

HNW & Ultra HNW Sales of £70 Billion+ of Risk Investments Underpin the FTSE 100.

This new report from Tulip Financial Research¹, based on comparable surveys of the UK's wealthiest investors in November 2007 and March 2008, reveals big recent changes in HNW and Ultra HNW investment behaviour. By November 2007 the run on Northern Rock had not impacted significantly on their investment activities – HNW and Ultra HNW investors just saw it as one of those nasty blips that occur from time to time in financial markets. Close to 80% (Figure 1) had neither made nor planned to make any investment changes.

By March 2008, this has changed dramatically. The 80% seeing no need for action has fallen to close to 50% - the belief that investment changes are necessary is taking over. And this change is at its peak amongst the wealthiest of the wealthy, the Ultra HNWs with average liquid assets of around £7 million.

1Figure 1: The Impact of Northern Rock & the Sub-prime Liquidity Crisis
Have the recent banking liquidity problems & the Northern Rock Crisis led you to plan or make any changes in your investments?

Base: All HNWs & Ultra HNWs	November 2007	March 2008
	%	%
Yes, definitely	15	23
Yes, possibly	7	23
No, Not at all	78	54

The principal changes made or planned are to increase cash holdings (46%), to sell “risky” investments (25% and to buy more blue-chip shares 25%). And what do “blue chip shares” mean to HNW and Ultra HNW investors? To many such investors it means shares in FTSE 100 companies, nowadays excluding the financial sector.. The impact of this is shown in Figure 2.

1Figure 2: Holdings in FTSE 100 Shares
What proportion by value of your company shares is invested in FTSE 100 shares?

Base: All HNWs & Ultra HNWs	November 2007	March 2008
	%	
80%or more	42	61
60%-80%	19	16
Less than 60%	39	23

Six months ago less than half of all HNWs and Ultras (42%) had 80% or more of their directly held company shares invested in FTSE 100 companies: now it's two thirds (61%). This results from a flight to caution and the main losers have been Unit and Investment Trusts. Why is this? Tulip investigated and found that many iwealthy

¹ High Net Worth and Ultra High Net Worth Market Expectations & Investment Plans for 2008:
Tulip Financial Research: April 2008.

investors had used these funds to diversify their investments: rather than invest directly in non-UK companies they were using mutual funds to invest in riskier sectors, often overseas. Now that they are risk averse they have been selling them off and holding much of the proceeds either as cash or as new investments in FTSE 100 companies.

The result is summarized in today's the headline: "HNW & Ultra HNW Sales of £70 Billion+ of Risk Investments Underpin the FTSE 100". The £ 70 billion have come respectively from Unit & Investment Trusts (£ 49 Billion) and Commercial Property and Property Funds & Reits (£21 billion).

What underlies these changes? It's a flight to caution. In the past six months the numbers of HNW or Ultra HNW cautious investors have almost doubled; the risk takers have almost halved (Figure 3).

1Figure 3: The Flight to Caution
Which of these best describes your attitude towards investment?

Base: All HNWs & Ultra HNWs	November 2007	March 2008	Index 2008v2007
	%	%	
Very cautious or cautious	21	37	176
Cautious but Prepared to take occasional risks	44	40	91
Prepared to take worthwhile risks to get high returns	35	23	66

John Clemens, Managing Partner of Tulip Financial Research Ltd, commenting on the new survey findings said:

“ These changes are based on comparing HNW and Ultra HNW asset allocations in November 2007 with their asset allocations in March 2008. These comparisons also show other changes such as significant increases in allocations to savings, accounts, structured products and corporate bonds, and falls in allocations to alternative investments and mutual funds. The determining factor has been the major flight to caution and away from so-called “risk investments”. This has resulted in an inflow of cash into FTSE 100 shares, which are still broadly perceived as low risk investments over the long term. This has helped maintain the share prices of FTSE 100 companies. The same kind of effect may well have also helped buoy up similar indices in Europe and the US as their HNWs and Ultras tend to have very similar investment attitudes and habits.”

For more information about or copies of this report contact John Clemens, Managing Partner, Tulip Financial Research Limited on 020 7582 6870 or email him at john.clemens@tulipresearch.com The report is also available from Mintel International: call Jim Darling on 020 7778 7151 or email jdarding@mintel.com. For more information about Tulip visit www.tulipresearch.com