

UBS *Investor Watch*

Analyzing investor sentiment and behavior

1Q 2013

*A new investor is emerging.
Aware. Pragmatic. Confident.*

Top insights:

1. Biggest concern is the political climate in Washington
2. Government “kicking the can” impacts investment outlook
3. Long-term care trumps retirement as biggest personal concern
4. Investors more confident about their financial situation than 3 months ago, particularly those who follow a plan
5. Advice is central to achieving goals

Aware of the issues. Pragmatic about investing. Yet confident with a plan.

Investors are keenly aware of the political environment in Washington and deeply dissatisfied with the “kick the can” approach to the recent fiscal cliff deal. In fact, we’ve never seen such a gap between what’s important to investors and their satisfaction with the resolution. And they don’t expect much to change soon.

We see today’s investors as adaptive creatures in this environment. Neither euphoric nor despondent, they are more pragmatic and reasonable, with tempered return expectations and less optimism about the long-term economic outlook—while acknowledging that participating in the markets is necessary to grow their wealth.

For decades, retirement was the primary goal. Now we are seeing a dramatic shift. Long-term care issues are currently the most critical concern of investors, far more pressing than retirement.

Yet investors express greater confidence about their personal financial situation than they did three months ago. We believe that this results from being prepared, as confidence increases significantly for investors who consistently follow a financial plan. Finally, in this complex environment, investors indicate that advice is essential to achieving their goals.

1

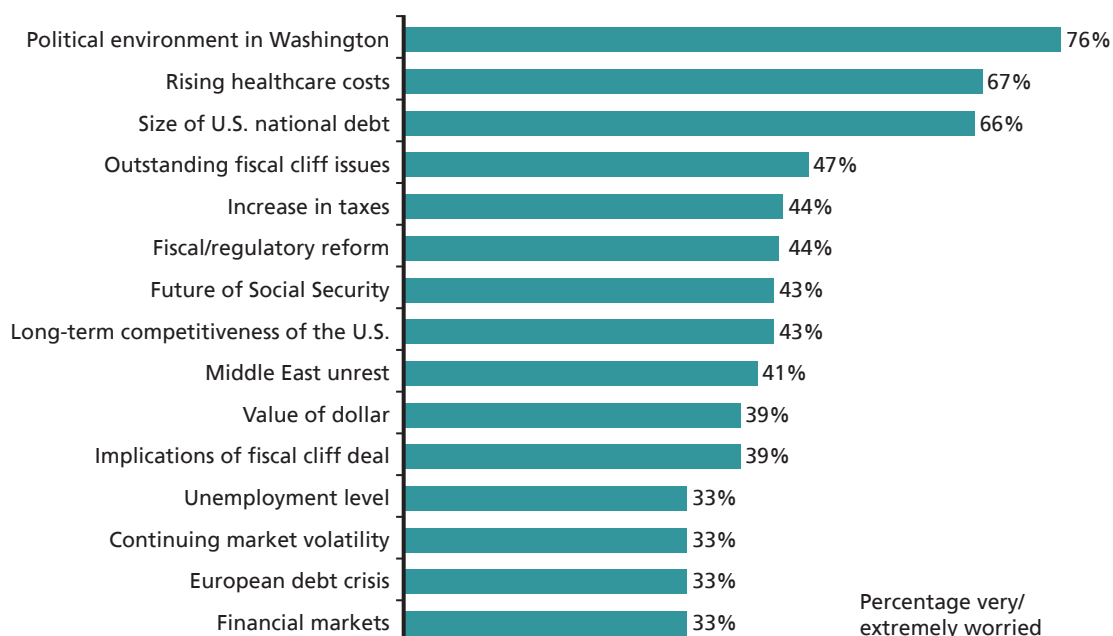
Biggest concern for investors is the political environment in Washington

U.S. political and economic issues dominate investor concerns. More than three-quarters of investors (76%) are highly concerned about the political environment in Washington, and two-thirds are highly concerned about rising healthcare costs and the size of the national debt.

Concern about these areas as well as tax increases and regulatory reform increased since September, while concern about the European debt crisis and the unemployment rate declined.

