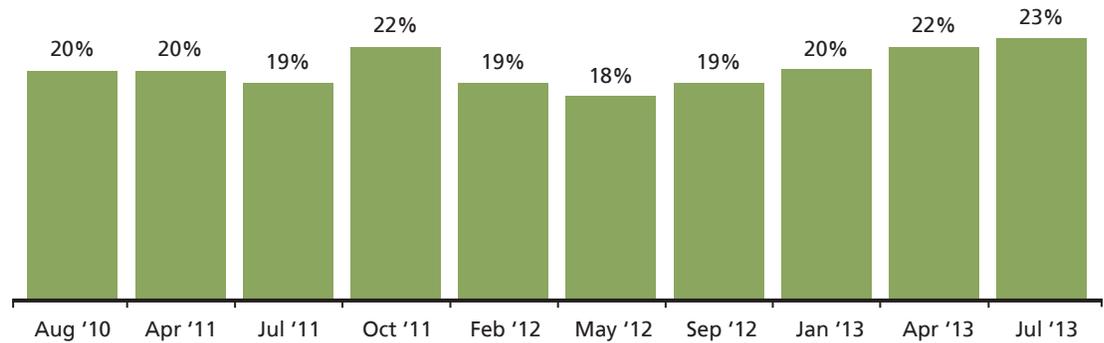
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Cash is still “king,” providing a security blanket for investing significant assets in equities

Holding a significant amount of cash is a critical component of investor confidence, as investors believe these are assets they won't lose. Despite significant market gains over the past year, investors maintain an average of around 20% of their assets in cash, as they have for the past three years. And investors don't plan to change these holdings anytime soon. The majority feel they have the right amount of cash (64%) and expect to keep the same level of cash for the next 12 months (56%). More than one-quarter (27%) plan to reduce cash holdings in the next year, but 18% plan to increase their cash, so the net change will likely be minimal.

Cash allocation over time

Question: “Please provide your approximate overall asset allocation across all of your accounts.” Proportion shown is sum of cash, CDs and money market funds.



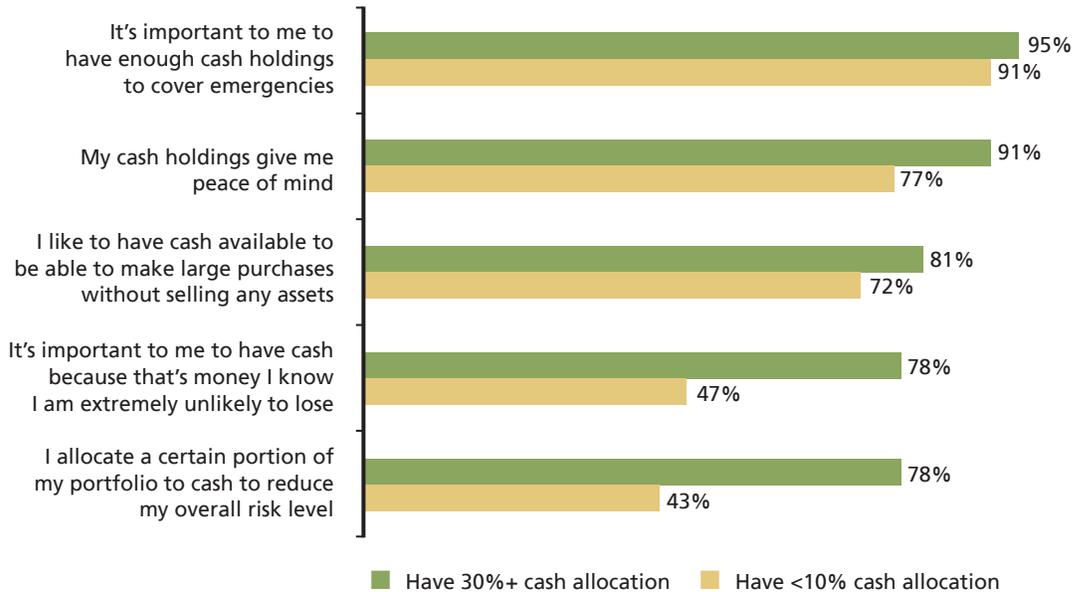
Holding a significant amount of cash seems to give investors confidence to invest. As we noted last quarter, investors aren't quick to forget the significant losses they endured in 2008. Therefore, it appears that having significant cash reserves enables investors to feel comfortable investing large portions of their remaining assets in equities. Current investor asset allocations tend toward the “barbell” approach, with more cash than the industry would typically recommend, but also sizeable equity holdings.

