

# FACTS & FIGURES

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Topic: Wealth and Investment Products

## EYE OF THE BEHOLDER

An individual's vantage point, specifically their level of wealth, can have a major impact on how they perceive and use investment products

Like most things, investment products cycle in and out of favor. Some of this is due to market conditions – remember the backlash against growth-style investing after the burst of the tech bubble and the subsequent flood of interest in fixed income and “safer” equity strategies? Other times it's in response to environmental factors – after the sustained period of economic and geopolitical uncertainty in the early 2000s, the lack of market correlation offered by certain hedging techniques was appealing to many investors. And often it's simply media hype that drives investor behavior, or the availability of something new and different that prompts a change in portfolio holdings – two of the reasons behind the surge in popularity of exchange traded funds.

There are several other things that can contribute to how an investment product is perceived and embraced by the investing population, and our research with affluent investors reveals that a compelling and influential factor is an individual's overall level of wealth. In a series of studies conducted between 2004-2006, we surveyed more than 1,100 wealthy investors about the importance of, and their interest in, specific investments products. To understand the role net worth plays in this process, we segmented the survey respondents into the following five groups:

- Net worth between **US\$500,000 and US\$1 million**
- Net worth between **US\$1-\$5 million**
- Net worth between **US\$5-\$10 million**
- Net worth between **US\$10-\$20 million**
- Net worth above **US\$20 million**

ISSUES	\$500K-\$1M	\$1M-\$5M	\$5M-\$10M	\$10M-\$20M	>\$20M	TOTAL
Investing in exchange traded funds	67.1% (289)	49.5% (311)	17.0% (247)	1.2% (168)	0.9% (106)	35.1% (1,121)
Investing in mutual funds	58.1% (289)	16.4% (311)	1.2% (247)	0.0% (168)	0.0% (106)	19.8% (1,121)
Investing in currencies	22.1% (289)	27.0% (311)	24.7% (247)	18.5% (168)	19.8% (106)	23.3% (1,121)
Investing directly in start-up companies	4.2% (289)	6.1% (311)	9.3% (247)	13.1% (168)	35.8% (106)	10.2% (1,121)
Investing in hedge funds	5.5% (289)	10.0% (311)	38.1% (247)	76.8% (168)	76.4% (106)	31.3% (1,121)
Investing in private equity	3.1% (289)	7.7% (311)	21.1% (247)	42.3% (168)	53.8% (106)	19.0% (1,121)

## SOME KEY FINDINGS

- Not surprisingly, products that are broadly available and have low investment minimums such as **MUTUAL FUNDS** and **ETFs** are more appealing to lower net worth individuals (those with <\$5 million in net worth) than they are to wealthier investors. One reason may be the heavy product coverage in media outlets that target this segment of investors. Another may be the widely accepted role that mutual funds and ETFs can play in retirement planning and college savings, two issues of little concern to wealthier individuals.
- Simply put, **MUTUAL FUNDS** are no longer on the radar screens of investors with more than \$5 million in net worth. Funds had their heyday in the latter part of last century, but most wealthy investors have had their fill and have since found other, more customized vehicles to meet their core investing needs.
- **ETFs** have replaced mutual funds as the product *du jour* for the segment with less than \$5 million. Both the number of ETFs and the total assets invested in them have risen sharply in the past few years, underscoring support for a structure that looks, smells and feels like an indexed mutual fund with stock-like features.
- Fittingly, **HEDGE FUNDS** (and hedge fund-of-funds) are of the greatest interest to the crowd with >\$10 million in net worth. Most hedge-related products are private placements and, as such, have net worth requirements for their investors and high minimums designed to preclude unqualified individuals from investing. The complementary effect a hedge fund can have on a portfolio has been, and will continue to be, valued by sophisticated investors as long as results are delivered.

**NOTE:** There has been much public discussion about the structure and size of hedge fund expenses. The super-wealthy are willing to pay for a product or service as long as it has perceived value and delivers on expectations.

- **DIRECT INVESTMENTS** and **PRIVATE EQUITY** have only gotten traction with the highest net worth investors. Both are complex (and often speculative) investments with low liquidity that are most appropriate for investors with higher levels of wealth, knowledge and risk tolerance. Additionally, these types of investment opportunities must often be sourced through an advisor or firm that works exclusively with sophisticated investors.
- Interestingly, **CURRENCY INVESTING** was ranked similarly by investors at all levels of wealth appealing to roughly one-quarter of investors. Arbitrage is a specialized investment technique that carries unique risks. As such, it will likely have a finite audience of potential investors now and in the future.

## ABOUT THE RESEARCH

The research findings included in this document were taken from 19 different studies designed and overseen by Prince & Associates, Inc., during the calendar years 2004, 2005 and 2006.

- The wealth levels represent the net worth of the respondents – all assets minus all liabilities.
- The number is the percentage of respondents that rated the issue as “very” or “extremely” important or interested.
- The number in parentheses is the sample size for the issue.
- The issues are either direct questions or factors (i.e., statistically combined questions).
- The Total is the weighted average of all the respondents for a particular issue.

**Facts & Figures** is a periodic publication summarizing the key findings from proprietary surveys conducted with high-net-worth individuals on a range of subjects. All data included in **Facts & Figures** is from Prince & Associates, Inc., Redding, CT, unless noted otherwise.

## ABOUT THE AUTHORS



**HANNAH SHAW GROVE** is a leading authority on the mindset, behavior, concerns, preferences and finances of high-net-worth individuals. Her two decades of practical experience working closely with wealthy families and investors make her a critical resource for any organization seeking a foothold with this desirable market segment. She is a respected author, columnist and speaker and is regularly quoted in the national and financial press.



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