Top economic issues

Question: “How worried are you about each of the following in terms of potential impact on your financial goals or objectives?”

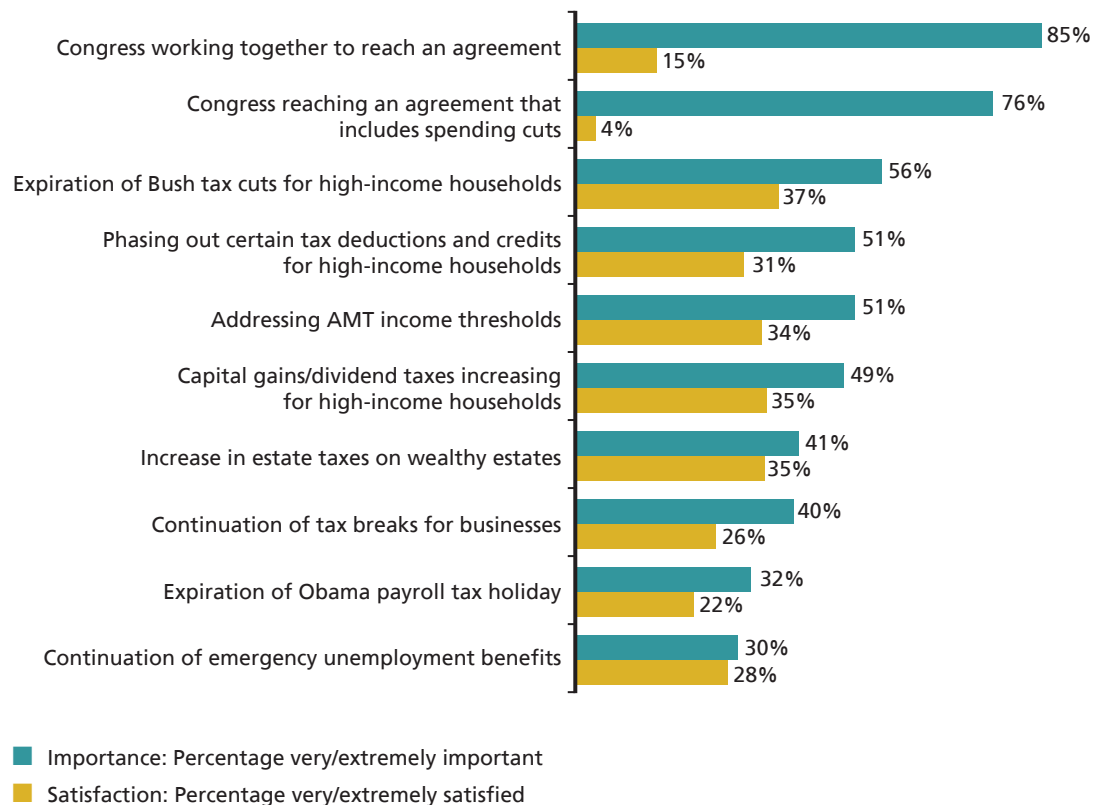


While investors are not satisfied with the details of the fiscal cliff deal, the greatest source of dissatisfaction lies in what the agreement did not cover. Before a deal was reached, investors considered the most important aspects of the process to be “Congress working together to reach an agreement” and “reaching an agreement that included spending cuts.” Yet, these are the areas where investors are least satisfied with the actual deal. In fact, we’ve never seen such a huge disparity between what matters most to investors and their satisfaction with the outcome.

In addition, investors have low expectations going forward for government, with the majority (63%) not expecting the U.S. to make progress toward debt reduction in 2013.

Aspects of the fiscal cliff deal: Importance vs. satisfaction

Question: “Prior to the fiscal cliff deal, and regardless of which side of the issue you are on, how important were each of the following topics to you? How satisfied are you with each of the following aspects of the fiscal cliff deal?”



