Choosing to delegate

Why millionaires seek professional advice
Sharpe ratio? **Liquidity?**
**Roth** Preferred stock? **Basis point?** Hedge
**IRA?** Common stock? **funds?**
**Traditional IRA?** **Beta?**
Market capitalization?

Really?
Millionaires have generally built their wealth by excelling in their chosen fields rather than through any particular investment expertise. While millionaires understand the importance of saving and investing for the long run, our research discovered that some have limited financial acumen on specific investing concepts and terminology. For example, three out of ten understood the term “basis point.” Five out of ten understood Roth IRAs. Seven out of ten understood liquidity.

What’s more, millionaires choose not to learn more about investing. They ranked researching and managing investments dead last on a list of how they choose to spend their time, even behind housework. They cite busy lives and information overload as reasons for their disinterest. Millionaires generally recognize their constraints; however, they choose to address them by working with a financial professional.

Ultimately, greater financial knowledge doesn’t actually help millionaires avoid making investment mistakes. Nor does it significantly increase their confidence in being able to achieve specific goals, such as building wealth and leaving an inheritance.

What does build confidence? In a fast-changing world, our research shows it is the enduring principles of financial discipline that continue to form the cornerstone of long-term success: setting specific objectives, developing a plan and sticking to it.
Millionaires have accumulated wealth through hard work and discipline

Millionaires have generally achieved their success through hard work, financial discipline and being good at what they do, not through any particular financial prowess. Nearly half consider themselves experts in their field, compared to only one out of ten who consider themselves expert investors. Moreover, millionaires attribute their success to a combination of financial discipline (e.g., saving, investing for the long term) and their careers. Only a small portion believe their technical financial expertise was important to their success.

**Financial discipline and career trump financial expertise**

**Question:** “Which of the following have been the most important keys to financial success for you?”

<table>
<thead>
<tr>
<th>Financial discipline</th>
<th>81%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving</td>
<td></td>
</tr>
<tr>
<td>Investing for the long term</td>
<td>80%</td>
</tr>
<tr>
<td>Avoiding debt</td>
<td>75%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Career</th>
<th>71%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard work</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>61%</td>
</tr>
<tr>
<td>Being good at what I do</td>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial acumen</th>
<th>47%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical financial expertise</td>
<td></td>
</tr>
<tr>
<td>Picking high-performing investments</td>
<td>19%</td>
</tr>
</tbody>
</table>

“*It’s better to be well-versed in your own field as opposed to trying to be a ‘jack of all trades and master of none.’ I don’t need to be an expert. I have resources which I use to assist in investing decisions.*”

– Male, age 58
However, some millionaires have limited financial acumen

While millionaires are adept at building wealth, our research shows that they demonstrate varying levels of financial acumen as measured by their understanding of certain investing concepts.

**Millionaires demonstrate varying levels of financial acumen**

- **Seven out of ten** understand liquidity
- **Six out of ten** understand market capitalization
- **Five out of ten** understand Roth IRAs
- **Three out of ten** understand:
  - Basis points
  - Beta

“*I understand the basic principles, but market capitalization and price/earnings calculations, along with many of the charts, can be confusing.*”

– Male, age 59
Millionaires don’t have the time or inclination to learn more

While many millionaires have limited understanding of investing concepts and terminology, they are not particularly eager to learn more. Managing and researching investments ranked last on a list of how millionaires would like to spend their time, even falling below doing work around the house.

Few millionaires are interested in learning more about investing

“It would be nice to understand more, but I guess I do not find myself interested enough to study this. The information is out there and available; I just choose not to investigate it.”

– Female, age 66

Millionaires aren’t just busy, they also face information overload in an increasingly complex world. There is more information available to investors than ever before, but it can be challenging for them to sift through and act upon. Globalization and technological innovation have further complicated matters. In this environment, it’s no wonder that many millionaires find it hard to keep up.

Millionaires live in an increasingly complex world

**Question:** “Please indicate whether you agree or disagree with the following statements.” (Percentages show those who agree strongly or somewhat.)

- Technological innovation has made markets move faster: 93%
- Globalization has made investing more complicated: 82%
- There is so much information available on investing that it is hard to keep up: 79%
And greater acumen does not lead to investor confidence

Millionaires’ level of financial acumen does not drive their confidence in achieving specific goals.

Investing knowledge has little impact on confidence

Question: “How confident are you in your ability to achieve each of the following financial goals?”
(Percentages show how many responded “Extremely confident” or “Very confident.”)

