

# UBS Investor Watch

Analyzing investor  
sentiment and behavior

1Q 2016

## The conflicted investor

**What rules...**the head or the heart?



# Can investors overcome the struggle within?



I know...

I feel...

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The economy has been **solid**

*but*

I'm **not ready** to risk more

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I should **invest more**

*but*

**Holding cash** helps me sleep better at night

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The **long-term** outlook is sound

*but*

Tomorrow is **unpredictable**

After an economic recovery that surpassed expectations—and the seven-year bull market that coincided with it—wealthy investors say they should have invested more after the financial crisis. But they're not about to change their ways.

Many investors spent the recovery on the sidelines, trading risk for safety and performance for the comfort of cash. Now, as volatility has spiked, investors are even less willing to change their behavior and jump into the market head first. In fact, nearly a quarter think the recent volatility signals the start of a longer-term recession.

In this issue of *UBS Investor Watch*, we explore the conflict between investors' beliefs and their actions. We found that though investors are confident in the recovery and feel positive about their finances, they are still living in the shadow of the financial crisis. They believe investing is the only way to build wealth—yet, almost 90% have maintained or increased their cash holdings since the crisis.

Our survey showed that investors with a financial plan feel far more confident during downturns than those without one. They say their plan helps them ride out volatility and stay focused on reaching long-term goals. As ongoing volatility tests investors' resolve, it remains to be seen whether they will act with their heads instead of their hearts.

# 1

## Investors say the economy has recovered...

After living through the worst recession in decades, eight out of 10 wealthy investors believe the economic recovery has met or exceeded their expectations. This is based on investments returning to pre-crisis levels, rising home values and improvements in economic indicators. In addition, 81% view the recent interest rate increase as a positive sign for the U.S. economy. As a result, 73% feel very good about their money, up from 53% in February 2011.

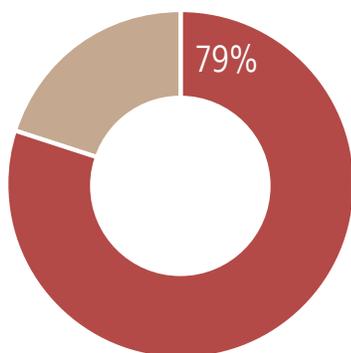
Additionally, most investors (77%) think the 2016 market volatility is a short-term correction rather than the start of a prolonged market decline. Two out of three investors say the U.S. economic fundamentals are strong (68%) and believe now is a good time to buy stocks (69%).

### Wealthy investors recognize the recovery has gone well

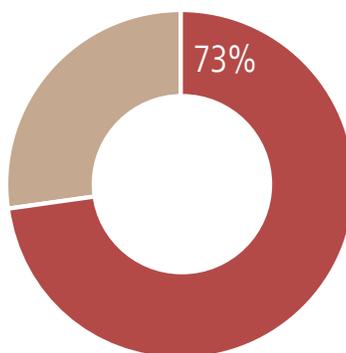
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*Percentage who agree with each statement.*

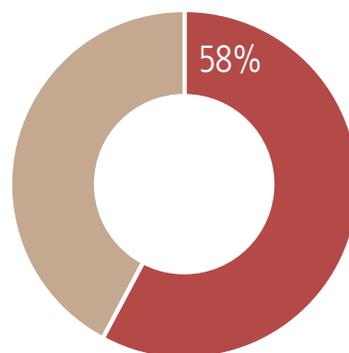
The recovery met or exceeded my expectations



I feel excellent or very good about my finances



The recovery is complete



**“The economy seems to be coming out of recession. Locally, we are adding more jobs and the recent Fed rate increase is a good sign.”**

– Female, age 39

**“My income is higher than it has ever been and my financial situation is also better. Some of that has to do with my profession and some to do with my investment returns as the recovery has moved forward.”**

– Male, age 64

## ...but emotionally, they're still affected by the crisis

Despite their positive views of the recovery, 86% of investors say the crisis still impacts how they think about their money today. Two thirds have a greater fear of losing money than prior to the crisis. As a result, only 18% are willing to take on more risk for greater returns.

