

Reacting to the Credit Crunch - HNWs Apathetic, But Ultra HNWs take Evasive Action

A new survey from Tulip Financial Research¹ reveals how the wealthiest investors in the UK - the HNWs and the Ultra HNWs, with average liquid assets² of £4 million (Figure 1) - are reacting to the credit crunch. These HNWs and Ultra HNWs own investments worth £2 trillion, two thirds of the UK's total 2.9 trillion of liquid investments in private hands. Hence their investment behaviour has a huge impact on the performance of all the UK's financial markets from the FTSE 100 through to corporate bonds, property funds, Unit Trusts, bank deposits and so on.

Figure 1: The distribution of liquid financial assets.
across the wealthiest 1% in the UK

Base: All HNWs & Ultra HNWs	Population 000s	Average Liquid Assets £s	% of all UK liquid asset owned
	000s	£s	%
HNW's	335	£1,127,000	12.7
Ultra HNW's	135	£11,321,000	52.0
The Wealthiest 1%	470,000	£3,892,000	64.7

Surprisingly most HNWs and Ultra HNWS took no action at all in the past 12 months to lessen the impact of the credit crunch on their wealth (Figure 2). This lack of activity is entrenched within the HNWs, less so within the rich Ultra HNWs, who average £10 million in liquid assets. But even within this elite group less than two thirds acted to protect their wealth.

Figure 2: Reacting to the Credit Crunch

"Have the past twelve months' credit crunch, banking and stock market problems led you to make any changes in your investments, banking or your investment strategies?"

Action Taken	All NNWs & Ultra HNWs	HNWs	Ultra HNWs
	%	%	%
Yes	47	39	60
No	53	61	40

This lack of action results from a mix of apathy and lack of professional advice. Many HNWs and Ultra HNWs take no professional investment advice and this stayed true throughout 2008 despite the financial turmoil. Those who took advice were far more likely to take action (Figure 3) and, as using professional advisers is more common amongst Ultra HNWs than amongst HNWs, this, led to more of the Ultras taking action to protect their investments.

¹ Tulip's new January 2009 report "*The Impact of the Credit Crunch on HNW & Ultra HNW Investment Ownership and Allocation*" is based on a new Tulip sample survey of 150 private HNW and Ultra HNW investors.

² Liquid assets are defined as "total funds that are in the cash or can quickly be converted to cash. These include (1) cash; (2) demand deposits; (3) time deposits; and (4) investments quickly convertible into cash. The Tulip definition includes investment property excluding investors' homes & second homes.

Figure 3: The Impact of the Credit Crunch

“ Have the past twelve months’ credit crunch, banking and stock market problems led you to make any changes in your investments, banking or your investment strategies?”

Action Taken	All HNW & Ultra HNWs	Use Advisers	Not Use Advisers
	%	%	%
Yes	47	52	39
No	53	48	61

Although many of UK’s wealthiest investors have remained strangely inactive when faced by the credit crunch, just what actions were taken by the active wealthy investors? They inevitably made a major move into cash and a move away from what they consider risky investments. These changes, listed in Figure 4, have led to some significant changes in the asset allocations of UK investors.

Figure 4: The investment actions taken by HNWs and Ultra HNWs
“Which of these changes have you made?”

	All HNWs & Ultra HNWs	HNWs	Ultra HNWs
	%	%	%
Sold off risky or other non-cash investments	42	28	61
Used more banks for cash deposits & cash investments so as to spread cash more widely	41	40	41
Built up stocks of physical cash	41	38	44
Increased liquid cash holdings as opposed to equities, corporate bonds & other term investments	32	20	46
Invested more in gilts, government bonds, National Savings or other safe havens	14	8	18
Switched shares to safer, blue-chip industrials & away from financial services	14	*	30
Invested in currencies or currency funds	3	*	7
Limited investment in corporate bonds to AAA-rated bonds or similar	1	*	3
Mean changes	1.9	1.3	2.5

These changes in asset allocations (Figure 5) reflect a number of factors: not just the investment changes made by rich investors but also changes in the values of specific investment categories, the varied levels of asset liquidity and also widespread but selective investor apathy, frequently masquerading in investors’ minds as caution!

Significant changes in asset allocation have included:

- A major move out of unit trusts into investment trust shares and other safer investment funds. The HNW/Ultra HNW allocation to unit trusts has fallen by over 30%, partly compensated for by increases in allocations to investment trusts and other safe havens like absolute return or strategic bond funds.
- A move away from complex, convoluted investments like structured products and other similar constructs. This has been fuelled by investor cynicism about banks’ abilities to invent safe viable products of this type.
- A surprising rise in the allocation to residential and commercial property as opposed to property funds. This not the result of active investor intentions but results from the the lack of short term liquidity for these kinds of investment.

Figure 5 HNW & Ultra HNW asset allocations Dec: 2008 v Jan. 2009
 “Out of every £1,000 of your current investments, approximately how much is invested in each of the following investment categories?”

Asset Allocations	Dec: 2007	Jan. 2009	Index 2007/09
			Index of Change
	%	%	
Individual company shares/equities	34.0	34.3	101
Investment trust shares	3.3	7.6	230
Unit trusts or OEICs	11.0	6.9	63
Other investment fund shares	2.0	5.5	275
Cash in savings accounts or similar	16.1	17.9	111
Gilts or gilt funds	1.9	2.7	142
National Savings bonds or certificates	3.5	5.0	143
Residential property excluding your homes	5.9	6.7	114
Property funds or REITs	2.3	1.6	69
Commercial property as an investment	1.1	3.0	270
Structured products like capital guaranteed bond or equity funds	3.7	2.5	68
Corporate bonds	5.2	1.3	25
With-profits smoothed insurance funds	4.3	1.3	30
Commodities or commodity funds	1.0	0.6	60
Alternative investments like wine, art, antiques or vintage cars	1.7	1.5	88

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

*“We found it truly surprising that so many of Britain’s wealthiest investors have taken little or no action to protect their wealth. There are two reasons for this: **firstly** apathy, mostly stemming from a lack of investment knowledge & ability, but often masquerading in the minds of the wealthy as “caution”; and **secondly** lack of professional advice. Those taking professional advice – just over half – have acted much faster, indicating that it’s this inability to know what to do that drives inaction.*

Tulip has often commented in the past that the marketing of professional wealth advice is poor and that wealth business acquisition is too dependent just on referrals. Yet many of the wealthy are new to wealth and just do not know where trustworthy professional advice can be found. Much can be done to protect wealth from today’s ravages as is shown by the actions of the active wealthy investors. This report should be a call for more proactive marketing from professional wealth advisers seeking additional business. Is this perhaps an opportunity for wealth professionals now seeking new careers as a result of the financial downturn?

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