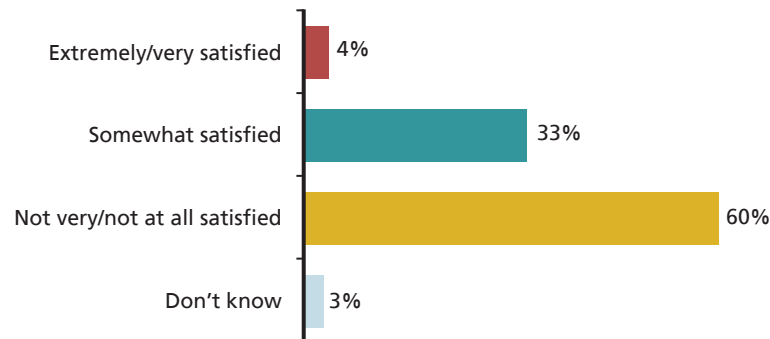
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Government “kicking the can” impacts investing behavior, return expectations and long-term outlook

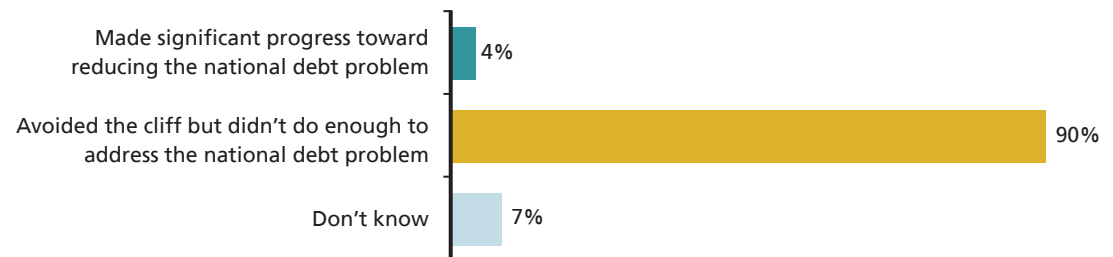
Most investors (60%) are dissatisfied with the fiscal cliff agreement, and an overwhelming 9 in 10 investors feel the agreement did not do enough to address the national debt problem.

Investor view of fiscal cliff agreement

Question: “How satisfied are you with the agreement reached in Washington to avoid the fiscal cliff?”



Question: “Do you feel the agreement reached in Washington to avoid the fiscal cliff...?”



In terms of outstanding issues regarding the fiscal cliff, investors are most worried about “government continuing to make short-term deals without agreeing to a ‘grand bargain’” (79% highly concerned).

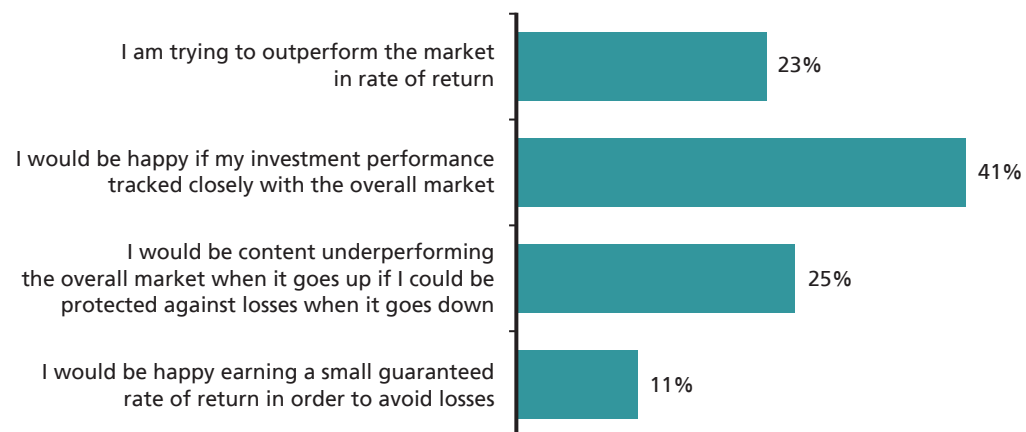
Older investors (60+) are particularly concerned about these outstanding issues. They are significantly more concerned regarding potential changes to Medicare (63% highly concerned vs. 33% among 25-49 year-olds), which can obviously affect them directly. But they are also more worried about “government continuing to make short-term deals without agreeing to a ‘grand bargain’” (84% vs. 66%) and changes to Social Security (57% vs. 38%). This suggests older investors are just as concerned about the impact on future generations as they are about policies that directly affect them.

