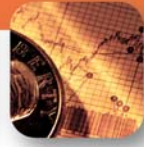


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# Affluent & Millionaire Sentiment About the Economy & Investing

May, 2009



### Affluent & Millionaire Investment Sentiment and Behavior

Every other month, the Phoenix Marketing International **Affluent Marketing Service<sup>sm</sup>** (AMS) tracks changes that Mass Affluent and Millionaire households anticipate making to their investment portfolios in the next three months. Because of the unprecedented events in the financial markets over the past six months, we added questions to our survey to gauge the reactions of affluent investors, and to track changes in their investment attitudes and behavior as the crisis continues to unfold.

As in the past, this article examines trends in planned changes to *overall* investments, and recent changes made in *specific* asset categories (three months prior to April, 2009). It also outlines what investors have actually done differently as a result of the tumultuous events in the market. As events are still changing rapidly, we will continue to track investors' reactions and behavior over time.

These questions were fielded in late April, 2009, using an online questionnaire. Responses were received from 1,227 qualified panelists.

### Key Findings

- **At last, there are glimmers of increasing optimism toward the economy among affluent consumers.**
  - After declining steadily over the past year, the level of consumer optimism toward the economy over the next three months increased significantly in April. Although there is still more pessimism than optimism, the level of optimism almost doubled since February, among the Mass Affluent as well as Wealth investors (millionaires).
  - In addition, the affluent are showing loss of confidence in the stock market. In April, they are significantly more likely than in February to have the same level of confidence as they had six months ago, and less likely to say they have much less confidence.
  - The more favorable attitudes may be a result of more positive economic news, including stronger market performance, improved corporate earnings in the first quarter, and the new administration's economic stimulus programs.
- **Despite these glimmers of optimism in consumer attitudes, it has not yet been enough to significantly change the spending and investment behavior of the affluent.**
  - The trends Phoenix has been measuring on planned changes to investments in the next three months have remained stable, and indicate that most affluent consumers are still reluctant to add to their investments.
  - Additionally, most Mass Affluent and Millionaires have either reduced or kept discretionary spending level in the past three months. Only 10% or less have increased spending, indicating that consumers are still very cautious about the economy and reluctant to add significantly to expenses.

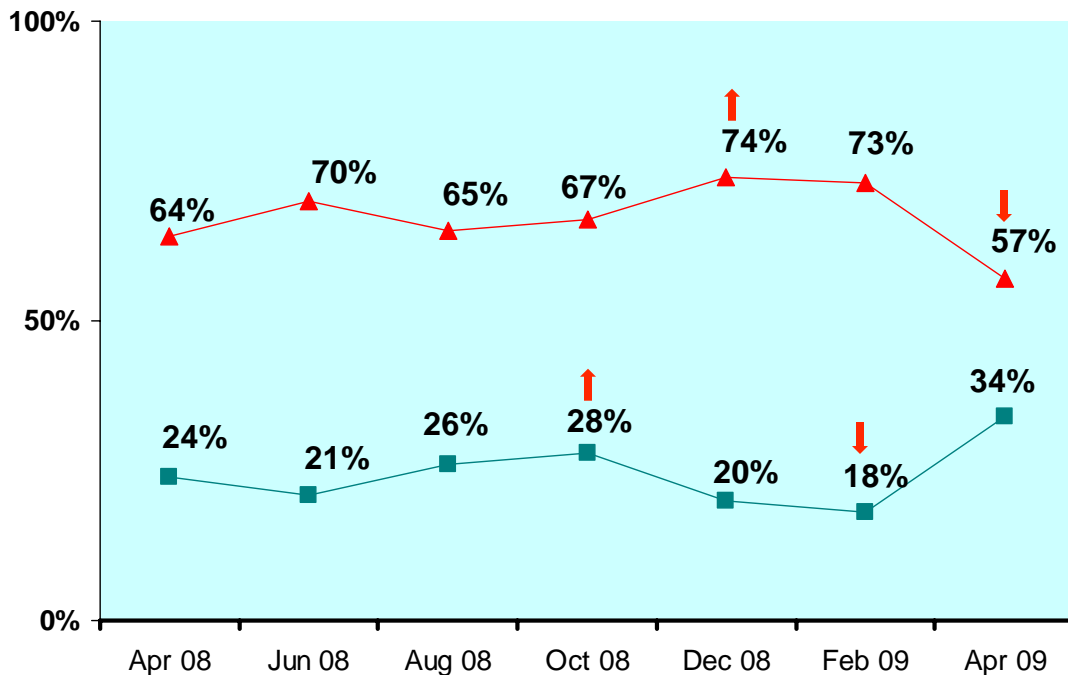


### A Glimmer of Optimism

The trend data on consumers' outlook toward the economy over the next three months shows that Mass Affluent consumers are feeling decidedly more optimistic than they have in the past year. Since April of 2008, two-thirds to three-quarters of the Mass Affluent have been extremely or mostly pessimistic toward the economy. In April of 2009, however, the pessimistic trend line declined to 57%, while the optimistic trend line almost doubled, from 18% to 34%. Consumers may be feeling better due to some favorable economic news recently, such as the improving stock market performance, better first-quarter corporate earnings reports, and the new administration's economic stimulus package.

#### Economic Outlook Next 3 Months Mass Affluent

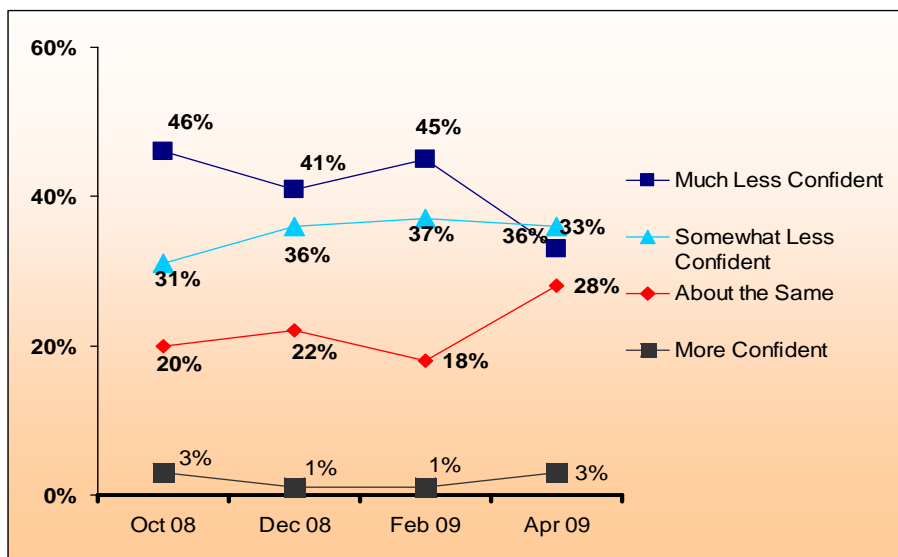
*How would you characterize your feeling about the economic outlook in the U.S. over the next 3 months?*