The current volatility is testing investors' resolve. Almost a quarter believe it signals the start of a longer-term market decline that feels similar to the 2008/2009 crisis. Nearly half (42%) say the current environment rekindles memories of that time.

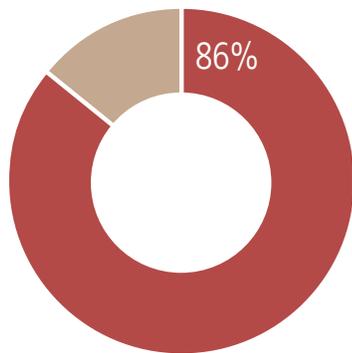
### The crisis has made investors more risk-averse

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*Percentage who agree with each statement.*

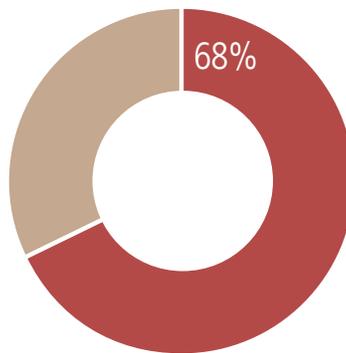
My experience during the crisis impacts how I think about my money today

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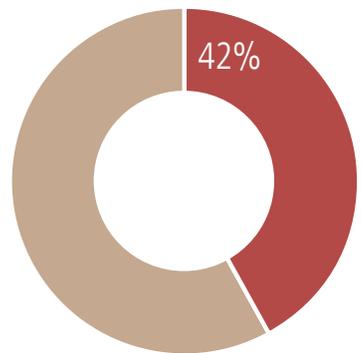
The risk of loss is more tangible to me today than before the crisis

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The current environment reminds me of how I felt during the financial crisis

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**“Many of my friends lost a considerable portion of their wealth in the last downturn. I prefer to stay out of the market.”**

– Female, age 37

# 2

## Investors recognize holding extra cash is a bad idea...

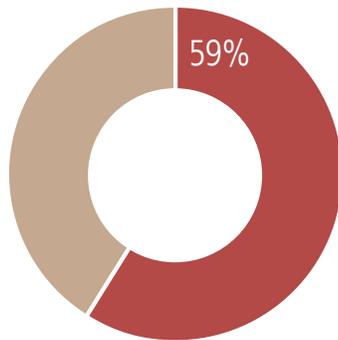
Though investors hold an average of 20% of their financial assets in cash, more than half believe holding too much cash is a bad idea because of inflation and low interest rates. They say they are ready to deploy one quarter of their cash when the right investment opportunity arises. Moreover, only 14% of wealthy investors would advise the next generation to maintain a large cash allocation.

### Investors see downside to cash

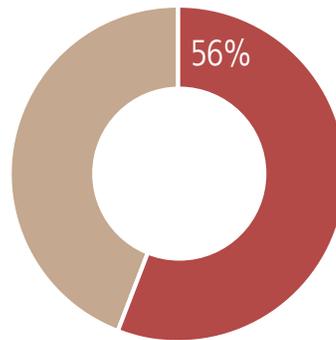
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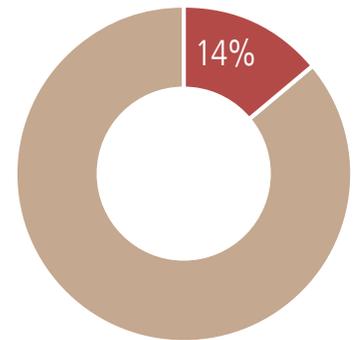
Keeping too much cash is a bad idea because of inflation