This sense among investors that Washington will not address the long-term issues led to a decrease in mid- and long-term economic outlook compared with three months ago—even as short-term economic outlook improved. Six in 10 investors (59%) have an optimistic long-term outlook compared with 66% in September, and 49% are optimistic about the mid-term outlook compared with 55% in September.

With the lack of clarity on what policy changes government will enact, as well as expectations for market volatility, many investors continue to take a “wait and see” approach. And when they do invest, only 23% are trying to “outperform the market”; 41% would be “happy tracking closely to the overall market,” and 25% would prefer to “underperform the market” if it means not losing what they already have.

Investment approach

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



In the last edition of *UBS Investor Watch* (October 2012), we highlighted the election as a potential catalyst for investor activity. But the fiscal cliff and the continuing uncertainty in Washington quickly replaced waiting for the election outcome as a hurdle to investment activity.

As we saw in September, approximately one-quarter of investors feel they have more cash than they need (22%) and expect to decrease cash holdings in the next year (27%). But they haven’t made these changes yet, and younger investors surprisingly continue to hold more cash than their elders (26% average cash allocation among those 25-49 versus 18% among the 60+).

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Long-term care trumps retirement as biggest personal concern

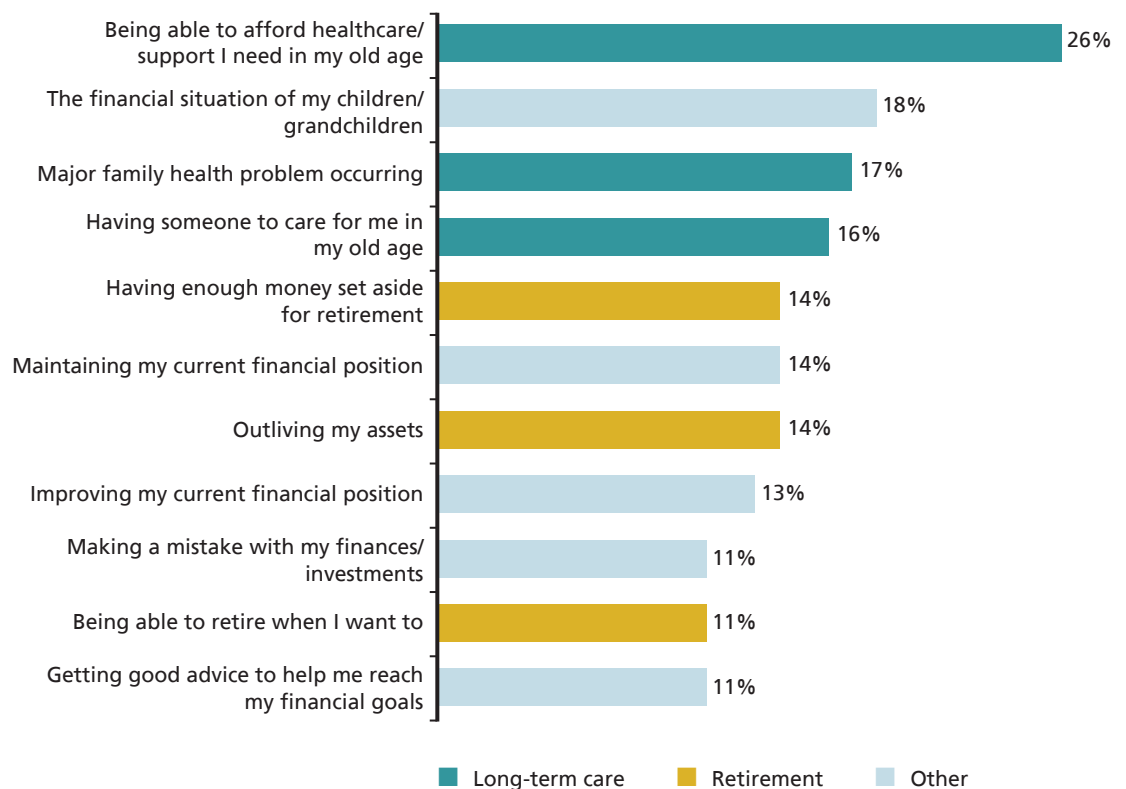
Traditionally, the biggest emphasis in the financial services industry has been on helping investors plan for retirement—building a large enough nest egg to retire comfortably, ensuring a steady income stream that investors won't outlive. And while this remains highly important, in recent years the big unknown impacting those later years in life has become healthcare and long-term care costs—and the reality that failure to anticipate expenses stemming from a major health problem could rapidly drain one's nest egg.