Note: remainder of respondents were "not sure" in each period

### Reactions to the Financial Crisis

#### Confidence In Stock Market Mass Affluent

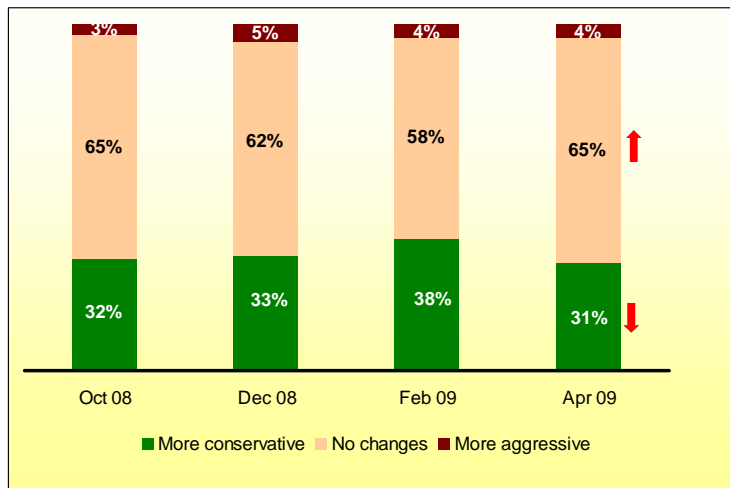


#### A Slower Rate of Confidence Loss

While Mass Affluent consumers continue to have less confidence in the financial markets as a result of the economic crisis, the rate of loss of confidence has slowed. Since February, significantly more say they have about the same level of confidence compared to six months ago (28% in April vs. 18% in February). During the same period, significantly fewer say have much less confidence (45% in February vs. 33% in April).

*Compared to six months ago, how have the recent events in the financial markets affected your confidence in investing in the stock market?*

#### Effect of Crisis on Long-Term Investment Approach



#### The Start of a Return to Normal?

Since the beginning of the crisis in Fall, 2008, Mass Affluent consumers have been increasingly likely to say they will become more conservative investors as a result of the crisis. This pattern changed in April, as the proportion saying they will become more conservative declined to 31%, and the proportion saying their investment approach will stay the same increased to 65%.



## Mass Affluent (\$250K - \$999K Investable Assets)

### Continued Reduction in Use of Credit Cards

When asked what financial changes they have made as a result of the economic environment, the most frequently mentioned changes for Mass Affluent consumers continue to be credit card related. Consumers are using their cards less often, using cash more often, and paying down existing card balances.

Additionally, significantly more Mass Affluent consumers mentioned shifting assets to safer investment vehicles in April, another indication that there is still substantial discomfort with the stock market, despite recent improvement in performance.

### Changes in Investment and Financial Behavior as a Result of Financial Crisis

ACTIONS TAKEN	DECEMBER, 2008	FEBRUARY, 2009	APRIL, 2009
Did nothing differently to date	37%	24% *	27% *
Reduced your use of credit cards	31%	34%	33%
Used cash more to pay for purchases	23%	27%	24%
Paid off or substantially reduced your credit card debt	16%	23% ↑	19%
Contacted your current investment advisor for advice	17%	21%	18%
Shifted assets within a retirement plan to a safer type of investment	17%	13%	13%
Used this as an investment opportunity and bought stocks, bonds or other investment products	14%	13%	16%
Pulled assets out of the stock market and put into a safer type of investment vehicle	11%	10%	21% ↑
Withdrew money from a bank because you had doubts about the viability of the bank	3%	6% ↑	5%
Withdrew money from a bank because your deposits were over the limit insured by the FDIC	2%	5% ↑	7%
Pulled assets out of a retirement plan	5%	4%	5%
Had your credit card limit reduced by your bank or credit card company	5%	4%	7% ↑
Applied for and been unable to obtain a new loan or line of credit	5%	3%	2%
Had your home equity line cancelled or reduced	2%	2%	4%
Changed your primary investment provider	1%	1%	2%
Changed your primary investment advisor	1%	1%	2%
Contacted or sought out an investment advisor for the first time	1%	1%	2%

*Which of the following have you done as a result of the recent financial / economic events?*



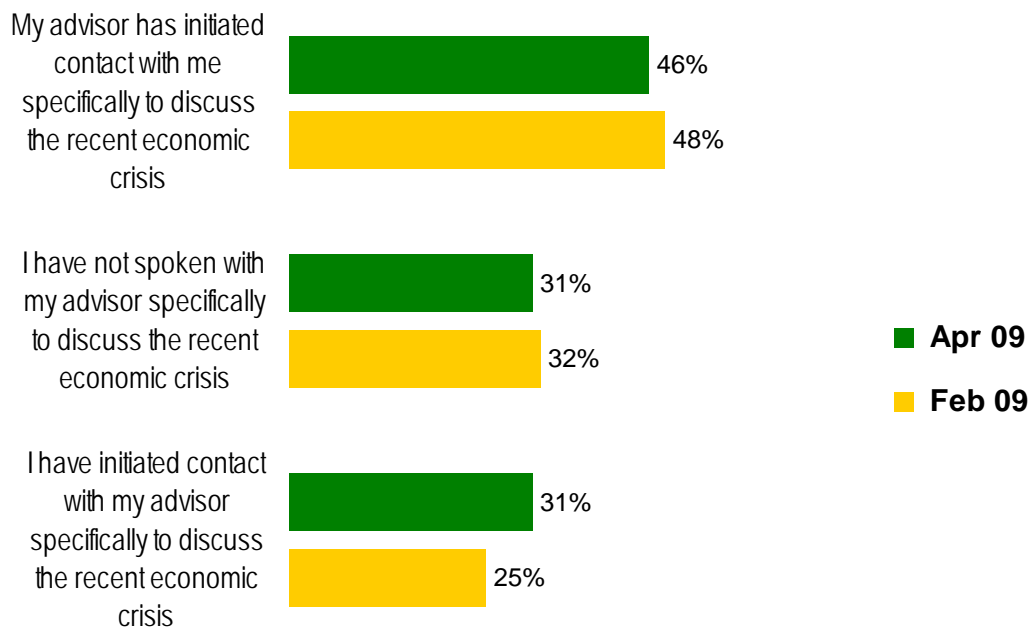
↑↓ Significant increase or decline since prior wave

\* Not directly comparable to Dec. 08 due to question changes

### No Advisor Interaction for One Third of the Mass Affluent

The level of contact Mass Affluent investors have had with their advisors specific to the economic crisis has remained the same since February. About half have been contacted by their advisor, one-third have initiated contact with their advisor, but one-third have had no discussion at all about the crisis with their advisor (either initiated by the advisor or by themselves).