Regardless of the extent of their allocation to cash, the vast majority of investors holds enough cash to cover emergencies and to enable large purchases without selling any assets. But investors with large cash holdings use cash as a way to reduce their overall risk level, find cash important because they know they are extremely unlikely to lose it, and generally find peace of mind in holding a great deal of cash.

Views on cash by size of cash allocation

Question: "Do you agree or disagree with each of the following regarding your cash holdings?"

Proportion who agree shown.



Investors with large cash allocations are more worried about the potential impact of inflation, but most are not concerned enough to give up the peace of mind that comes with cash. Of those with 30% or more in cash, 35% are highly concerned about inflation in general compared with 25% of those with less than 10% in cash. Nearly half of those with 30% or more in cash are at least somewhat worried about their cash holdings losing value over time due to inflation (48% compared with 37% among those with <10% cash), but even among this group, most indicate they are not worried enough to change their cash allocation.

Investors with large cash allocations do show some inclinations to eventually reinvest a portion of their cash; 60% of this group indicate they hold significant cash primarily when they are waiting for a better time to invest (compared with only 37% of those with <10% in cash). While most of this group feels they have the right level of cash, 30% feel they have too much cash, and only 10% feel they do not have enough. Similarly, 34% of this group plan to decrease cash holdings in the next year compared with only 14% who plan to increase them.

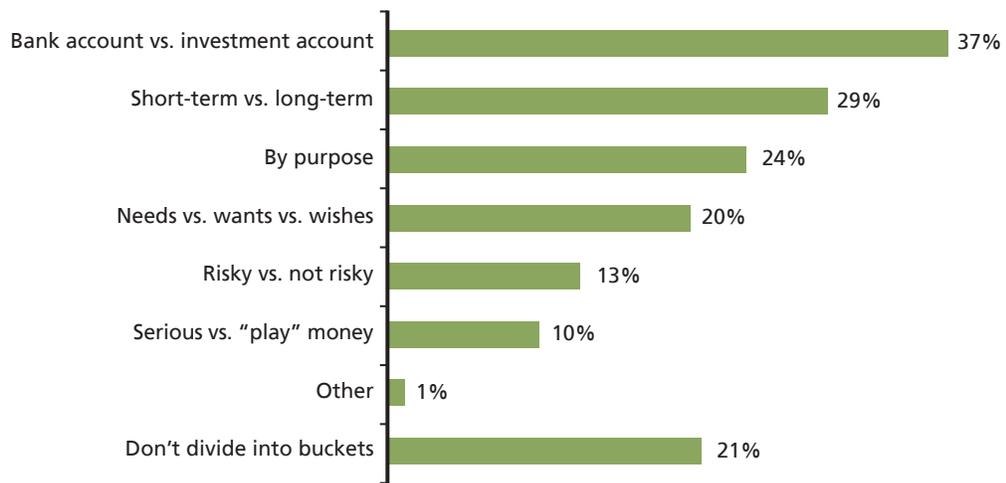
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Investors feel more in control of investment risk by bucketing their money into categories with differing risk/return expectations

While the industry aggregates each investor's or household's money into one portfolio and one asset allocation model based on risk tolerance and time horizon, most investors do not view their finances this way. Four in five investors divide their money into mental "buckets" with different risk/return expectations based on their expected use. For example, an investor may have money designated as college savings that they will need in a few years and select a conservative approach for those assets while seeking greater growth on money earmarked for retirement and having a more aggressive allocation for those assets.

Investor use of asset "buckets"

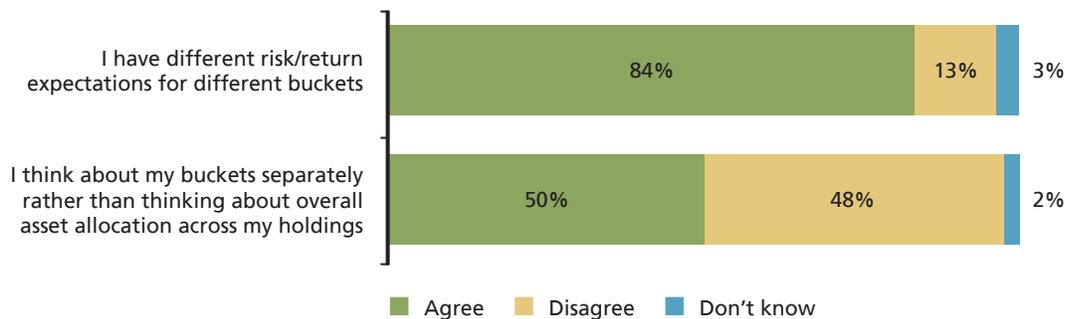
Question: "Many people divide (mentally, by account or by location) their assets into different 'buckets' based on their expected use. Which of the following matches the ways you think about your assets?"