Today's investors recognize this fact, and it is reflected in both their objectives and their personal finance concerns. "Staying healthy/fit" is investors' top objective (73% list that as a top-three goal), followed by "maintaining quality of life" (68%) and "enjoying life" (52%). In contrast, "making sure I can retire how and when I want" (26%) comes in a distant fourth.

Similarly, "being able to afford healthcare and the support I need in my old age" is investors' biggest personal finance concern (26% highly worried), while "having enough money set aside for retirement" ranks fifth at 14%.

Top personal finance concerns

Question: "How worried are you about each of the following regarding your personal finances?"



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Investors feel more confident about their financial situation now than they did three months ago, particularly those who consistently follow a financial plan

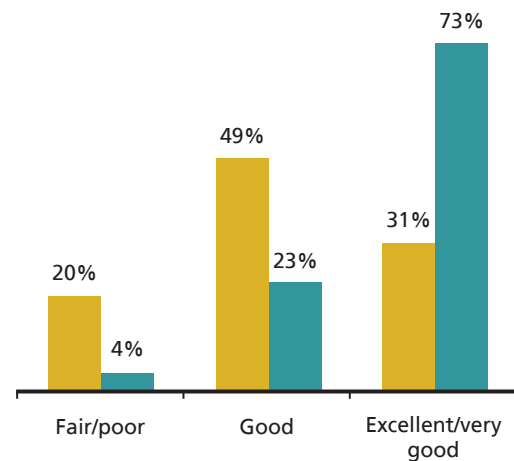
Despite these concerns about the political environment and long-term care, the majority of investors (56%) feel “excellent” or “very good” about their current financial situation, up from 44% in September. This may stem from good news outside of Washington, as 2012 was a good, non-volatile year for the stock market, unemployment continues to decline (if slowly) and concerns about the European debt crisis have faded. However, there also seems to be a dichotomy between feeling better about matters investors can control themselves and worse about those they cannot control, such as the national debt situation and rising healthcare costs.

In line with the confidence that comes with increased control, investors who consistently follow a financial plan feel markedly better about their finances (73% feel “excellent” and “very good”) and their ability to reach their objectives (68% feel “extremely” and “very confident”). They are also more likely to feel their financial situation has improved in the last year and will continue to improve over the next four years.

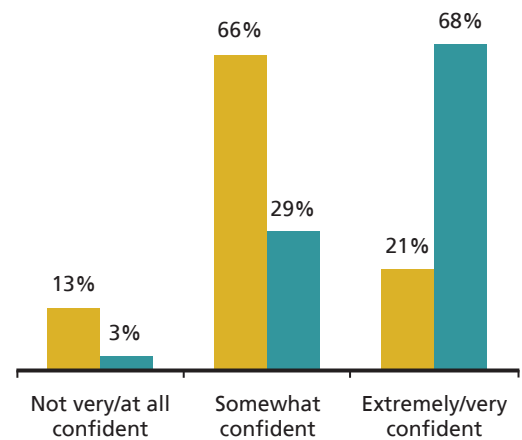
Impact of financial planning

Question: “How do you feel about your overall financial situation today? How confident are you that you will be able to achieve your financial objectives for the future?”