### Type of Contact with Primary Investment Advisor Regarding Financial Crisis



Base = Have a primary professional advisor

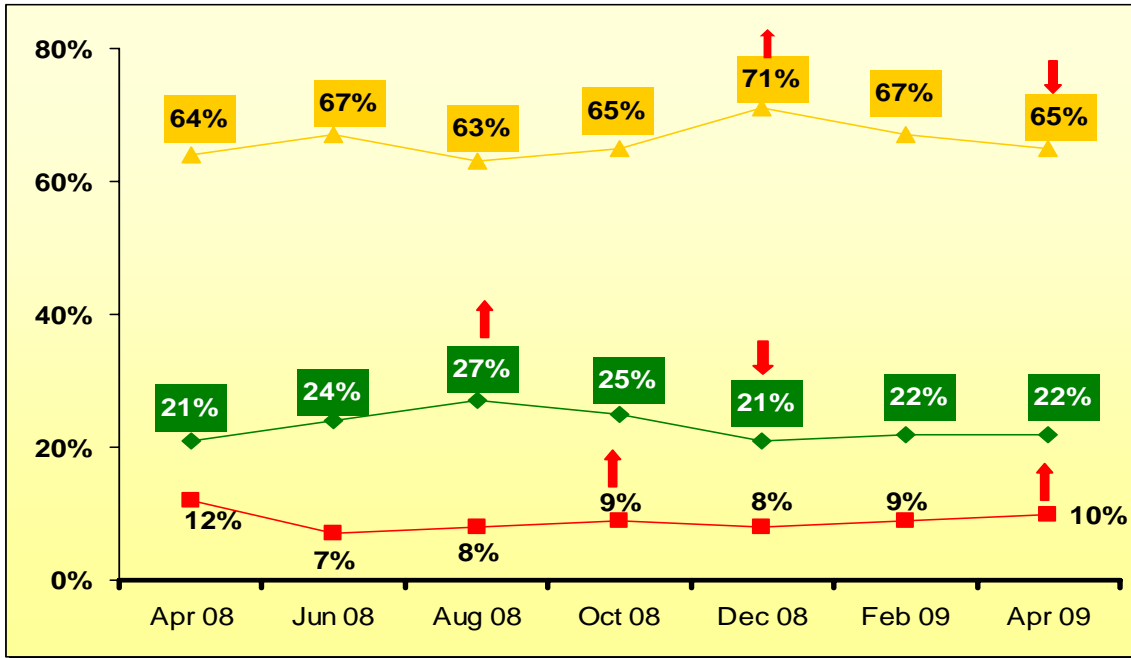
**Which of the following best describes the type of contact you have had with your primary advisor regarding the current economic crisis?**

## Mass Affluent (\$250K - \$999K Investable Assets)

### Waiting Out the Storm

As the economic slump continues, Mass Affluent investors continue to, for the most part, wait it out and make no changes to their investments. The trend lines for planned changes to investments have been essentially stable over the past year. About two-thirds continue to make no changes, about 20% plan net increases, while about 10% plan to reduce overall investments. These trends indicate that most Mass Affluent investors have not lost their long-term faith or confidence in the market, despite the current turbulent environment.

**Planned Changes to Investments  
Mass Affluent Market – 2008-09**



*In the next 3 months, which of the following changes are you and your household likely to make regarding your overall financial investments?*

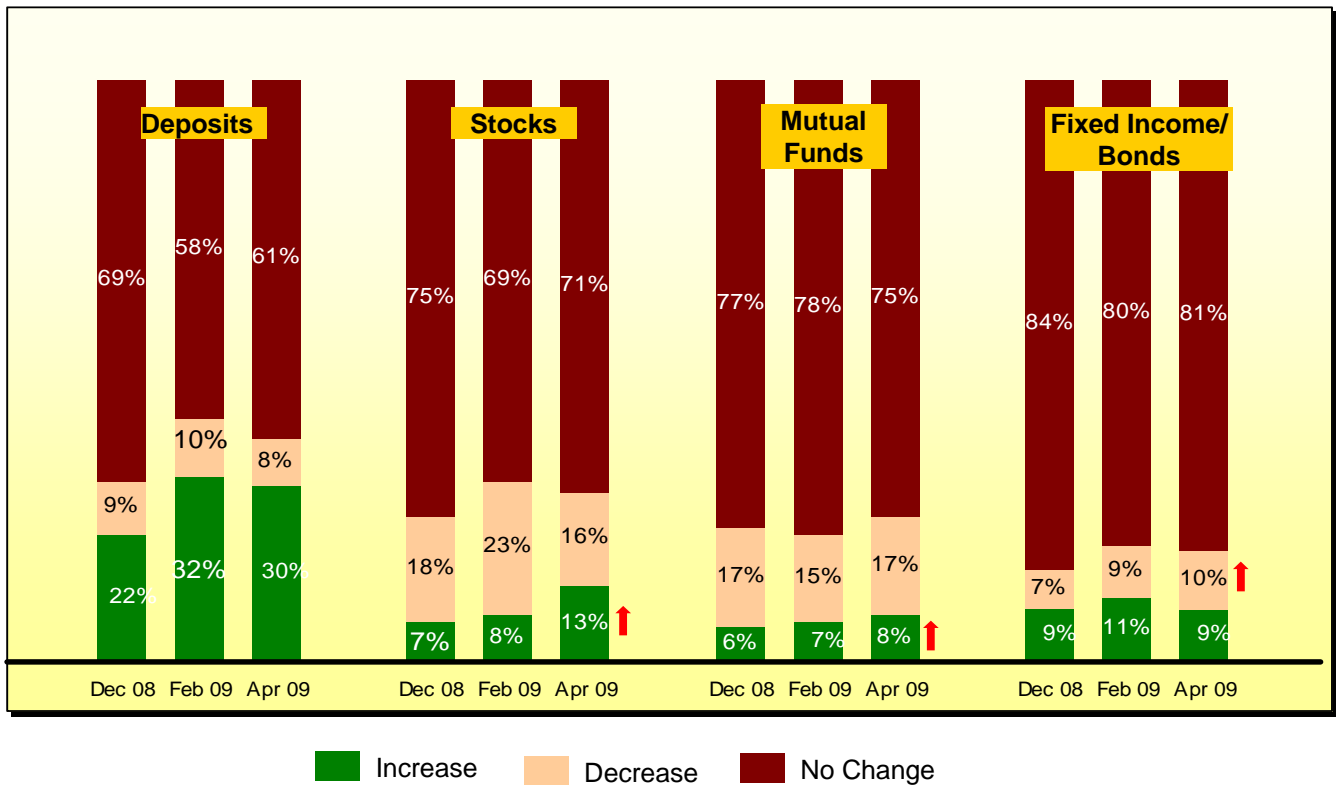
- ▲ Make No Changes
- ◆ Net Increases
- Net Decreases

