2018 U.S. Trust Insights on Wealth and Worth®

PUTTING WEALTH INTO ACTION

The 2018 U.S. Trust Insights on Wealth and Worth® *survey found that while increased wealth provides greater freedom, only half of high-net-worth individuals have a plan to optimize the opportunities their wealth provides. However, creating and continuously evolving a customized plan is the key to putting wealth into action. Today, those who have developed deliberate and comprehensive strategies that examine wealth across a broad range of topics are further along in achieving important goals.*

MAKING THE MOST OF WEALTH

Greater wealth and freedom also bring increased obligations, expectations and demands. Survey results revealed that competing priorities and lack of time are keeping the wealthy from clearly identifying the purpose of their wealth and taking the deliberate steps to put a plan into action.

Identifying the purpose of wealth

What motivates high-net-worth individuals to build wealth?

Across the board, the wealthy say their primary goals are to provide financial security for themselves and their families, as well as to afford a desired lifestyle. Outside of financial security and lifestyle, the wealthy say the purpose of their wealth is more about others. Nearly three-quarters (72%) are motivated to help others through philanthropy, while entrepreneurs and business owners are especially driven by a desire to create economic opportunities for others. And yet only half (47%) have clearly identified how they want to use their wealth.

The wealthy are also working to make the most of their resources to achieve universal life goals, such as being able to live true to their values, making the most of their talents and setting a positive example for their children. Yet on every measure, they feel there is more they can be doing, particularly when it comes to giving back and making a positive contribution to society. In fact, 84% say it's important to give back to those less fortunate, yet people feel they are doing just over half of what they can to achieve that goal *(see Figure 1)*.

Similarly, only about half (53%) are fully satisfied with what they spend most of their money on, and only 31% are satisfied with what they are doing to help the less fortunate *(see Figure 2)*.

Figure 1

Life Goals and Level of Effort

(Among All Respondents)

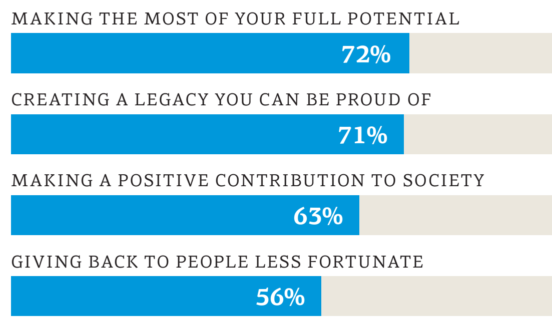
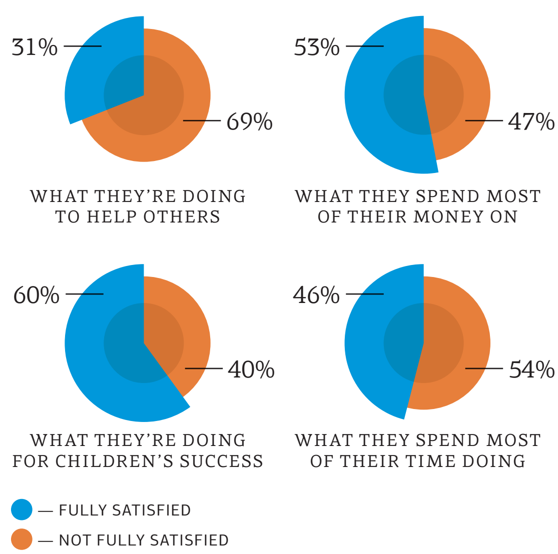


Figure 2

Satisfaction with Personal Priorities

(Among All Respondents)



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Despite achieving financial success, many wealthy individuals say life could still be improved. When asked what, if anything, would make life better, nearly six in 10 (58%) cite more meaningful connections with friends and family and nearly half (46%) want more time, while only 4% want more stuff.

Overall, the survey results reinforce the notion that satisfaction comes not from having wealth but from using it with meaningful intent and purpose.

Making progress toward goals

While the vast majority (90%) of wealthy individuals agree that increased wealth provides the freedom to do more, only about 1 in 2 (49%) have a plan to put their wealth into action *(see Figure 3)*.

There are a number of factors that influence one's ability to make progress toward their goals. Six in 10 (62%) wealthy individuals attribute their choice of a spouse—having a supportive or collaborative partner—as an influential factor. Nearly the same percentage (58%) attribute their ownership of a business as having had an impact on their ability to make the most out of life and achieve their goals. Surprisingly, findings show that progress is not a function of gender, age or wealth level.