The vast majority of investors has different risk/return expectations for their various asset buckets. Financial advisors need to help their clients in managing expectations and goals for these different categories while also ensuring the overall portfolio holdings across accounts remain appropriate in terms of risk levels.

Investor perspectives on asset "buckets"

Question: "Do you agree or disagree with each of the following regarding the 'buckets' you use in thinking about your assets?"



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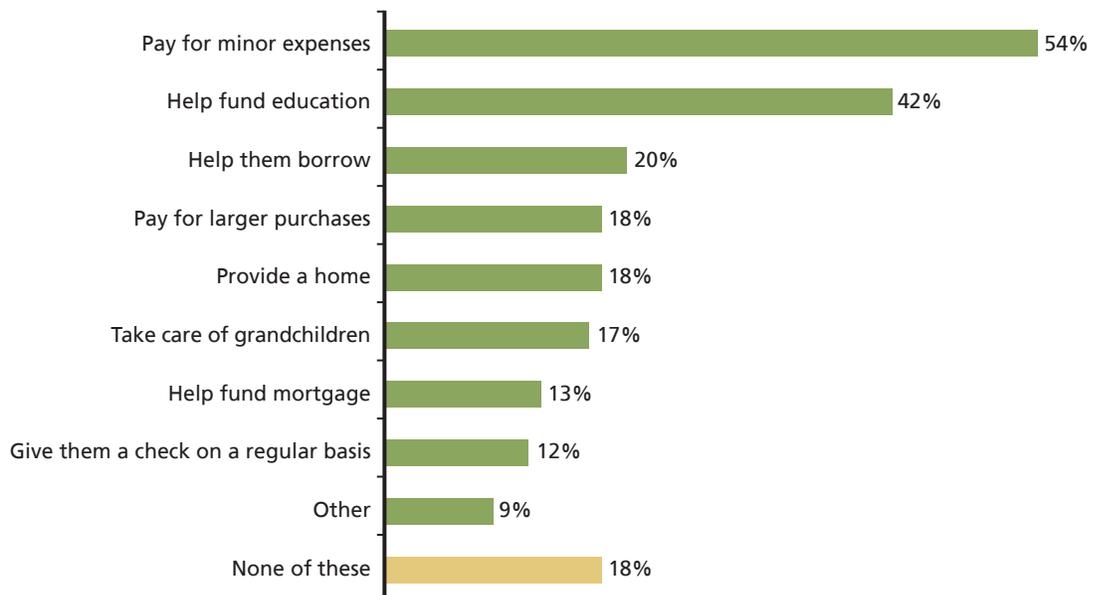
Four in five investors provide financial support for adult children or parents, with one in five sharing a home

Unemployment, the economy and aging parents make concerns about the financial situation of family members significant. In fact, investors' second-biggest personal finance concern is the financial situation of their children/grandchildren (58% of those with children are concerned, behind being able to afford the healthcare and support needed in old age). Investors are providing a high degree of financial support to family members and feel good about doing so. Four in five investors with adult children ages 18-39 are financially supporting other family generations in some way. Two in three are supporting these adult children, three in four are supporting their grandchildren, and for those with parents over 70, 28% are financially supporting them.

A significant number of investors are providing substantial financial help, including education funding, paying for large purchases and sharing their home. Even among affluent and wealthy investors, one in five has another family generation (most commonly their adult children) living at home. For investors who are providing seemingly minor financial support—e.g., paying for phone bills, groceries, etc.—even this can have a real impact on their finances over time.

Ways investors support other family generations

Question: "In which ways do you currently financially support any of your adult children/grandchildren/parents?"



But investors don't see this support as an obligation; it's something they enjoy being able to do. While even high net worth investors can be financially strained by this type of help, and they tend to provide support more out of financial necessity than preference, most investors enjoy financially helping their grandchildren (82%), their adult children (76%) and their parents (59%).

However, providing this support to adult children has a strong impact on the relationship. Investors who provide no financial support to their adult children tend to view their relationship with their children as one of "equals" who share experiences and teach each other (49% equals, 10% "teacher/student," 41% even mix). Investors who provide financial support are much less likely to describe their relationship as equals (28% equals, 29% "teacher/student," 43% even mix).

5

Comprehensive financial planning must include long-term care and financial support across generations

Financial planning has a positive impact on investors' confidence in achieving their goals. However, not all financial plans are created equal, and most plans do not increase investors' confidence as much as one might expect—because they contain major gaps.

