

## *Newfound optimism and pre-election jitters*

### Five top insights

1. Investor optimism returning
2. Flight to cash receding
3. Investors starting to spend...focusing on experiences
4. Investors' biggest concerns remain the size of the national debt, healthcare and the election
5. Election: a potential catalyst for investor activity

## Election: a potential trigger to bring investors back from the sidelines

Having built up considerable cash holdings after the financial crisis, investors appear poised to increase investments after the election. UBS's recent survey among more than 2,000 affluent and high net worth investors\* reveals much higher short-term optimism than a year ago. Additionally, investors remain optimistic about the long-term and are increasingly confident about their ability to reach their financial goals. In line with this improved outlook, an overwhelming nine in ten investors feel they have enough or too much cash. High net worth investors in particular are more likely to move out of cash in the next year.

However, with the 2012 election looming, investors remain cautious and their asset allocation is unchanged. The election is their 3rd largest concern behind the size of the national debt and rising healthcare costs. Most investors expect the election outcome to impact their outlook on the economy and investing, and accordingly, nearly half plan to revisit their financial plan post-election. Once over the election hurdle, a key source of investor hesitation, the survey findings indicate investor allocations may realign with sentiment.

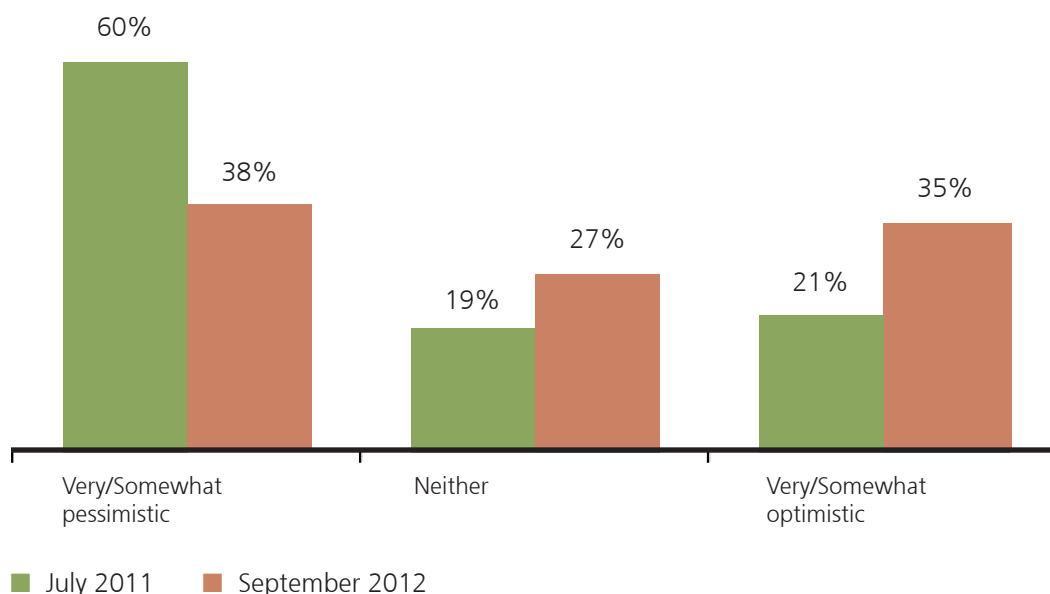
# 1

### Investor optimism substantially higher than a year ago

Though investors remain cautious, they feel much more optimistic about the economy than they did a year ago (July 2011). 35% are very or somewhat optimistic about the short-term economic outlook, up from 21% a year ago. And while 38% are pessimistic, this number is dramatically lower than a year ago, when 60% of investors had a negative outlook. Additionally, investors are much more likely to feel excellent or very good about their financial situation compared to last year. Key drivers of this improving view include declines in the unemployment level, reduced market volatility and overall improved performance of the financial markets.

#### Short-term economic outlook

*"How would you describe your overall short-term outlook on the economy?"*



While the short-term view is mixed, belief in the U.S. economy in the long-term remains strong. Most investors are optimistic about the economy over the next 3-5 years, and two in three are optimistic about the next 10 years. In line with this outlook, nearly half of investors feel highly confident about achieving their financial goals.

