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FINANCIAL SERVICES

Wealthy investors keep calm, carry on amid stock market turbulence

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Affluent investors are cautiously optimistic about the economy. Image credit: Chanel

By SARAH JONES

The recent stock market volatility has made high-net-worth individuals more cautious, but the majority believe the period of fluctuations is only temporary.

New data from UBS finds that despite the turbulence that has seen stocks rise and fall rapidly, 94 percent of investors are not changing their financial plans. Even though their optimism for the short-term economic outlook has fallen, the affluent are positive about the long-term future of the economy.

"Overall, the optimism of this group of investors is high, but off from peak levels," said Rachel Gottlieb, senior vice president at UBS Wealth Management, New York. "Clients are still feeling confident in their investment plans with an overwhelming majority sticking with their original plan and making no changes despite the recent volatility.

"Clients have a comprehensive financial plan and a well thought out long-term investment strategy focused on an appropriate asset allocation," she said. "As such, they have the ability to stomach volatility."

UBS conducted two surveys in early February, asking those with at least $1 million in investible assets and business owners to weigh in on their economic sentiment.

Stock shock

Global stock markets have been taking a tumble, as volatile trading threatens to eat away at the net worth and investment assets of affluent individuals.

Marking a change of pace from what had been a relatively calm ascent, both the Dow Jones Industrial Average and the S&P 500 saw their steepest declines in years on Feb. 5. The market remains turbulent, potentially altering luxury consumers' confidence and spending plans (see story).

Since January, wealthy investors' optimism for the economy in the short-term had dropped 14 points, with 58 saying they were positive for the performance in the next year. Additionally, as of February only 43 percent were confident in their returns for the next six months, compared to 74 percent who said the same the previous month.

Investors are staying on their path. Image credit: Charles Schwab

Similarly, in January 81 percent of business owners were optimistic about the stock market for the next six months, but the February survey found only 51 percent saying the same.

However, both groups are far more hopeful for the economy's long-term growth. Seven in 10 wealthy individuals have a positive outlook for the next 10 years, while 65 percent of business owners also see the economy looking up in the long-term.

Both groups are also in agreement that the current stock market fluctuations are temporary rather than the new norm. About three-quarters of business owners and 84 percent of investors do not see the volatility as a sign of a coming recession.

In line with this perspective, the majority of affluent individuals and entrepreneurs are sticking to their existing investment plans. Around two-thirds of those surveyed also say it is a good time to purchase equities.

"Three-quarters of the respondents consider the recent market dip to be temporary," Ms. Gottlieb said. "Clients look to start to take positions on down days in the market so this creates an entry opportunity for investors that are heavily weighted in cash.

"For investors who resisted rebalancing their allocation at year-end this was a wake up call and an opportunity for them to take gains at higher than 2017 year end levels," she said. "For those that are properly allocated they should be comfortable."

Even with a positive outlook on the future, 80 percent of the wealthy anticipate even more stock market turbulence ahead.

Affluent investors see U.S. politics as the number one threat to their financial well-being, with 64 percent concerned with the environment in Washington. Also, 58 percent are worried about the effect the country's national debt may have on their finances.

Behind those concerns are rising healthcare costs, cited by 51 percent of wealthy respondents.

Political perspectives

Similar to most of the United States, affluent investors are split on Donald Trump's presidency, specifically over the effect the administration will have on investment portfolios of the wealthy in the years ahead.

While President Trump's decisions so far have been fairly clear about favoring the rich, a report from Personal Capital shows that investors with $500,000 or more in assets are split almost exactly down the middle on how the stock market will perform over the next year. Slightly less than half believe that 2018 will be better than 2017, while slightly more than half believe it will not be (see story).

"Overall, we feel the economic fundamentals are strong and there is large potential for continued growth in the equity markets," UBS' Ms. Gottlieb said. "Inflation is still relatively low and we expect double-digit earnings growth.

"Volatility is a natural occurrence of the market cycle, and in fact can create buying opportunities," she said. "Our clients are long term investors so day to day volatility isn't a hindrance to our investment strategies."