Now is a bad time to hold significant cash because of low interest rates



I would advise the next generation to always maintain a large cash allocation



**“One can earn a great deal more by investing in the stock market, compared with letting money sit in bank accounts earning little interest.”**

– Male, age 44

**“I realize that I could be earning more by investing the cash, but then it wouldn’t be readily available if I ever needed it.”**

– Male, age 46

## ...but many are unwilling to put their cash to work

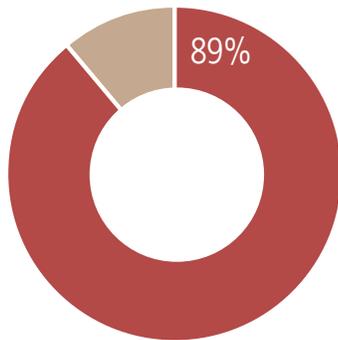
However, investors' actions tell a different story. Nine out of 10 have held their cash steady or increased it since the crisis. Nearly 40% say you can never hold too much cash. When it comes to putting their money to work, investors seem paralyzed—only 33% see market declines as opportunities to deploy cash. Ultimately, investors view cash as a security blanket that helps them sleep better at night.

### Cash provides comfort

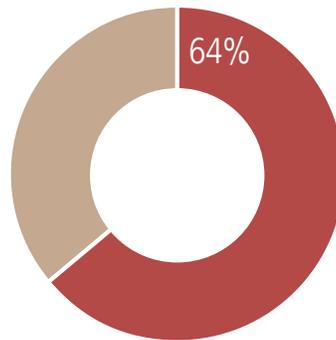
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*Percentage who agree with each statement.*

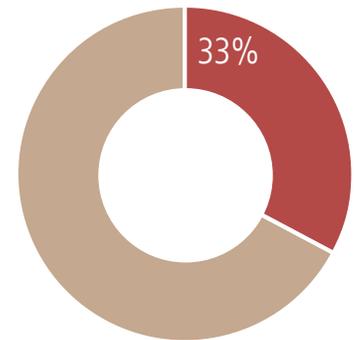
My cash holdings have increased or stayed the same since the crisis



Having significant cash holdings helps me sleep better at night



A market decline is an opportunity to deploy cash



**“You always need to have enough cash on hand to take care of yourself and your family if there is a financial crisis. Before, we were willing to take more risk with our investments.”**

– Female, age 45

**“Anything less than 10% in cash causes my wife to get nervous. Not a very economically sound answer, but the truth.”**

– Male, age 62

# 3

## Global events are creating greater uncertainty for investors...

As the world gets smaller and more connected, nearly all investors believe global events have a greater impact on the U.S. markets than they used to. Investors realize they can no longer ignore the impact of these forces on their portfolios. They also find that the global nature of current issues, such as the Chinese economy and the collapse in oil prices, makes it difficult to gauge where things are headed.

### Global issues are worrisome

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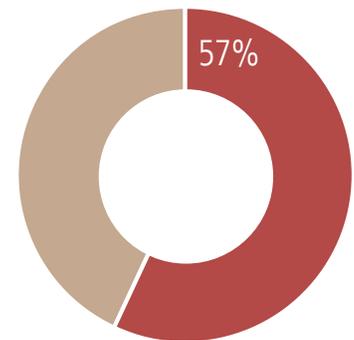
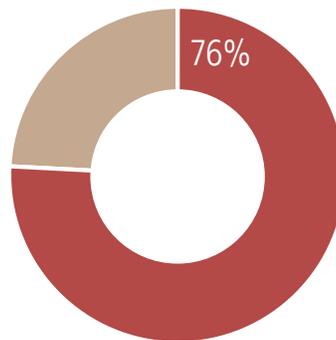
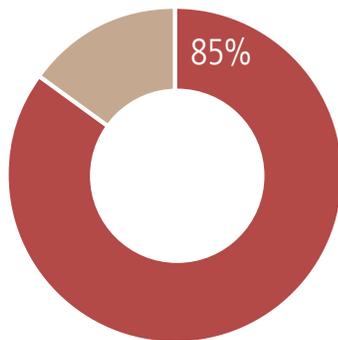
*Percentage who agree with each statement.*

Current volatility is driven by so many factors, it's hard to know where markets are headed

There are so many global concerns it's difficult to understand it all

The negative news all over the globe makes me worry this could be another crisis

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“The markets are too easily influenced by outside factors such as Greece, China, government spending, interest rates, etc. The large swings in the stock market indicate instability in the economy, which makes it too volatile for significant future investment.”