<table>
<thead>
<tr>
<th>Goal</th>
<th>Higher acumen</th>
<th>Moderate acumen</th>
<th>Lower acumen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring a comfortable retirement</td>
<td>72%</td>
<td>70%</td>
<td>65%</td>
</tr>
<tr>
<td>Leaving an inheritance to my heirs</td>
<td>63%</td>
<td>62%</td>
<td>59%</td>
</tr>
<tr>
<td>Growing wealth long term</td>
<td>46%</td>
<td>47%</td>
<td>46%</td>
</tr>
</tbody>
</table>

The primary reason that financial acumen doesn’t translate into higher confidence in achieving goals is that, as behavioral finance studies also show, knowledge doesn’t prevent investors from making irrational decisions. Millionaires with higher acumen feel they are no better at managing their emotions when investing than millionaires with less acumen.

“I am expert in investing but am only somewhat confident as I cannot control the markets.”

– Male, age 49
Keys to confidence: set specific goals, develop a plan and stick to it

Our research indicates that setting specific goals, developing a detailed plan, and managing one’s emotions through market swings are more important to confidence than financial acumen. Those millionaires who have a plan are dramatically more confident that they will attain their goals.

Having a detailed plan has a significant impact on confidence

**Question:** “How confident are you in your ability to achieve the following goals?” (Percentages show how many responded “Extremely confident” or “Very confident.”)

<table>
<thead>
<tr>
<th>Goal</th>
<th>Have a detailed plan</th>
<th>Do not have a plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring a comfortable retirement</td>
<td>80%</td>
<td>50%</td>
</tr>
<tr>
<td>Leaving an inheritance to my heirs</td>
<td>83%</td>
<td>69%</td>
</tr>
</tbody>
</table>

Additionally, our research shows that having a detailed financial plan helps millionaires avoid short-sighted investment decisions, and helps them stay the course when markets become volatile.

**“I avoid emotional decisions because I have confidence that I’ve planned and executed well.”**

– Male, age 71
To address their needs, millionaires seek expert advice

Because millionaires are experts in their own fields, they are accustomed to seeking expert advice from professionals on other matters (e.g., doctors, lawyers). Similarly, they reach out to experts in the field of investing for help. Even among millionaires with greater acumen, a majority use a financial advisor. And, those with less acumen are even more likely to turn to professionals.

Millionaires with lower acumen are more likely to use an advisor

**Question:** “Do you work with a professional financial advisor who helps you manage your finances and make investment decisions?” (Percentages show how many responded “Yes.”)

<table>
<thead>
<tr>
<th>Higher acumen</th>
<th>Moderate acumen</th>
<th>Lower acumen</th>
</tr>
</thead>
<tbody>
<tr>
<td>54%</td>
<td>67%</td>
<td>78%</td>
</tr>
</tbody>
</table>

“I feel that the expertise can and should rest with a financial advisor. To truly be an expert would consume too much time and preclude me from working full time.”

– Male, age 44
Generational spotlight

Millennials are least likely to plan ahead

Our research shows that, across the different generations, Millennials say they are least likely to plan ahead, focus on the long term, stay calm during volatility and avoid herd mentality. Millennials are more likely to wish they had done something differently with their money during the financial crisis and the ensuing rebound.

More than any other generation, Millennials wish they handled the financial crisis differently

**Question:** “Looking back, do you wish you had done anything differently during the financial crisis or afterwards?” (Percentages show how many responded “Yes.”)

![Diagram showing percentages of each generation](image)

Millennials’ investment approach tends toward the extremes. Some exercise excessive caution and are much more likely to feel they don’t know enough about investing to achieve their goals. Others are more likely to think they are skilled at picking individual investments and at timing the market.

“Do we have the right mix of investments?
Are we putting enough or too much in each one?
Right now, we go on gut feelings.”

– Female, age 34
And they know the least about investing, but are most open to learning

Many millennials have limited knowledge of financial concepts and terminology, compared with other generations.

Millennials have limited financial acumen

Four out of ten understand liquidity

Three out of ten understand:
- Market capitalization
- Basis points

Two out of ten understand:
- Roth IRAs
- Beta

Millennials’ limited financial acumen may contribute to their reluctance to invest in financial markets. They hold significantly more cash than any other generation, despite their longer time horizons. On a positive note, Millennials understand they could benefit from increased knowledge, and they are more interested in learning about investing than other generations.

“I don’t always know what to invest in. I get very confused by all the options, and I don’t know enough about the pros and cons of each one.”

– Female, age 30
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 sentiments 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
• Key topics, like aging and retirement

For this tenth edition of UBS Investor Watch, 3,031 U.S. investors responded to our survey, from December 1 – 8, 2014. The core sample of 2,380 investors have at least $1 million in investable assets, including 430 with at least $5 million. This UBS Investor Watch includes an oversample for younger generations:
• 545 Millennials: Respondents ages 21 – 29 who have at least $75,000 in household income or $50,000 in investable assets; respondents ages 30 – 36 who have at least $100,000 in household income or $100,000 in investable assets
• 267 Gen X: Respondents ages 37 – 49 who have at least $250,000 in investable assets
• With 92 survey respondents, we conducted qualitative follow-up interviews