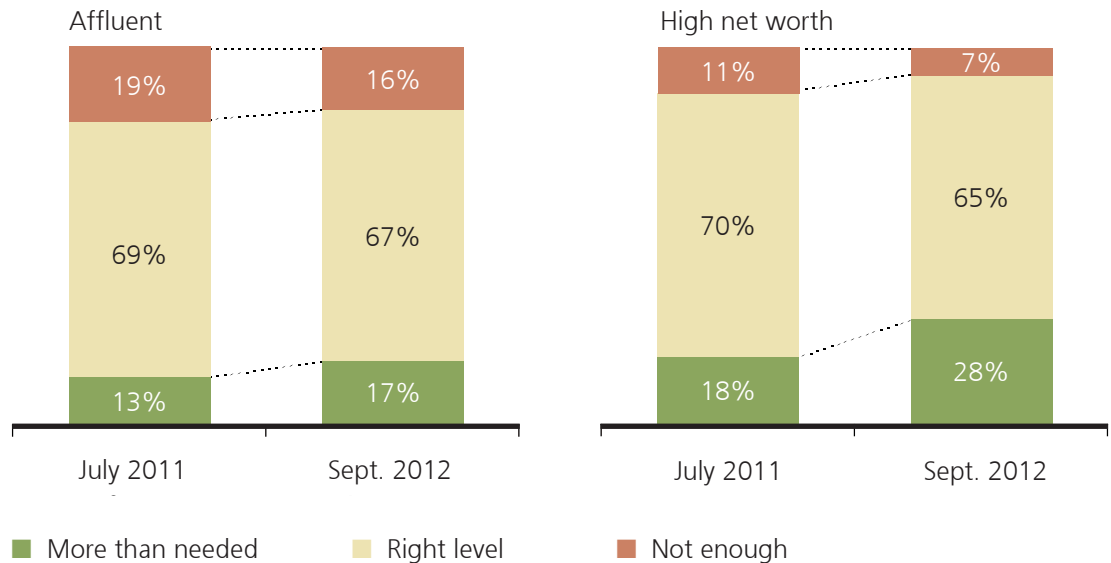
# 2

## Flight to cash appears over

After building up a large cash allocation post-financial crisis, investors have kept their asset allocation quite steady over the last 2 years. With average cash holdings around 20% of their portfolios, the vast majority of investors feel they have the right amount of cash. Some investors, especially the high net worth segment, are starting to feel they have too much cash, and plan to begin decreasing these holdings over the next year.

### View of current cash holdings

*"Do you think you hold the right level of cash or cash equivalents (CDs, money market funds)?"*



New money is increasingly being earmarked for investments rather than for increasing savings or paying off debt. This is particularly true for high net worth investors: 39% would invest found money immediately, and another 26% would hold, waiting for an investment opportunity. Investment easily outstrips preference for more conservative approaches—increasing savings (15%) and paying off debt (8%).

# 3

## Investors starting to spend... focusing on experiences

In reaction to the recent recession, even wealthy Americans cut back on spending levels. However, now investors are spending more time and money on leisure and experiential activities such as travel and dining out with friends and family. For example, 37% have increased spending on travel in the last year compared to 26% who have decreased their travel spending. Meanwhile, they spend less time and money on shopping (35% have reduced and only 17% have increased shopping spend in the last year). When asked about their plans for the next year, investors expect this trend to continue (39% plan to increase travel spend next year while only 14% plan to increase their shopping spend). This may signify a positive outcome of the recession—people are spending more quality time together instead of trying to “keep up with the Joneses.”