– Male, age 63

“I am waiting to see whether the turmoil in Europe and the Middle East escalates and how the market seems to do after the first one or two raises in interest rates.”

– Female, age 62

## ...compounded by concerns closer to home

Global events aren't the only factors worrying investors. Many investors are weighed down by domestic issues as well, such as the upcoming presidential election, terrorism on home soil and even the size of the national debt.

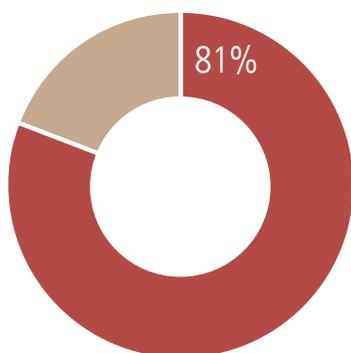
### Investors are worried about a broad range of issues

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Percentage who agree with each statement.

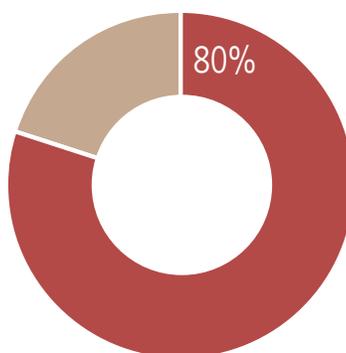
I feel like terrorist attacks are part of the "new normal"

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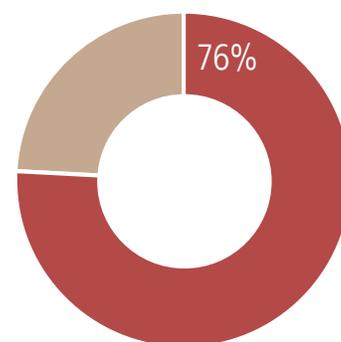
I am worried about the outcome of the presidential election in 2016

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I am worried about the size of the national debt

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**“We are waiting to invest our 45% cash, possibly after the next presidential election or if terrorism is better controlled.”**

– Female, age 76

**“With the election next year, it is a big concern on where to continue to put money. Will Fed rates continue to rise? There are a lot of unknown factors right now.”**