## Mass Affluent (\$250K - \$999K Investable Assets)

### Seeing Some Opportunity in a Crisis?

The pattern of actual changes to investments in the past 3 months closely mirrors the pattern of planned changes over the next 3 months, with most Mass Affluent investors (about three-quarters) making no changes. However, there has been a small but steady increase in the proportion of Mass Affluent making increases to stock and mutual fund investments since December, 2008. Perhaps some Mass Affluent investors are beginning to see the down market as a buying opportunity.

**Actual Investment Changes In Past 3 Months  
Mass Affluent Market – December, 2008 – April, 2009**

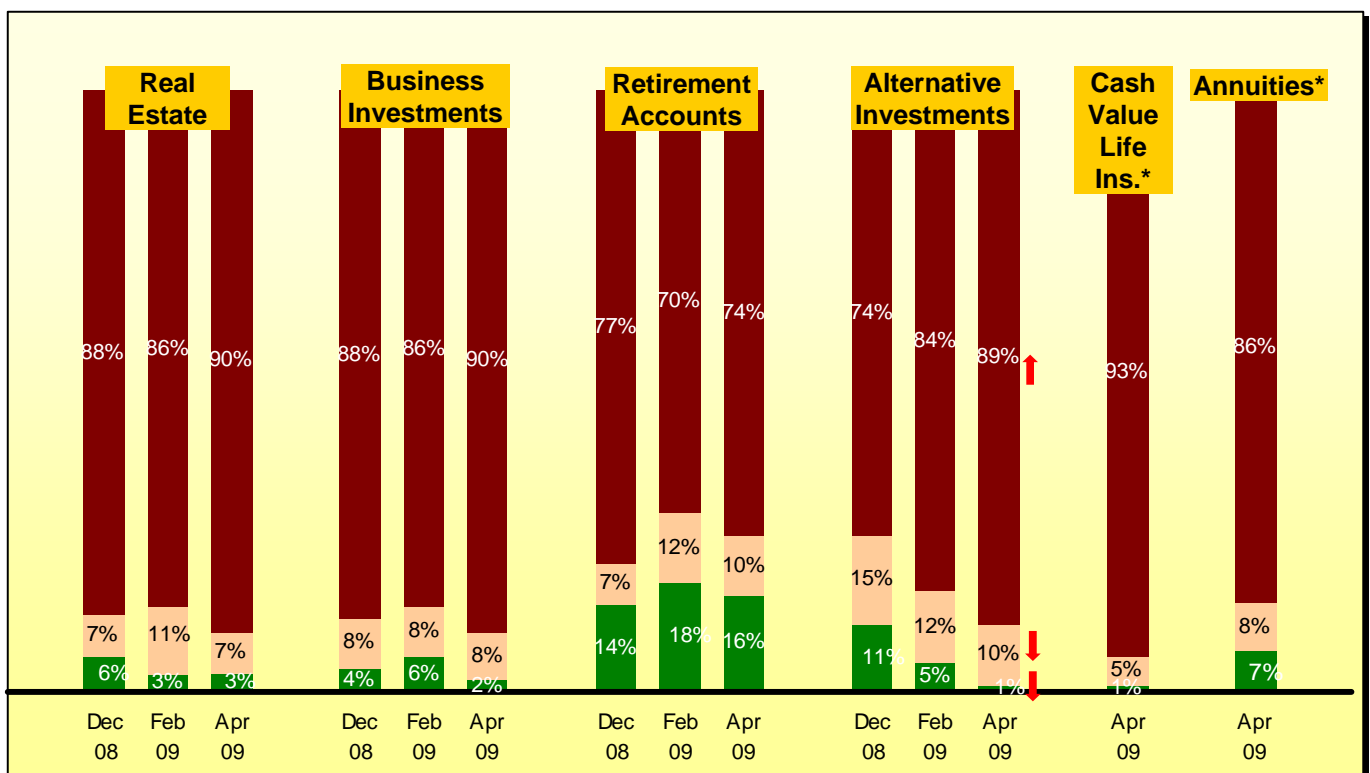


***In the past 3 months, which of the following changes did you and your household make regarding each of the investment categories listed below?***

### Declining Alternative Investments

Trends in changes to other investments since December show that Mass Affluent consumers have been steadily reducing their exposure to alternative investments since December, and maintaining their real estate and business investments. Starting in April, we are also tracking changes to Cash Value Life Insurance and Fixed and Variable Annuities, to which about 90% of owners have made no changes.