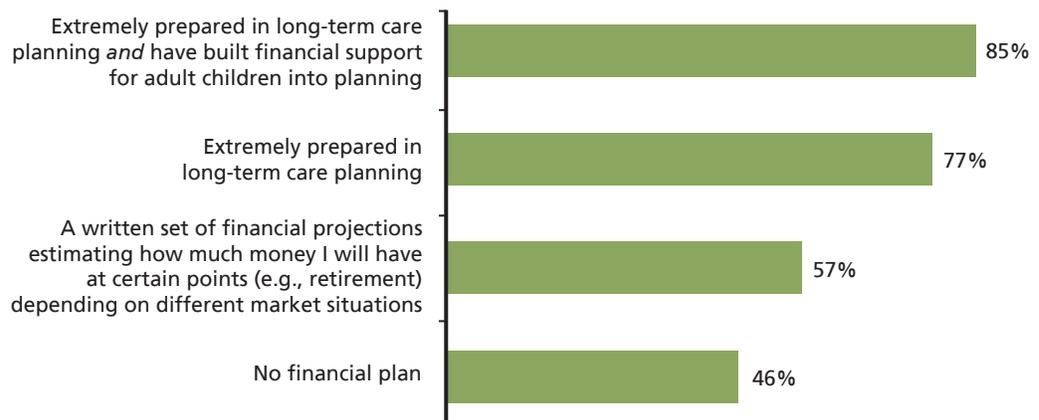
Investors' two top personal finance concerns are long-term care and the finances of their children and grandchildren. Yet investors do not feel adequately prepared regarding these issues and, in most cases, have not addressed these topics through their financial plans. Investors feel highly prepared in most key planning areas—for example, 62% feel highly prepared in their retirement planning, and only 2% are not prepared. However, for long-term care planning, only 33% are highly prepared, and 36% are not prepared.

Most investors have not built their financial support for their extended family into their financial plans but believe they should. For example, 41% have built support for their adult children into their financial planning, but 57% believe they should.

Investors with no financial plan are least confident about achieving their goals. Investors using a written set of financial projections are more confident, but not by much. However, an impressive 85% of investors with truly comprehensive planning that accounts for long-term care and intergenerational finances feel extremely/very confident in achieving their goals.

Confidence in achieving goals by extent of financial planning

Question: *“Do you have a financial plan that you created with your primary financial advisor? Which of the following best describes your financial plan? How well-prepared do you feel regarding long-term care planning? Please indicate if you have incorporated the financial support you provide your children (beyond education funding) into your financial planning.”*



In addition to building long-term care and intergenerational finances into their clients' financial plans, financial advisors can boost client confidence in achieving goals by providing value-added advice around their needs and goals. Investors who are extremely satisfied with their advisor providing this kind of advice are significantly more confident than those who are not satisfied (64% vs. 34%).

A closer look

Age effects

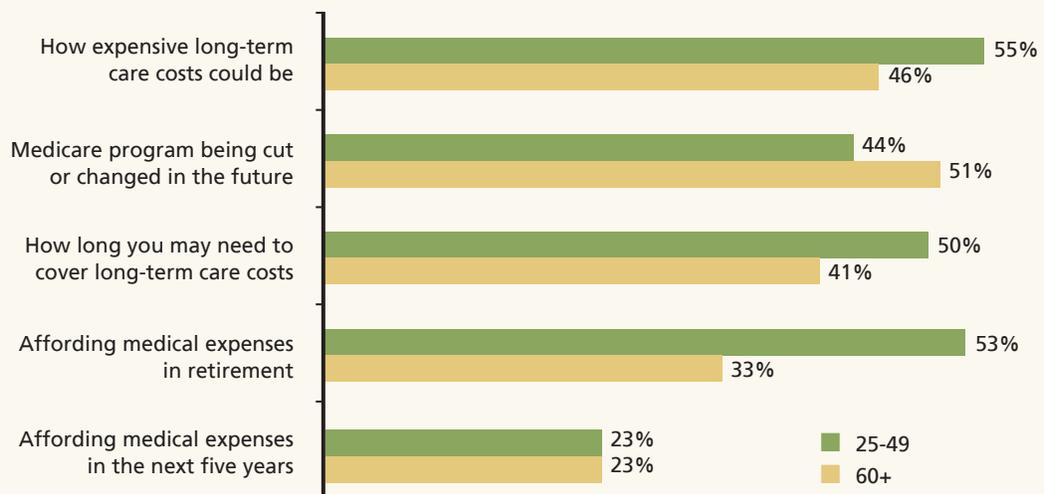


Younger investors highly concerned about medical expenses in retirement

Younger investors, surprisingly, are even more concerned than older investors about healthcare costs in retirement and affording long-term care—issues that these younger investors will face decades from now. This focus on truly long-term concerns is likely because of the complexity and uncertainty that surrounds availability and cost of care, and from watching their parents wrestle with these issues now. They are not any more concerned than their older counterparts regarding covering their medical expenses in the next five years. But they are significantly more concerned about affording medical expenses in retirement and how expensive long-term care costs could be. In fact, the only related area where older investors are more worried is potential cuts/changes to Medicare.