– Male, age 41

# 4

## Lessons learned from the recovery have influenced performance expectations

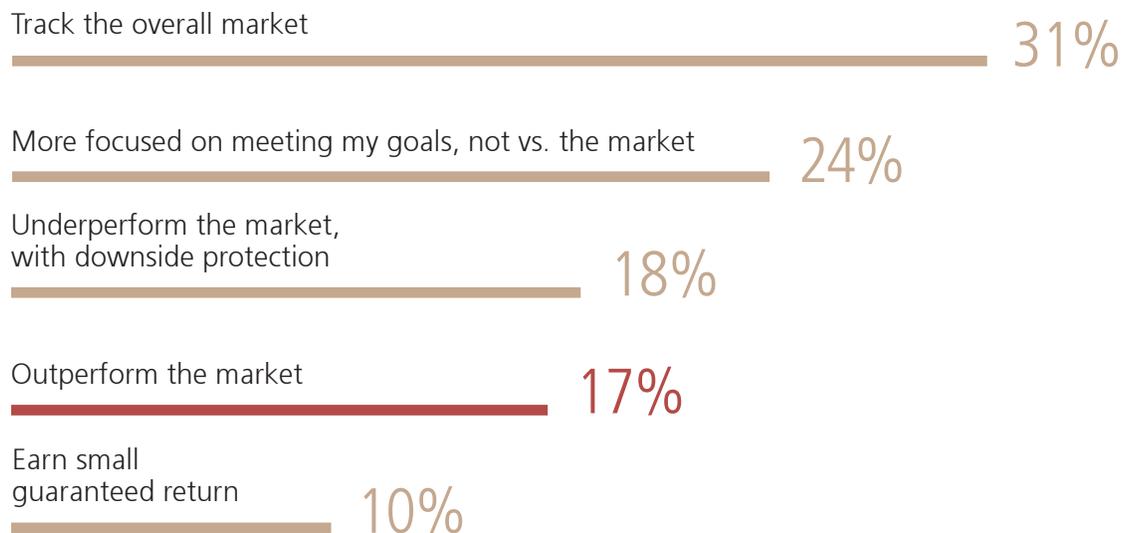
In the past, many investors defined investment success by how much their returns beat the market. With the wisdom of hindsight, investors have tempered their expectations. Only 17% are seeking to outperform the market. The rest are content to track or even underperform in return for less risk or achieving goals.

This new approach is the result of several key lessons investors learned from the crisis and its aftermath: the value of developing a financial plan, adopting a long-term buy-and-hold strategy and remaining calm in a crisis. In fact, nearly half wish they had invested more during the recovery.

### Few investors aim to beat the market

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**Question:** “Which of the following best describes your investment approach?”



**“I learned not to make knee-jerk decisions and trust the plan to hold quality investments and allocate properly.”**

– Male, age 58

**“Planning for the future will be less predictable. I may have to settle for ‘wealth preservation’ rather than growth. Safety will become my primary goal.”**

– Male, age 65

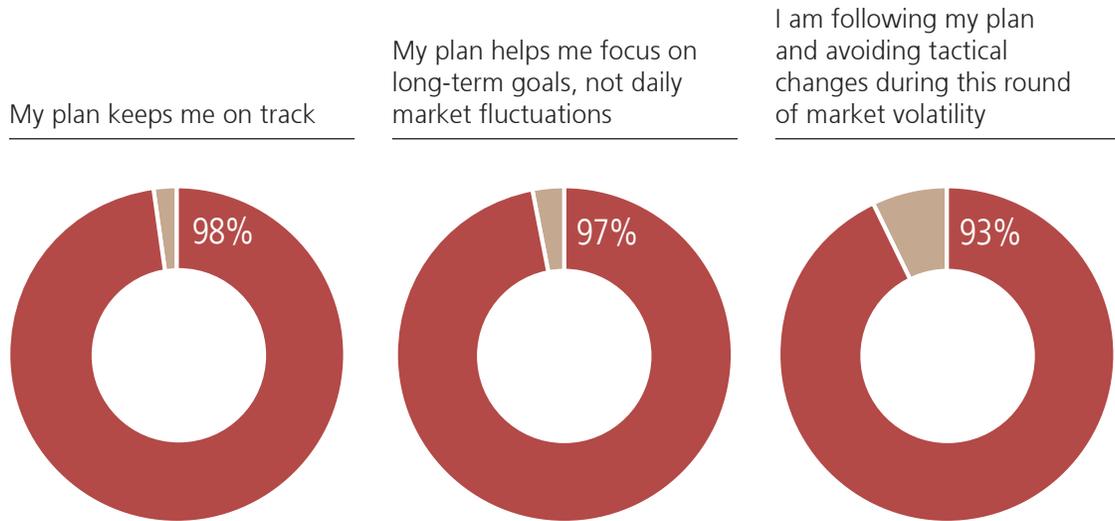
# Investors rely more on financial planning to stay the course

During times of market volatility such as this, investors indicate that having a financial plan is key to confidence. Among investors who have a plan, nearly all say it helps them endure volatility and remain focused on their long-term goals.