**Actual Investment Changes In Past 3 Months**  
**Mass Affluent Market – December, 2008 – April, 2009**



■ Increase   
 ■ Decrease   
 ■ No Change

*In the past 3 months, which of the following changes did you and your household make regarding each of the investment categories listed below?*



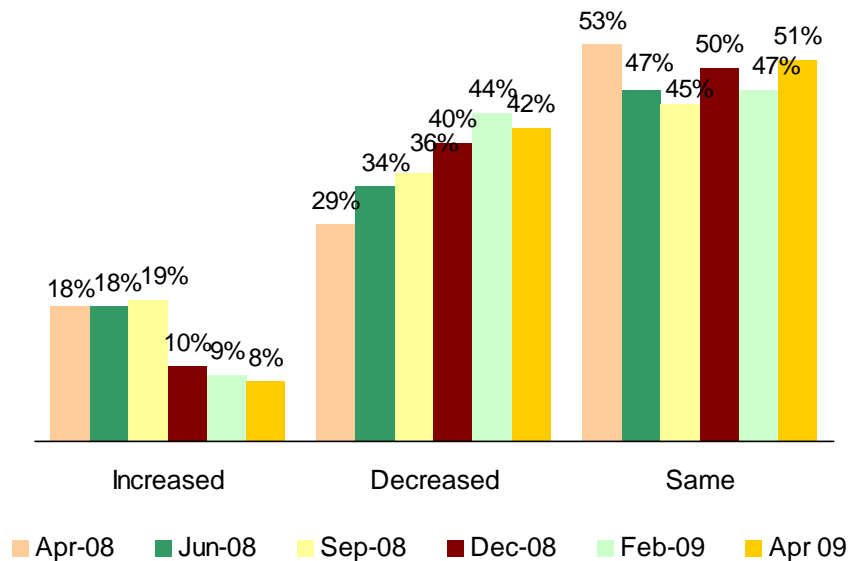
\* Historical data not available

↑↓ 3 period trend

### Continued Caution in Discretionary Spending

Despite glimmers of improving consumer outlook toward the economy, it has not yet motivated the Mass Affluent to open their wallets any wider. That said, the steady increase since April, 2008 in those saying they reduced their spending stopped in April, 2009. Instead, discretionary consumer spending levels have stayed about the same as in February, with about 40% reducing their spending in the past 3 months, and half keeping spending stable. Fewer than 10% have increased their spending, indicating that Mass Affluent consumers remain skittish about the economy and are remaining cautious with their spending.

#### Changes in Discretionary Spending – Past 3 Months



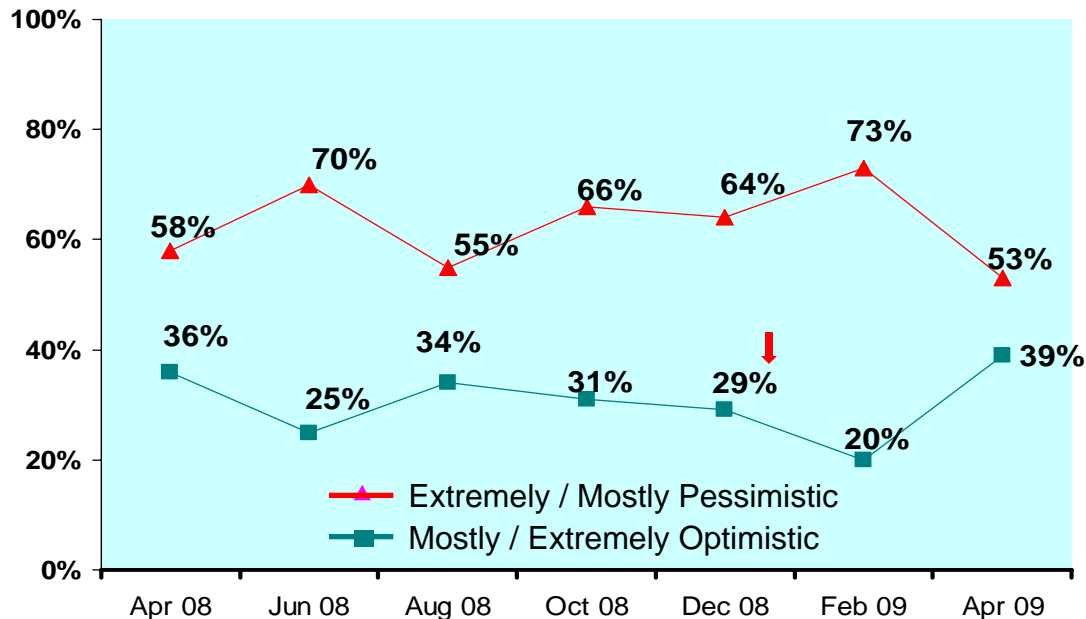
***In the past 3 months, would you say your overall household discretionary spending has increased, decreased or stayed the same compared to the previous 3 months?***

### More Glimmers of Optimism

As in the Mass Affluent segment, the Wealth Market is also feeling significantly more optimistic about the economy than it has in the past year. Nearly forty percent (39%) of millionaire households are now optimistic about the U.S. short-term economic outlook, up significantly from 20% in February. At the same time, the level of pessimism declined from 73% in February to 53% in April. This is an encouraging signal that consumers' moods have begun to improve.

### Economic Outlook Next 3 Months Wealth Market

*How would you characterize your feeling about the economic outlook in the U.S. over the next 3 months?*



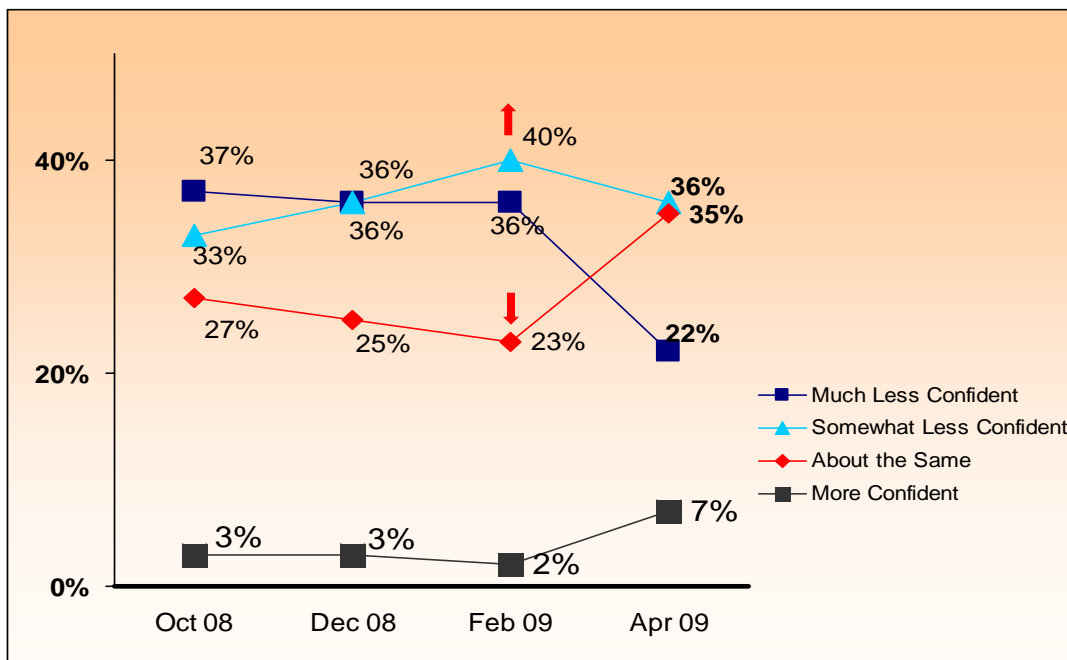
Note: remainder of respondents were "not sure" in each period