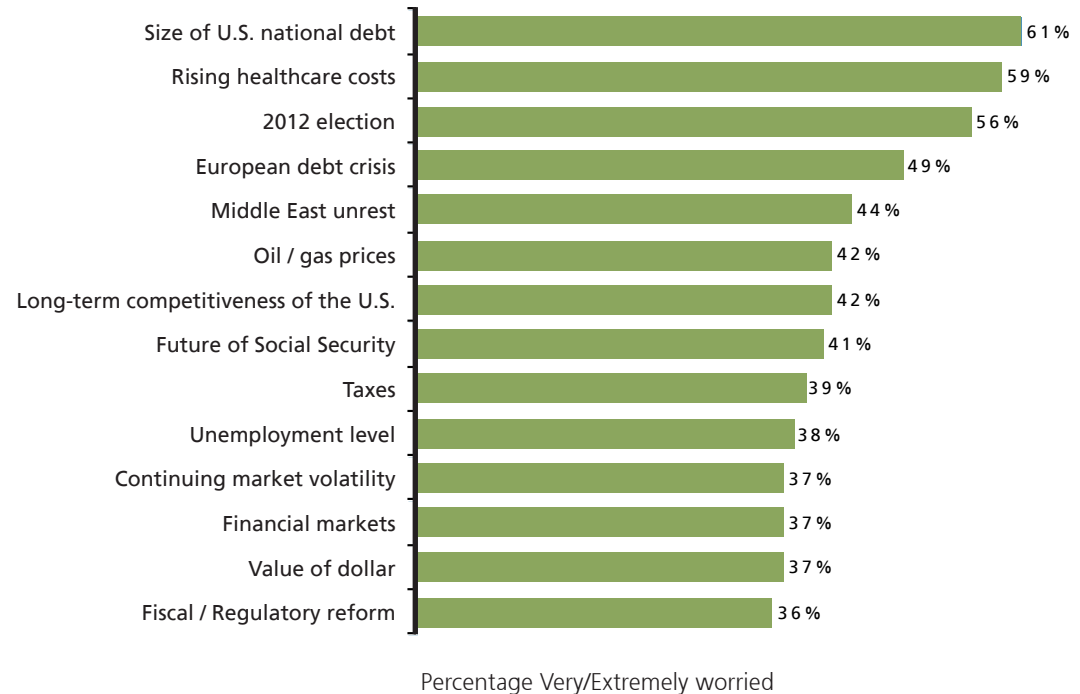
# 4

## Investors' biggest concerns

Investors continue to be most worried about macro-economic issues. Six in ten are highly concerned with the size of the national debt and with rising healthcare costs—the top two concerns overall. In addition, investors have become increasingly anxious about the 2012 election (56%). The results of the election will obviously impact how these long-term issues are addressed by government. Concern about taxes has also increased in the last year (39%, up from 31%) given potential changes resulting from the election.

### Top investor concerns

*"How worried are you about each of the following in terms of potential impact on your financial goals or objectives?"*



# 5

## Half of high-net-worth investors plan to revisit their financial plans post-election

Elections are often billed as the most important election in a generation, and this one is no different. Most investors indicate the outcome of the election will impact their economic outlook and their optimism for investing. Nearly half of high net worth investors plan to revisit their financial plans after the election. These findings indicate that while pre-election investor activity may be low, signs point to increased action post-election. At least one piece of uncertainty in investors' minds will be out of the way.