## The benefits of planning in volatile times

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Percentage who agree with each statement.



“I’m in it for the long term. I don’t worry about the day-to-day stuff because I can’t control it. My Advisor has taught me to focus on my goals long term.”

– Male, age 30

“You need to stick to a detailed plan no matter what the financial environment. When you have a goal of creating a retirement income stream for a certain number of years, a sound plan will get you to that point.”

– Male, age 59

## Generational spotlight

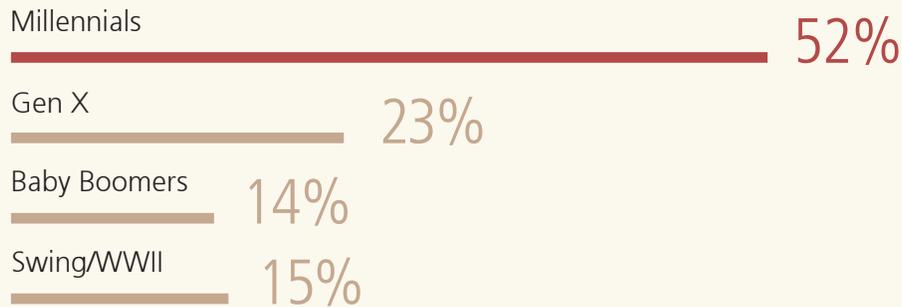
# Millennials have the most regrets about the crisis...

When reflecting on their actions, Millennials are more likely to express regret in how they responded to the financial crisis. They are by far the most likely to regret selling investments during the downturn and not investing more during the recovery.

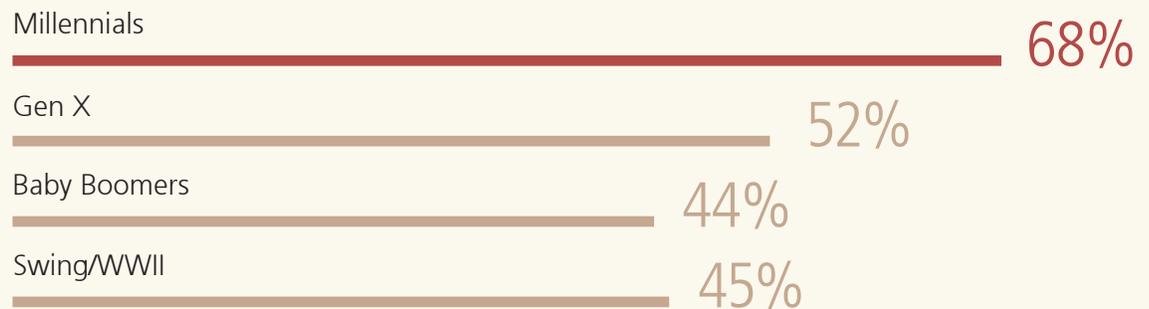
### Millennials are haunted by the crisis

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**Question:** "I regret selling investments at an inopportune time."  
Percentage who agree with each statement.



**Question:** "I regret not investing more in the stock market as it was recovering."  
Percentage who agree with each statement.



**“In the past, I was much more active in the stock market. I sold most of my stock during the crisis. I am only now thinking about testing the waters.”**