### Increasing Confidence in the Market

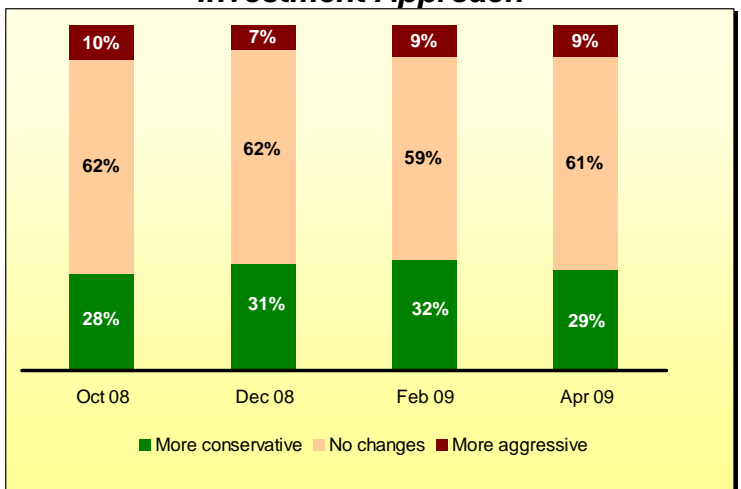
Wealth Market consumers also are feeling more confident about stock market investing in April, as are the Mass Affluent. The trend of declining confidence that we had been seeing since last October has abruptly changed. Consumers are now less likely to be losing confidence, and they are now at least maintaining their confidence.

### Confidence In Stock Market Wealth Market

Compared to six months ago, how have the recent events in the financial markets affected your confidence in investing in the stock market?



### Effect of Crisis on Long-Term Investment Approach



### No Plans to Change Approach

The investment approach of most Wealth investors has not changed as a result of this crisis. About 60% say they have no plans to change their approach and about one-third say they plan to become more conservative investors. Less than 10% plan to become more aggressive. These results have remained essentially the same since the crisis began last fall.



### Seizing Opportunity in a Crisis

As in February, the most frequent action taken among the Wealth Market is proactive contact with their investment advisor for advice. About one-third have done so (compared to only 16% of the Mass Affluent). The next most common behavior is to have used the low market as an opportunity to buy (about one-quarter have done so). These trends have remained relatively stable since December.

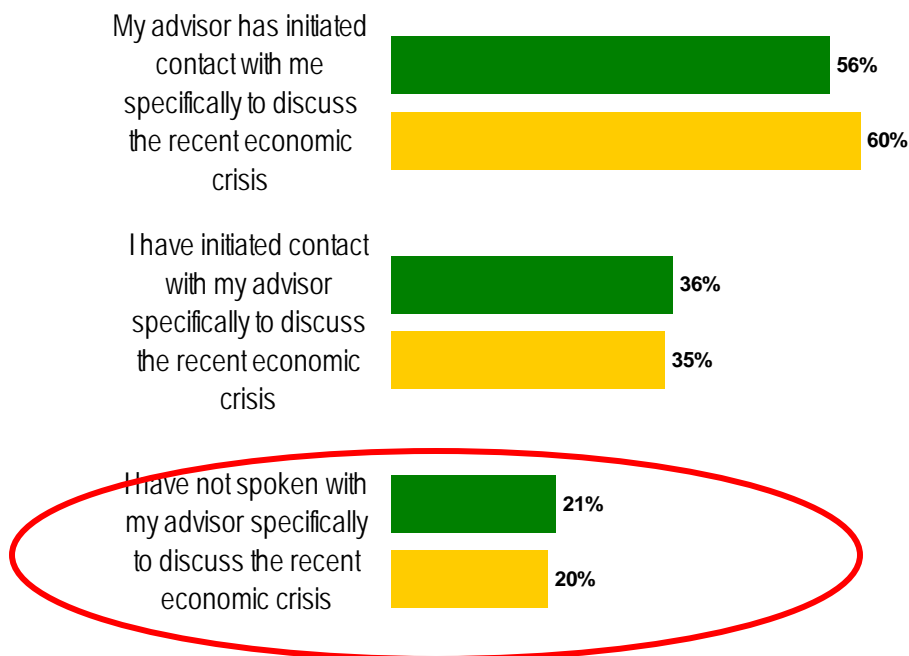
### Changes in Investment and Financial Behavior as a Result of Financial Crisis

ACTIONS TAKEN	DECEMBER, 2008	FEBRUARY, 2009	APRIL, 2009
Did nothing differently to date	33%	19% *	26% *
Contacted your current investment advisor for advice	28%	32%	31%
Used this as an investment opportunity and bought stocks, bonds or other investment products	25%	22%	25%
Shifted assets within a retirement plan to a safer type of investment	16%	21%	23%
Used cash more to pay for purchases	20%	21%	20%
Pulled assets out of the stock market and put into a safer type of investment vehicle	14%	19%	19%
Reduced your use of credit cards	26%	28%	18% ↓
Paid off or substantially reduced your credit card debt	15%	21% ↑	17%
Withdrew money from a bank because your deposits were over the limit insured by the FDIC	9%	8%	7%
Withdrew money from a bank because you had doubts about the viability of the bank	4%	6%	7%
Pulled assets out of a retirement plan	2%	7% ↑	5%
Had your credit card limit reduced by your bank or credit card company	5%	5%	4%
Had your home equity line cancelled or reduced	3%	5%	4%
Applied for and been unable to obtain a new loan or line of credit	3%	4%	4%
Changed your primary investment provider	4%	7% ↑	3% ↓
Changed your primary investment advisor	4%	7% ↑	2% ↓
Contacted or sought out an investment advisor for the first time	2%	4%	2%

### One out of Five Millionaires Being Ignored by Advisors

Since February, the level of contact millionaire investors have had with their advisors regarding the current economic environment has not changed. Perhaps surprisingly, about one-in-five (21%) have not yet been contacted by their advisor, and have not yet initiated contact with the advisor, despite having liquid assets of at least \$1 million.