# A closer look

## Gender gaps



### Male outlook more optimistic

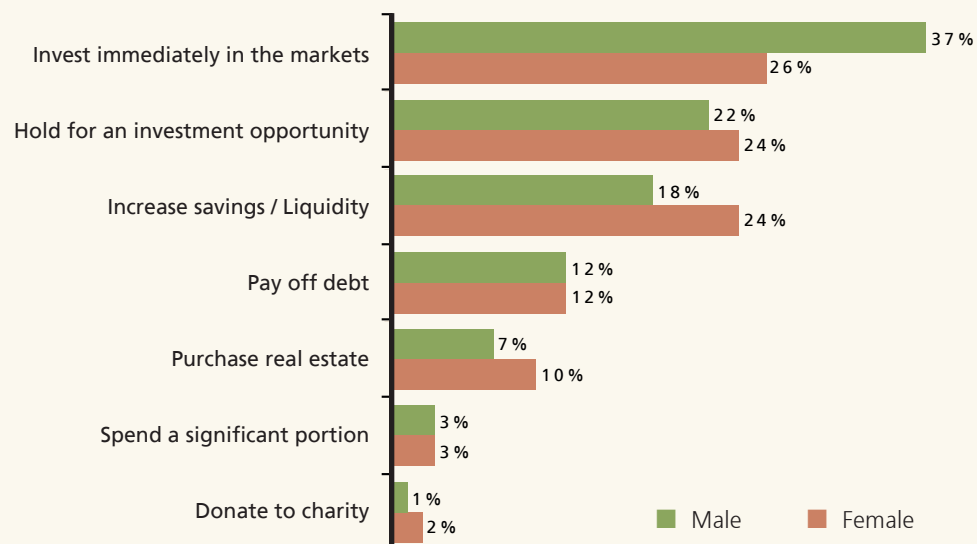
As one might expect, men are more likely to take an aggressive approach to investing. Men are twice as likely as women to describe their risk tolerance as very or somewhat aggressive (20% vs. 11%). They are also more likely to try to outperform the market with their investment approach, while women are more likely to aim for a small guaranteed return.

While there is little difference by gender in short-term economic outlook, men are significantly more optimistic than women for the medium-term (3-5 years) and long-term (10 years).

Given their more aggressive approach and more optimistic outlook, it's not surprising that men would be much more likely to invest "found" money immediately. Women are more likely to increase savings.

### Plans for additional money by gender

*"If you were given an additional [\$100k, \$250k, \$500k depending on asset level], what would you do with the money? Please select the most important one."*





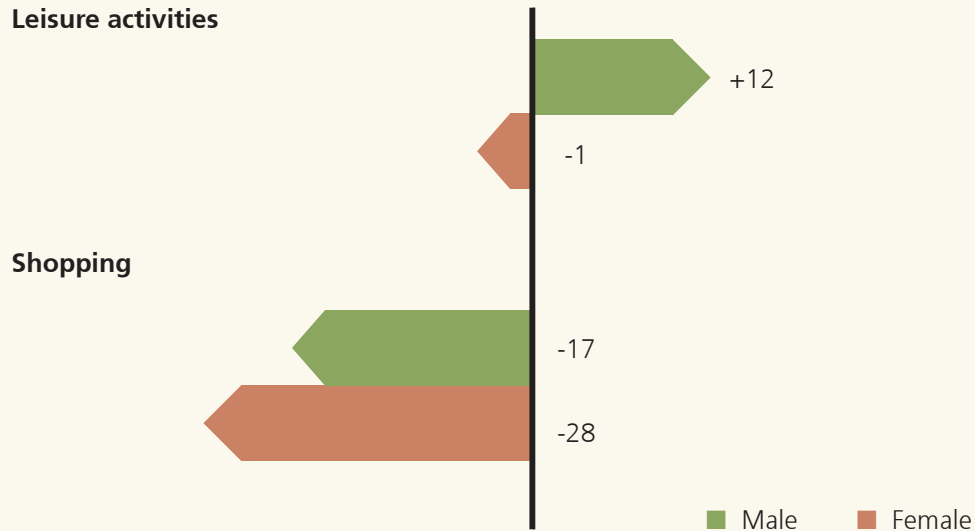
### Men outspending women

What might be less obvious, though, is that male optimism and female conservatism extend to their lifestyles. Men, on average, are currently spending more time and money on leisure activities (including travel / vacations and dining out) than they did in the past. Women are spending the same on leisure as they did before. While both genders have cut back on shopping, women have shifted further in this direction.

### Spending trends by gender

*"Now please think ahead to the next 12 months. Please indicate whether you expect to do more or less of each of the following in the next 12 months compared to the past year. [Index shown for % spending more time / money on each minus the % spending less.]"*

#### Leisure activities



### Women eye issues closer to home

Men are more concerned than women about broad economic issues—the size of the national debt and the European debt crisis. Women are more concerned about issues that impact household finances—specifically healthcare costs, oil / gas prices, the value of the dollar, inflation and real estate prices. This seems to reflect evolving gender roles where men are typically more actively involved in investing and women are more likely to be managing day-to-day household finances.