– Female, age 29

## ...but failed to learn the same lessons as other generations

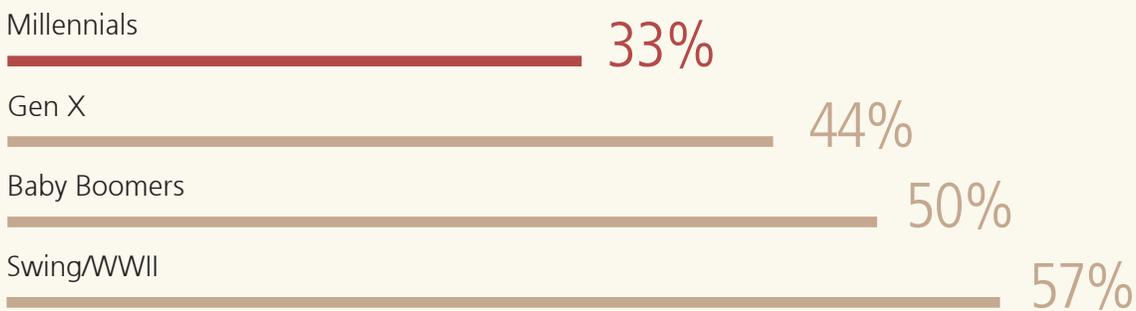
Despite their regrets, Millennials have different takeaways from the crisis than other generations. They are the least likely to believe that buy and hold is still a good investment approach and most likely to believe market timing is everything. They are also the least likely to stick to a plan and most likely to “trust their gut.”

### Millennials more likely to try to time the market

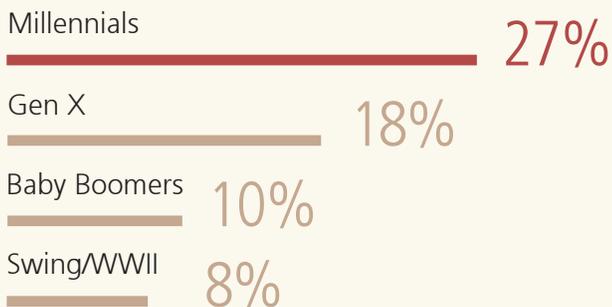
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**Question:** “What were the most valuable lessons you learned from the financial crisis and the years that followed it?”

#### “Buy and hold is still a good investment approach.”



#### “Market timing is everything.”



“I learned that timing is everything. And we need to be a little more conservative in the future. It prompted me to change the way I invest. Choosing safer stocks for example.”

– Male, age 35

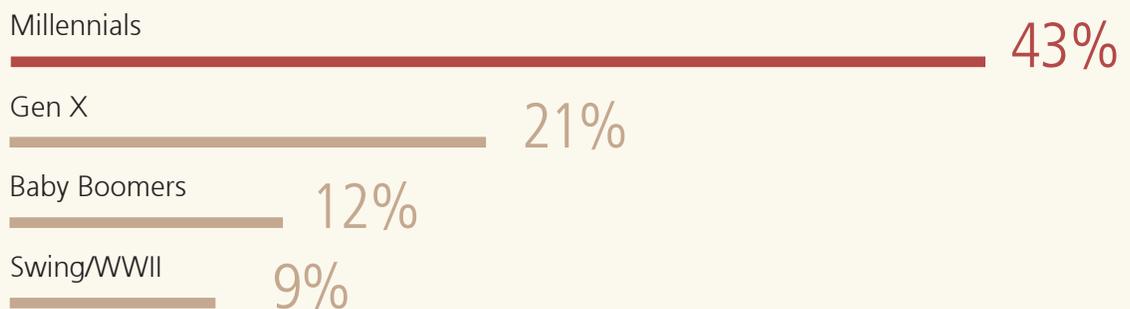
## Millennial behavior contradicts their stated risk tolerance

While Millennials say they are willing to take on more risk since the crisis, their behavior tells another story. This is most clearly reflected in their large cash holdings; despite longer time horizons, Millennials hold twice as much cash compared to other generations.