#### Type of Contact with Primary Investment Advisor Regarding Financial Crisis



Base = Have a primary professional advisor

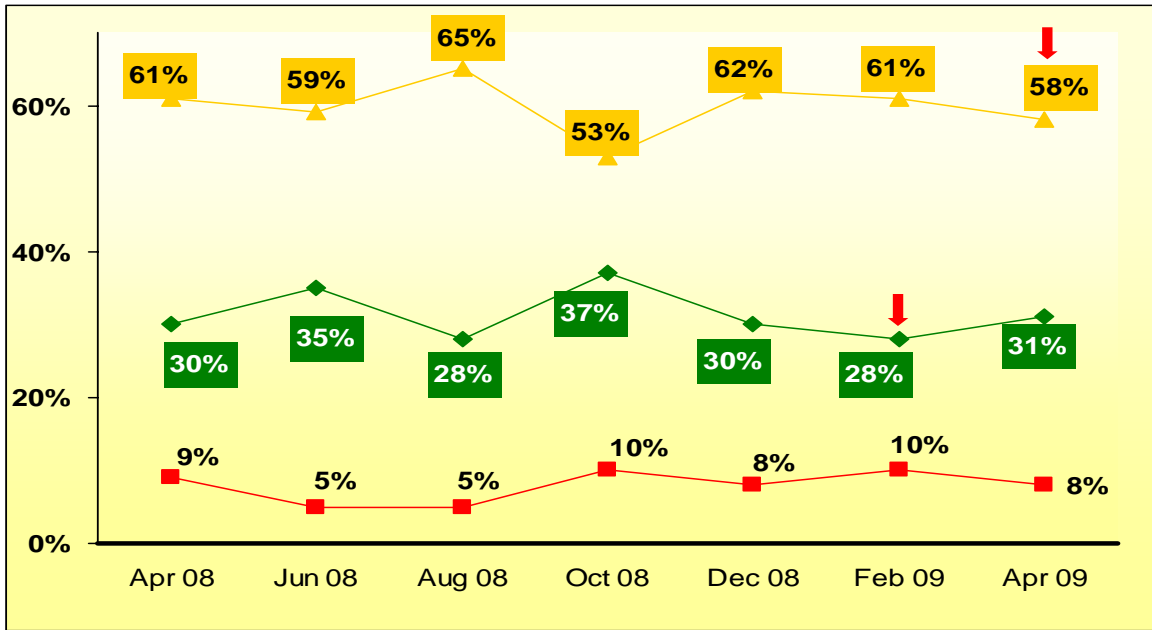
**Which of the following best describes the type of contact you have had with your primary advisor regarding the current economic crisis?**



### No Planned Changes to Investments

As with the Mass Affluent, Wealth Market investors' planned investment behavior has remained essentially the same since December. Their increasing optimism toward the economy and confidence in the market has not yet translated into a change in their investment plans.

**Planned Changes to Investments**  
**Wealth Market – 2008-09**



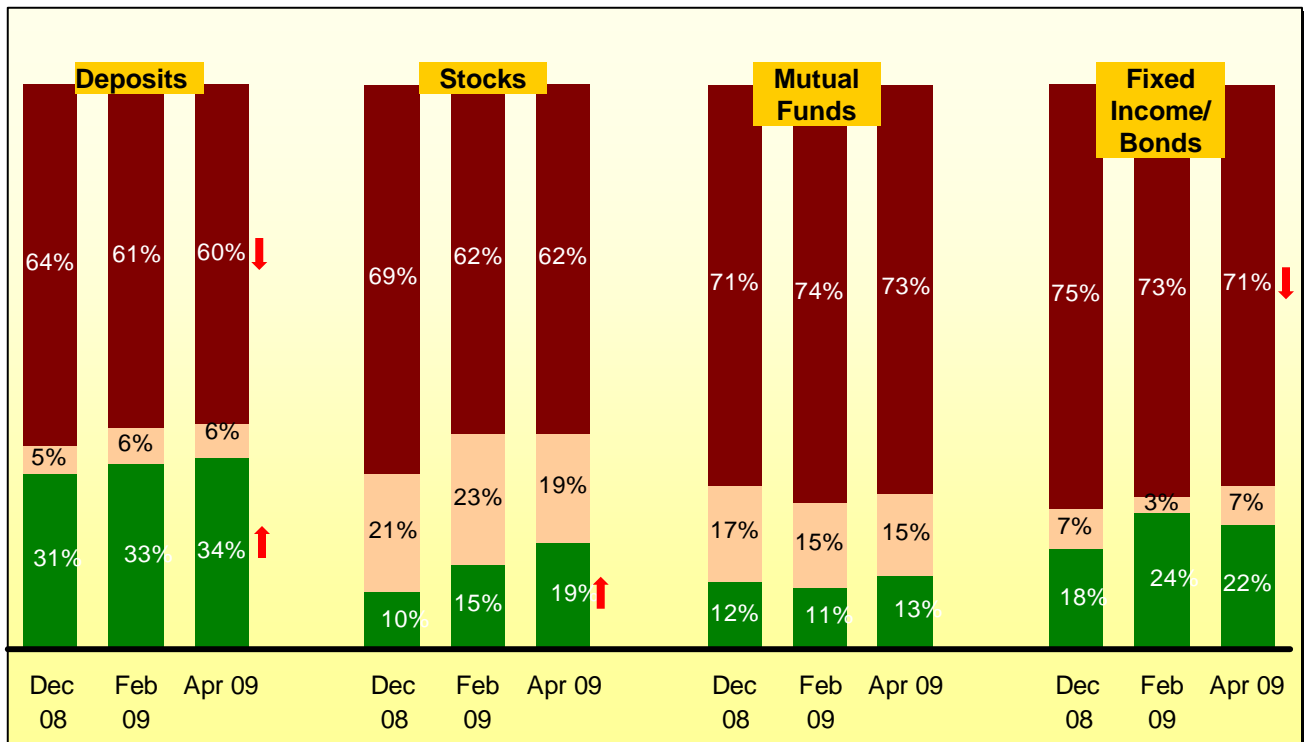
*In the next 3 months, which of the following changes are you and your household likely to make regarding your overall financial investments?*

- ▲ Make No Changes
- ◆ Net Increases
- Net Decreases

### Turning Crisis into an Opportunity

Wealth Market investors continue to be taking some advantage of the down market and acquiring stocks, as the trend of increasing their stock investments continued into April. Their insured deposits have also steadily increased since December, indicating they still are looking for safety as well as investing opportunities.