But with greater wealth and freedom also come increased demands, responsibilities and complexity. Competing priorities and lack of time are the biggest obstacles to progress, followed by lack of self-confidence, lack of experience and the lack of support from a spouse or partner.

On the other hand, findings suggest that having robust conversations with an advisor can benefit progress. Because although 87% of wealthy individuals have a financial advisor, only 16% are having these conversations about a wide range of wealth planning goals and topics *(see Figure 4)*.

While most discussions with advisors are limited to tax planning and investing, the topics people actually want to discuss—estate planning, trust options and implications, strategic philanthropy, use of family wealth and teaching children or heirs financial skills—are also essential for helping them achieve their goals.

That said, those who do use an advisor—particularly an advisor with a more comprehensive approach—have made more progress toward achieving their goals *(see Figure 5)*.

DEVELOPING A PERSONALIZED WEALTH STRATEGY

Survey findings suggest notable shifts in how high-net-worth individuals are structuring and deploying their assets. The findings also indicate the importance of examining wealth across a broad range of topics, such as alternative investments, impact investing and art collecting.

Changing views on investing

While some traditional approaches to investing remain popular, behavioral shifts are taking place, and there is interest, especially among younger investors, in diversifying into alternative investments and private markets.

Figure 3

Wealth Planning Engagement

(Among All Respondents)

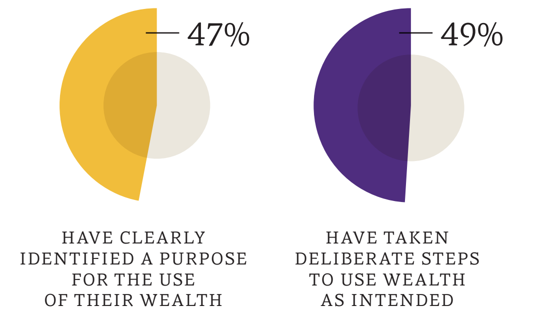


Figure 4

Advisor Usage

(Among All Respondents)

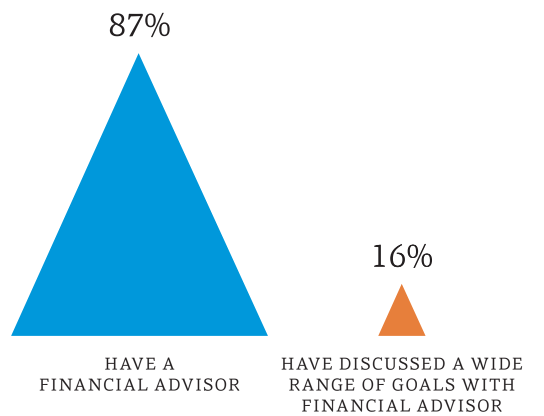
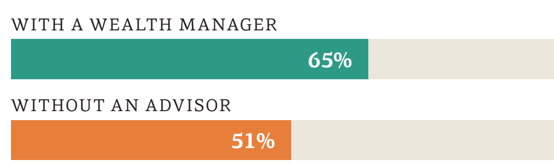


Figure 5

Average Progress Made Toward Goals: With vs. Without an Advisor

(Among All Respondents)



Nine in 10 investors believe diversification is still the best way to maximize returns and minimize investment risk. The typical high-net-worth portfolio includes a mix of traditional assets—55% stocks, 21% bonds, 15% cash, 6% alternatives and 3% other. However, Millennials and Gen Xers significantly reduced large holdings of cash held in 2017 and put it into stocks *(see Figure 6)*.

Even with the shift in cash holdings, Millennials still have the lowest allocation to stocks compared to Gen X (54%), Baby Boomers (56%) and the Silent Generation (61%). While older investors rely primarily on traditional stocks and bonds, Millennials allocate 17% to alternative investments and assets other than stocks, bonds and cash.

In addition to diversifying their stock holdings, high-net-worth investors are also diversifying into other asset classes that don't necessarily correlate to the broader markets. While two-thirds of wealthy investors have faith in the public markets, at least one in three believes more money can be made by investing in the private markets (e.g., hedge funds, private equity, private debt and venture capital). And nearly seven in 10 (69%) Millennials, half of business owners and half of the wealthiest segment ($10M+) agree they can make more money by investing in the private market.

Finally, just under half (48%) of wealthy individuals own or are interested in owning real assets such as investment real estate, which have underlying value and may also generate income and tax advantages *(see Figure 7)*. Interest in real assets continues to remain strong, particularly among younger investors, business owners and the highest wealth tiers.