## Age effects



### Younger investors' asset allocation not reflective of risk tolerance and outlook

Younger investors (ages 25-49), as one might expect, can generally tolerate greater risk. One third of younger investors categorize their risk tolerance as aggressive (37%), compared to only 22% among ages 50-59 and 12% among the 60+. Additionally, younger investors are more likely to be concerned about missing out on market gains rather than avoiding losses.

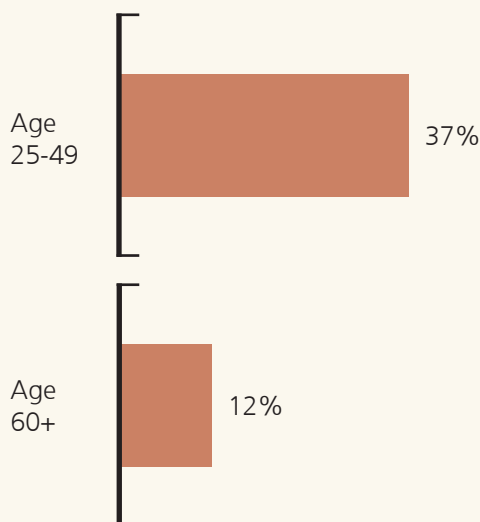
However, younger investors' asset allocation, on average, reflects neither their own views nor traditional investment advice. Conventional wisdom suggests that younger investors with long time horizons should invest more aggressively for growth, while older investors should be more conservative and focus on preservation (with some growth potential). Counter to these notions, younger investors actually have more cash on average than their older counterparts, without any greater exposure to equity. Having experienced two crashes in just over a decade, younger investors with shorter memories may be toeing the water with caution.

### Risk tolerance and asset allocation by age

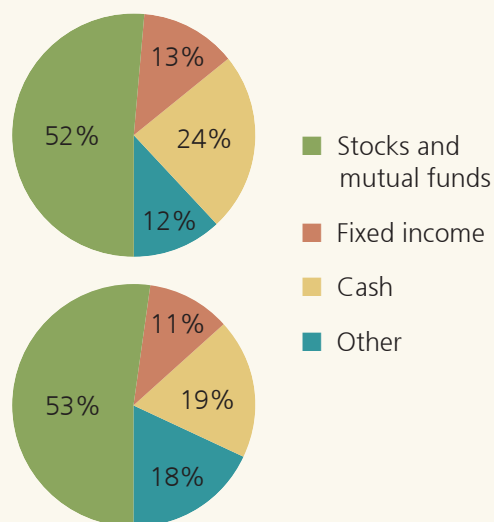
*"How would you classify your investment risk tolerance today?"*

*"Please provide your approximate overall asset allocation across all your accounts."*

#### % with aggressive risk tolerance



#### Average asset allocation



Younger investors are also more optimistic about the short-term economic outlook than older investors are. Nearly half (45%) are optimistic compared to only one third of older investors. This represents a reversal from a year ago, when younger investors were the least optimistic about the economic outlook. Consistent with their greater risk tolerance and positive outlook, younger investors are the most likely to say they would invest "found money" immediately.

### Older investors particularly concerned about the 2012 election

While investors from all generations are concerned about the election, this sentiment is most pronounced among older investors. 58% of 60+ investors are highly concerned about the election compared to 45% among those under 50. Older investors are also more likely to believe that their economic outlook will be impacted by the election results.

## Looking ahead: five things we're tracking

1. Will investor optimism continue to grow?
2. Are investors re-investing their cash holdings?
3. With election uncertainty behind them, do investors feel more confident?
4. Based on the election outcome, what changes are they making to their financial plans?
5. Do investors feel next year's government will make progress towards debt reduction?

A *UBS Investor Watch* will be released in December focused on post-election investor sentiment and following up on the five things we're tracking.

**\* About the survey:** UBS WMA conducts regular polling of investor sentiment. This survey was conducted among 2,023 U.S. investors from August 16 – September 7, 2012. Respondents have at least \$250,000 in investable assets, with half of them having at least \$1,000,000 in investable assets. The study included 473 UBS clients.

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