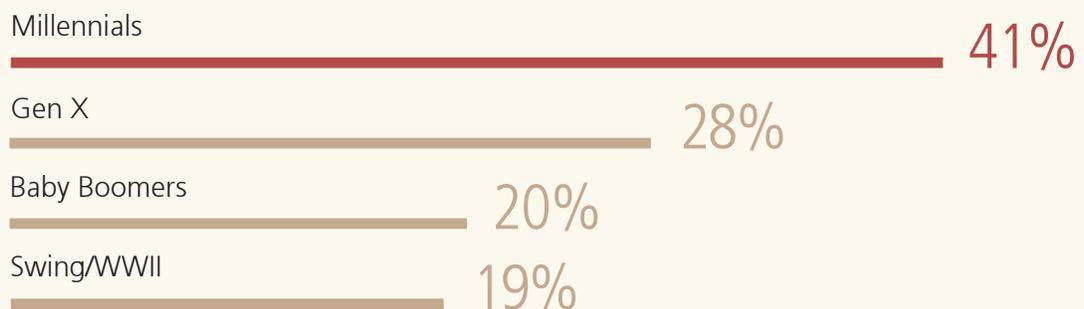
Despite long time horizons, Millennials hold twice as much cash

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**Question:** "How has your willingness to take risk changed since the financial crisis?"  
Percentage of those willing to take more risk.



### Average cash holdings



**"I think saving money and investing are the keys to growing wealth. But global events are just making me think more conservatively than ever. I am also spending less and not making large purchases at this time."**

– Female, age 36

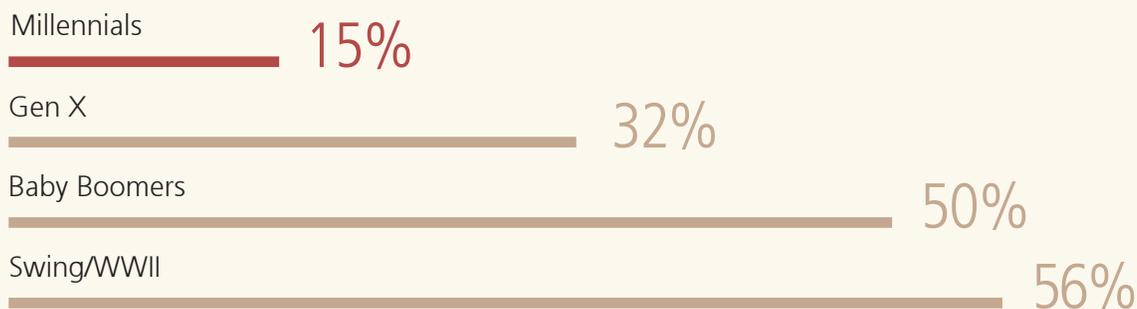
## While unhappy with current portfolios, Millennials are paralyzed by fear of loss

Millennials are the least happy with how their portfolios are currently positioned. However, they remain highly cautious as a result of the financial crisis. More than any other generation, Millennials prefer to wait and see if economic conditions improve before taking action—but they are least likely to know what to do.

### Millennials are the least happy with current portfolios

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*Percentage who are very happy with the way their portfolio is positioned right now.*



**“I really can’t predict how the market will react. I’m taking a wait-and-see approach. But if a good investment opportunity shows up, we might take it if the risk is low.”**

– Male, age 35

**“I would like to invest more in the stock market as I age and learn more about it, but right now cash and CDs are the easiest for me to understand and invest in.”**

– Female, age 27

**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 14th edition of *UBS Investor Watch*, 2,638 affluent and high net worth investors responded to our survey from December 16 – 28, 2015. The core sample of 1,835 investors have at least \$1 million in investable assets, including 494 with at least \$5 million. With 91 survey respondents, we conducted qualitative follow-up interviews. This *UBS Investor Watch* also includes an oversample for younger generations:

- 584 Millennials: Respondents ages 21 – 29 who have at least \$75,000 in household income or \$50,000 in investable assets; respondents ages 30 – 37 who have at least \$100,000 in household income or \$100,000 in investable assets.
- 533 Gen X: Respondents ages 38 – 49 who have at least \$250,000 in investable assets.

In light of the recent market volatility, a follow-up survey was conducted from January 24 – 25, 2016, with an additional 500 investors with at least \$1 million in investable assets.

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