Steady interest in impact investing

More and more, high-net-worth investors say that impact matters—not only in their own lives but also for the companies they're invested in. In fact, nearly four in 10 (37%) have reviewed their investment portfolios for impact, up from 23% in 2015, with increases driven by younger generations *(see Figure 8)*.

Overall, the wealthy are increasingly informing their investment decisions based on environmental, social and governance factors (ESG), with women and Millennials driving the trend.

Today, four in 10 wealthy investors—including 77% of Millennials and 59% of Gen X—either own impact investments or are interested in impact investing. Millennials continue to drive momentum, with the percentage who own impact investments increasing by 9% over the last two years (28% to 37%). Similarly, more women than men own impact investments, with 46% of all high-net-worth women and 68% of women executives owning or interested in ESG investments.

So far, investors feel optimistic about the performance of these investments—70% of high-net-worth impact investors say the return on their investment has met or exceeded their expectations, and 62% say that evidence of positive impact has met or exceeded their expectations.

Overall, those who aren't investing in impact say that the primary reason is to keep philanthropic and investing goals separate. And despite driving momentum, Millennials say they would be more motivated to invest if they had more evidence of positive change to society (47%), a rating system for companies (37%) and access to impact investments in retirement plans (33%). Meanwhile, 57% of Baby Boomers say they would be more motivated by proof of performance and returns.

Looking forward, advisors have an opportunity to close the gap between demand and adoption of ESG and impact investing. Only 11% of high-net-worth investors have had discussions with their advisors about ESG and impact investing, but 44% say they would be motivated if their advisor recommended it, with Baby Boomers most likely to say this.

Figure 6

Millennial Asset Allocation

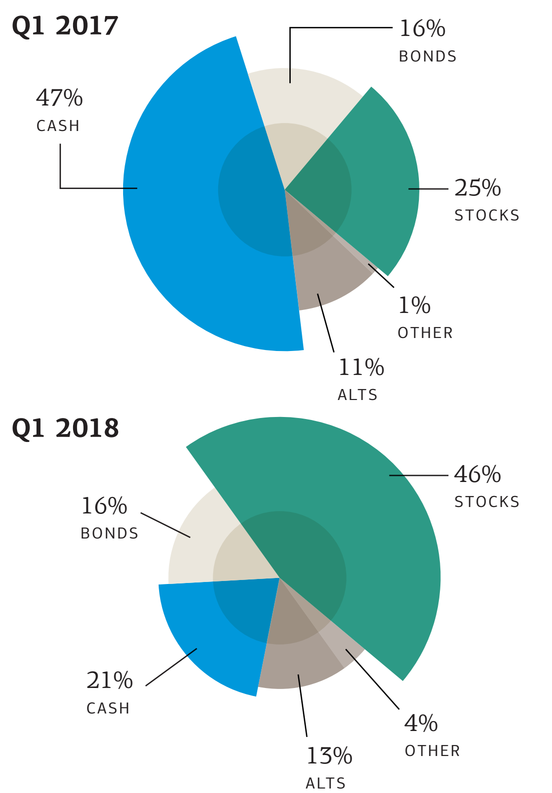
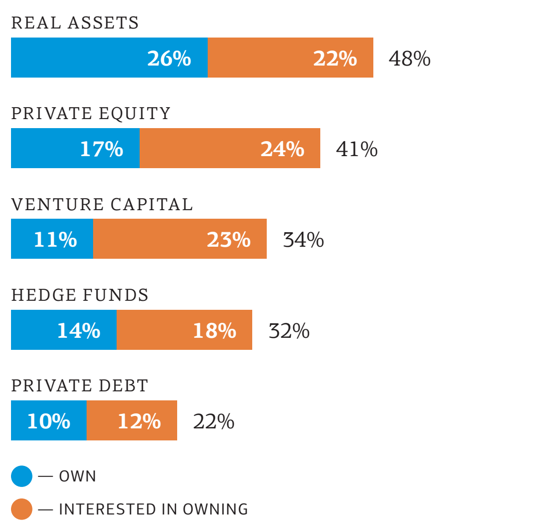


Figure 7

Ownership and Interest in Alternative Investments

(Among All Respondents)



Incorporating art into a wealth strategy

Historically, the vast majority of art collectors have not considered art part of their wealth planning strategy—today, that is changing. There are a growing number of ways that today's collectors are leveraging their art as an asset.