Feelings regarding financial situation today



Confidence in achieving goals



■ Do not consistently follow financial plan ■ Consistently follow financial plan

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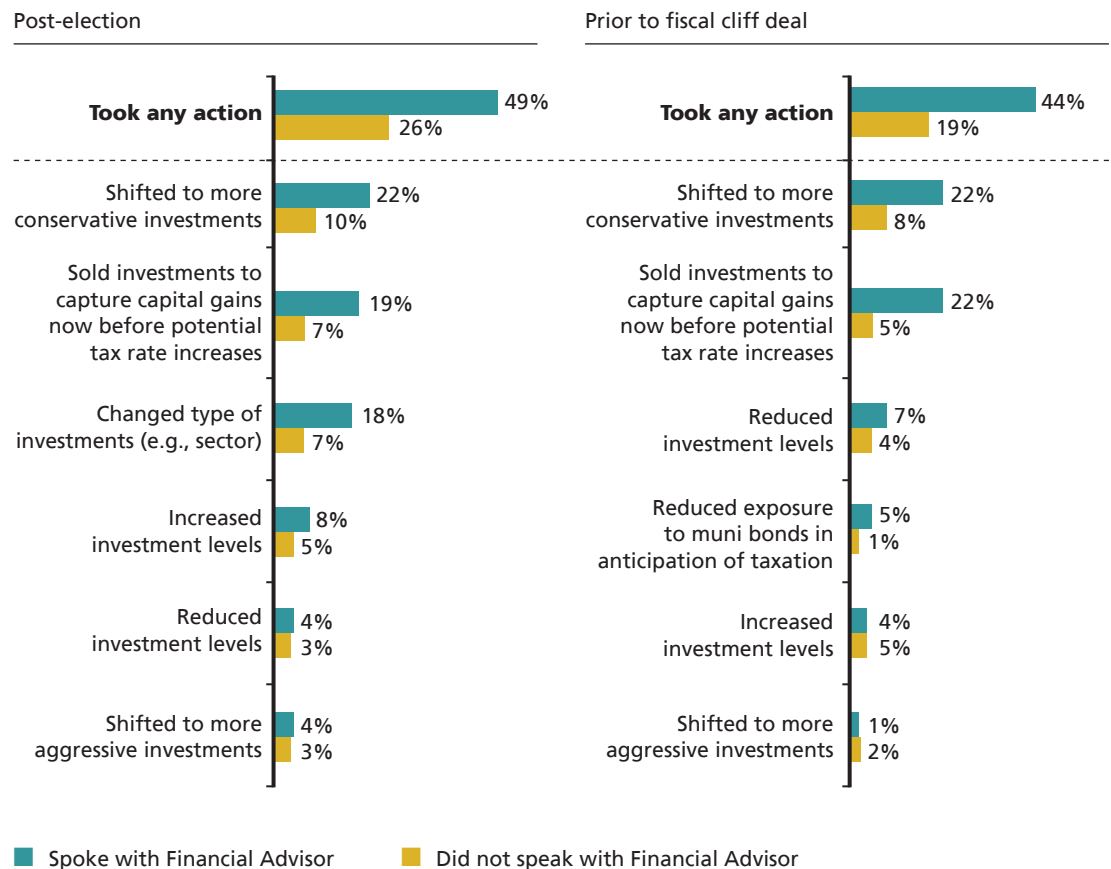
Advice central to achieving goals in this environment

Investors perceive a number of factors as highly important in helping them achieve their goals. Nearly 7 in 10 investors (68%) view “receiving good advice to make smart financial decisions” as highly important, followed closely by “investing to grow my wealth” (63%), “planning my finances around meeting these objectives” (61%), “protecting myself against any surprises” (60%) and “saving money toward these goals” (56%).

But advice seems to be particularly important in helping investors navigate lingering uncertainties. Half of investors spoke with their Advisors about the impact of the election and/or the fiscal cliff on their finances. These investors were twice as likely to take action regarding their investments (such as shifting to more conservative investments or selling investments to capture capital gains before tax rate increases), and 3 in 4 were highly satisfied with the advice they received.

Investment actions taken related to election/fiscal cliff

Question: “Post-election, which of the following actions, if any, have you taken? Prior to the fiscal cliff deal, and regardless of which side of the issue you are on, how important were each of the following topics to you?”