**Actual Investment Changes In Past 3 Months  
Wealth Market – December, 2008 – April, 2009**



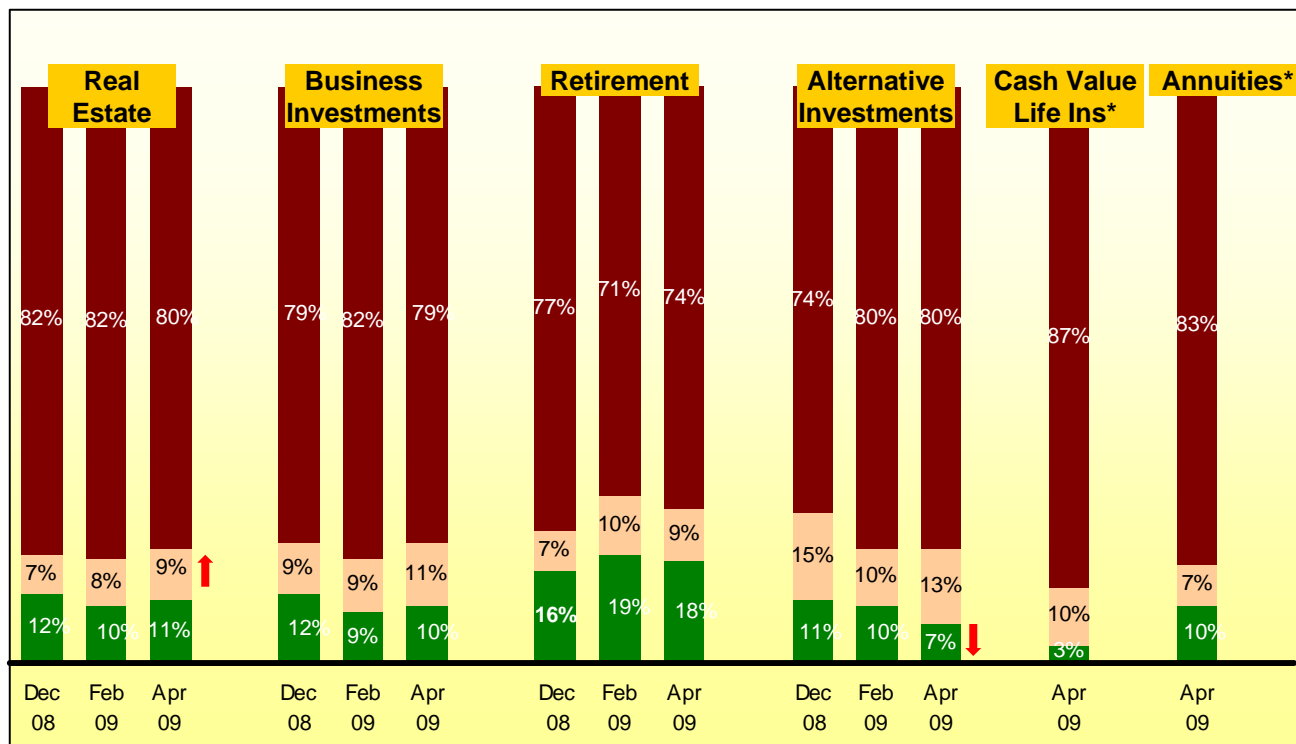
■ Increase   
 ■ Decrease   
 ■ No Change

*In the past 3 months, which of the following changes did you and your household make regarding each of the investment categories listed below?*

### Waiting the Storm Out

When it comes to other investments, the Wealth Market appears to essentially be waiting the storm out. Most (75% or more) have been making no changes to these investments, likely waiting for the economy and market to improve.

**Actual Investment Changes In Past 3 Months  
Wealth Market – December, 2008 – April, 2009**



■ Increase   
 ■ Decrease   
 ■ No Change

***In the past 3 months, which of the following changes did you and your household make regarding each of the investment categories listed below?***

\* Historical data not available

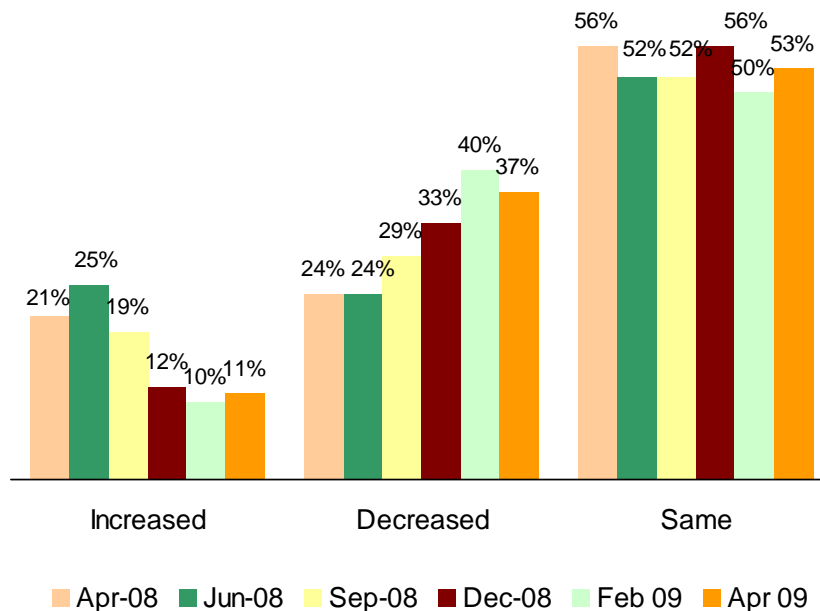
↑↓ 3 period trend



### Even Millionaires Have Reduced Discretionary Spending

Even millionaires have been affected by the declining economic environment. Since mid-2008, an increasing number of Wealth Market households have reduced their discretionary spending, increasing from 24% in June, 2008 to 37% in April, 2009. Only about 1 in 10 millionaires say they have increased their spending recently, showing that the glimmers of optimism seen earlier have not yet caused household spending to rise, even among millionaires.

#### Changes in Discretionary Spending – Past 3 Months



***In the past 3 months, would you say your overall household discretionary spending has increased, decreased or stayed the same compared to the previous 3 months?***