Up from 29% a year ago, nearly half (42%) of all collectors and 72% of Millennial collectors now incorporate art into their wealth structuring and planning. Younger collectors tend to be more financially driven and are twice as likely to say art is an asset that can be leveraged to build wealth (33% compared to 16% of all collectors) *(see Figure 9).*

A more financially driven collector base is also driving an expansion of art-secured lending. Today, more collectors are using art to unlock capital to redeploy into other areas of their financial life, like real estate, a private company or even to fund the purchase of more art. In fact, 23% of collectors have accessed capital by borrowing against existing art as collateral and another 20% say they have plans to do so. Similarly, 21% of collectors have used their art as collateral for a loan to acquire new art, up from 7% just a year ago.

Many are also using art in their charitable-giving strategy, which comes with potential tax implications. Sixteen percent have donated pieces to arts organizations, and another one in five (20%) say they have donated one or more pieces to other nonprofits.

Despite these shifts, there is still an opportunity to integrate art into an overall financial picture. Only 21% of collectors and 18% of those interested in collecting are talking with a financial advisor about collecting art or integrating it into wealth planning.

ACHIEVING GOALS

Without a strategy, wealth does not always afford freedom and satisfaction. But putting wealth into action with a customized wealth strategy that is a reflection of personal values and passions can help wealthy individuals to optimize opportunities, address common challenges and reach their goals.

Figure 8

Percent Who Have Reviewed Their Investment Portfolio for ESG Impact

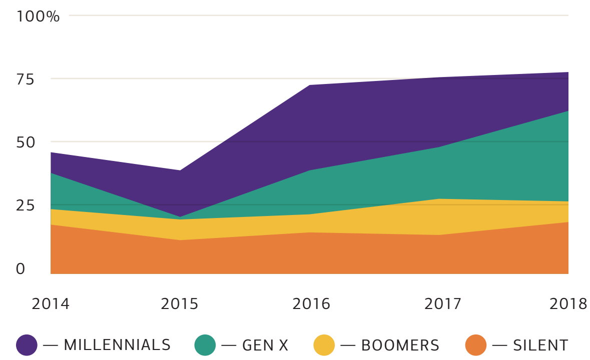
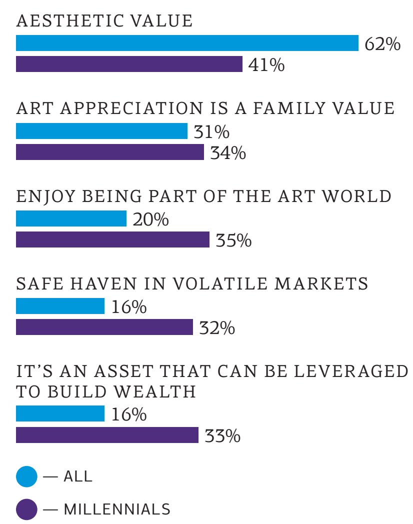


Figure 9

Reasons for Collecting Art

(Among Current/Interested Art Collectors)



Contact a U.S. Trust private client advisor to put your plan into action today.

Disclosures & Methodology

The 2018 U.S. Trust survey of High Net Worth investors is based on a nationwide survey of 892 high-net-worth and ultra-high-net-worth adults across the United States. A total of 892 HNW individuals with $3 million or more in investable assets, not including the value of their primary residence, completed the survey. U.S. Trust commissioned the independent research firm Phoenix Marketing International to administer the online survey, analyze the data and test for statistical relevance. The double-blind survey was fielded over a six-week period, beginning in January and completed in February 2018. Quotas were established by age and investable asset size, and for business owners, to ensure sufficient representation of groups of interest. The final sample was weighted to the true representation of HNW households by age, asset level and business ownership and are not representative of U.S. Trust clients. Insight comes from four generations of respondents: Millennials: Ages 21-37 (Born 1981-1997); Generation X: Ages 38-53 (Born 1965-1980); Baby Boomers: Ages 54-72 (Born 1946-1964) and Silent Generation: Ages 73+ (Born before 1946). The 2018 study also includes an in-depth exploration of 203 business owners, including 155 current owners and 48 retired owners, their experiences and the challenges they face starting, growing and exiting a business. Asset information was self-reported by the respondent. Verification for respondent qualification occurred at the panel company, using algorithms in place to ensure consistency of information provided, and was confirmed with questions from the survey itself. All data have been tested for statistical significance at the 95 percent confidence level.

Alternative investments are intended for qualified and suitable investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity and your tolerance for risk. Alternative investments are speculative and involve a high degree of risk.

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