A closer look at long-term care issues

Age effects



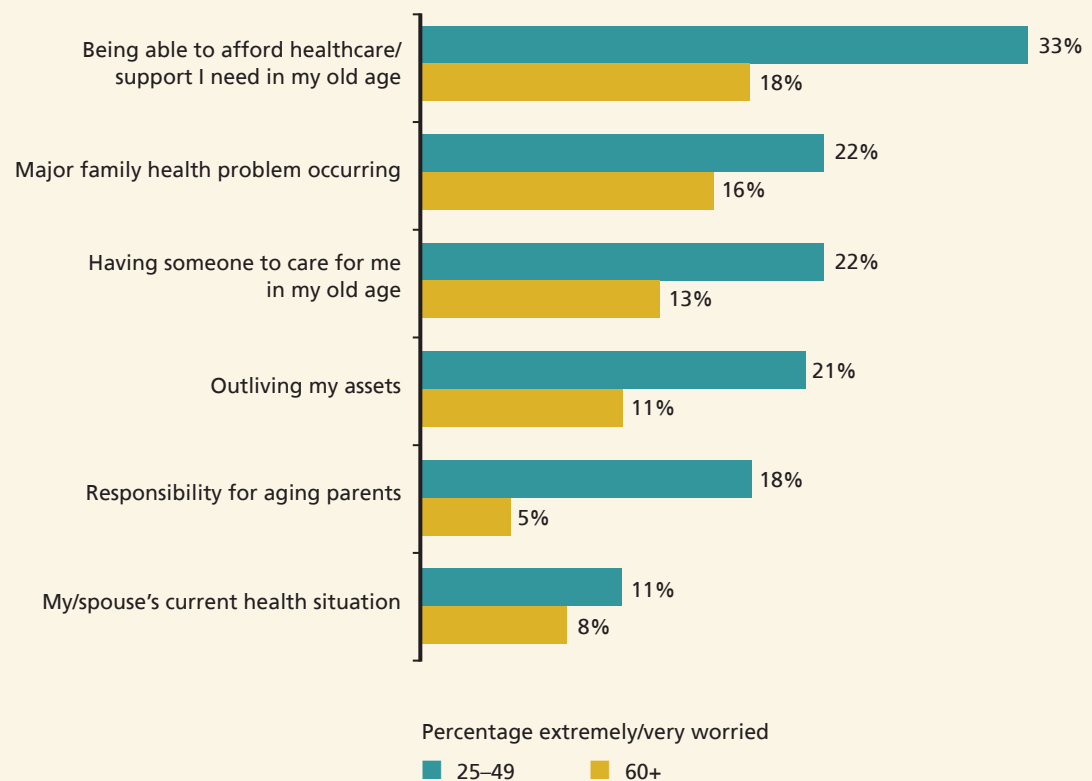
Surprisingly, long-term care is a bigger concern for younger investors

While one might expect older investors (60+) to be most concerned with long-term care issues, it is in fact younger investors (25–49) who are more worried. This may be because this age group is beginning to see the potential effects as their parents and older loved ones age. One-third of younger investors are highly worried about being able to afford the healthcare and support they need in their old age compared with 18% among the 60+ group.

It is also worth noting that younger investors are now more concerned about long-term care than retirement. While one-third are highly concerned about long-term care, one-fourth are highly concerned about “being able to retire when I want” and “having enough money set aside for retirement.”

Personal finance concerns by age

Question: “How worried are you about each of the following regarding your personal finances?”