Concerns by age group about affording healthcare in old age

Question: “You indicated earlier you are worried about being able to afford the healthcare/support you need in your old age. How worried are you about:”



As we saw last quarter, younger investors are more likely to want guidance from their advisors on topics related to healthcare after retirement. Of investors ages 25-49, 41% would like guidance from their advisor related to affording healthcare after retirement, compared with 13% of those 60+. Similarly, 39% of younger investors want guidance from their advisor on long-term care, compared with 19% of those 60+.

Younger investors are also more likely to see benefit in talking to their advisors about the financial support they provide other family generations and in building this support into their financial plans. Younger investors are significantly more likely to have already built this support into their plans (58% regarding adult children and 61% regarding their parents, compared with 38% and 39%, respectively, for investors 60+). And nearly three in four younger investors (72%) believe they should build the financial support they provide their parents into their financial planning, compared with 48% of those 60+.

Gender gaps

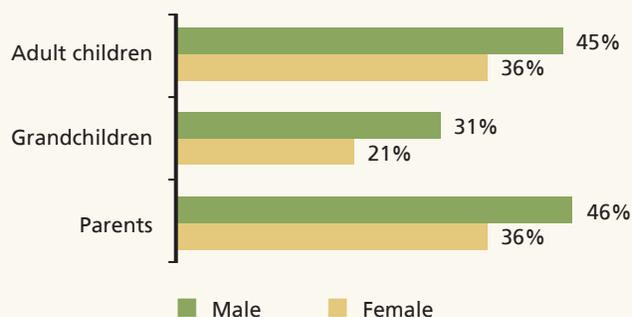


Men embrace the extension of the traditional “provider” role

Men are more likely than women to feel financially responsible for other generations within their family and derive greater enjoyment out of providing that financial support. Men are significantly more likely than women to feel responsible for the financial well-being of their adult children, grandchildren and parents.

Feel responsible for financial well-being of extended family by age

Questions: “Please indicate if you agree or disagree: I feel responsible for the financial well-being of my...”



Men are also more likely to enjoy being able to help out their extended family financially, particularly their parents, perhaps due to pride that they have “made good” and have come full circle and are now able to support their parents in return.

Enjoy being able to financially help out extended family by age

Questions: “Please indicate if you agree or disagree: I enjoy being able to financially help out my...”



While most investors would prefer to pass on their wealth through a combination of passing it along gradually and as a lump sum inheritance, there is a gender difference: Men are more likely to prefer the traditional lump sum inheritance approach (32% vs. 24% of women). In contrast, women are more likely to prefer the combined approach, including passing on wealth gradually (68% vs. 58%).

About the survey: UBS Wealth Management Americas surveys U.S. investors on a quarterly basis to keep a pulse on their needs, goals and concerns. After identifying several emerging trends in the survey data, UBS decided in 2012 to create the *UBS Investor Watch* to track, analyze and report the sentiment of affluent and high net worth investors.

UBS Investor Watch surveys cover a variety of topics, including:

- Overall financial sentiment
- Economic outlook and concerns
- Personal goals and concerns
- Timely topics, such as impact of the sequester and the fiscal cliff agreement

For this fourth edition of *UBS Investor Watch*, 4,450 U.S. investors responded to our survey from June 23–July 1, 2013. Investors surveyed are ages 25+ and have at least \$250,000 in investable assets; half have at least \$1 million in investable assets. 2,675 men and 1,775 women participated in the survey. This *Investor Watch* includes three oversamples: 422 UBS clients, 305 investors in San Diego/Orange County and 329 investors in the Baltimore/Washington metro area. Results were weighted by region and by UBS clients/non-clients to account for these oversamples.

Looking ahead: 5 things we're watching

1. How is the Fed's shift in monetary policy impacting investor mindset and actions?
2. How are improvements in the housing market impacting investors?
3. Have investors redefined the role of different asset classes?
4. How are investors thinking about retirement, and where does long-term care fit?
5. What roles are parents and adult children playing in each others' financial decision making?

The next UBS Investor Watch will be released in 4Q 2013 with the results of the 5 things we're watching.

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