Gender gaps



Long-term care issues even greater concern for women

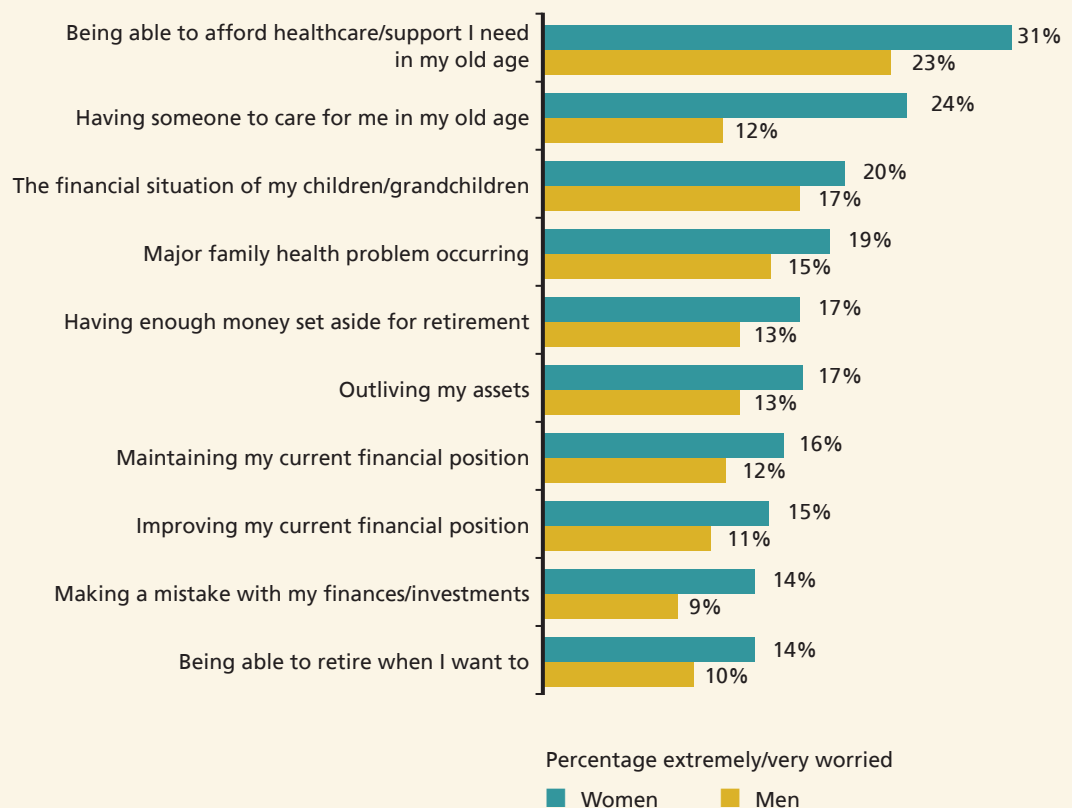
Statistics from the U.S. Census show startling differences in longevity between women and men:

- Women live on average 5 years longer than men (81 versus 76)
- 40% of all women 65 or older live alone
- 700,000–800,000 women are widowed annually

Against this backdrop, it's not surprising that long-term care issues are of greater importance and concern to women. Specifically, "being able to afford healthcare/support I need in my old age" and "having someone to care for me in my old age" are the two biggest personal finance concerns for women, and represent the greatest gap in level of concern between women and men.

Personal finance concerns by gender

Question: "How worried are you about each of the following regarding your personal finances?"



About the survey: UBS Wealth Management Americas surveys U.S. investors on a quarterly basis to learn about 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 the impact of 2012 elections and fiscal cliff agreement

For the 1Q 2013 survey, 2,056 U.S. investors (1,264 men, 792 women; age 25 and over), responded January 2–7; 425 are UBS clients. Investors surveyed have a professional advisor and at least \$250,000 in investable assets; half have at least \$1 million in investable assets.

The findings of the previous *UBS Investor Watch*, which were released in October 2012, examined the mindset of investors prior to the U.S. presidential and congressional elections.

Looking ahead: 5 things we're tracking

1. How will any additional changes government makes affect investor outlook (particularly relating to spending cuts and the March deadline)?
2. How strong of a connection do investors make between their personal financial situation and the political/economic outlook?
3. What are investors doing to address their concerns about long-term care?
4. How are concerns about Washington not addressing long-term economic issues affecting the investing outlook and behavior of younger investors?
5. How are investors preparing for and reacting to higher taxes?

The next UBS Investor Watch will be released in the 2Q 2013 with the results of the 5 things we're tracking.

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