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RESEARCH

HNW investors will stay the course, for now, survey finds

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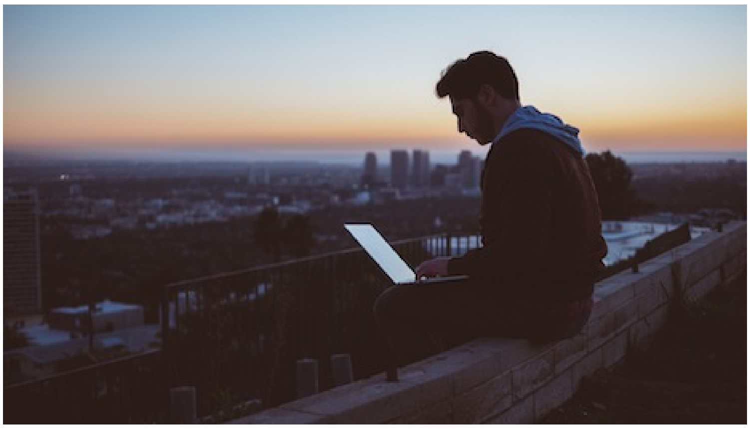

So far, a majority of affluent consumers are signaling they will maintain their current levels of luxury spending and one-fourth even said they expected it to increase over the next 12 months. Image credit: Unity Marketing

By Pamela N. Danziger

Amidst rising interest rates, bank failures, stock market swings and stubbornly persistent inflation, the United States economy is teetering dangerously close to a recession.

Jerome Powell admitted that the Federal Reserve is guiding the uncertain economy by "rule-of-thumb guesswork, almost" and that the latest rate increase could easily have unintended consequences or, as he said during his March 22 announcement, "a significant macroeconomic effect."

The top-income earners' lifestyles are generally shielded from the economy's ups and downs, yet their financial status their wealth is not.

With some 7.8 million high-net-worth-individuals (HNWI) in North America holding nearly $28 trillion in wealth, according to Capgemini, their wealth assets are on the line.

Wealth under threat

In a flash poll among HNWI conducted March 17-20, more than two-thirds (67 percent) said the recent collapse of Silicon Valley Bank, Signature and another 190 banks under threat could significantly impact the U.S. national economy.

"The banking collapse has caused a significant lack of confidence in the economy, leading to a decrease in economic activity and stock market performance," said Chandler Mount, lead researcher in the Research The Affluent Luxury Tracker (RTALT).

The survey was conducted only among HNW (average $11.1 million investible assets, $7.5 million median), a notoriously hard segment to survey.

A reaction out of fear can ripple throughout the entire economy.

"Businesses and investors may be prompted to reshuffle their funds and carefully examine how they invest due to these events. The net result could cause stagnation in the economy and a pullback in spending, which can also negatively affect businesses," Mr. Mount said.

So far, a majority of affluent consumers are signaling they will maintain their current levels of luxury spending and one-fourth even said they expected it to increase over the next 12 months. Nonetheless, some 53 percent of HNWI surveyed said they are currently reconsidering their investment strategies.

"HNW individuals don't generally spend their wealth on consumer goods and services, but their wealth gives them confidence to spend their incomes. The current financial uncertainty could have a ripple effect down the road, leading to a wait-and-see attitude toward future spending," observed Pamela Danziger, founder of Unity Marketing and co-sponsor of the RTALT with Mount's Affluent Consumer Research Company.

Confident in the face of uncertainty

So far, a majority of HNWI (56 percent) are keeping their money where it is, but that leaves a sizable 44 percent who are up for grabs, currently evaluating where to deposit their wealth.

"Trust is the key factor revolving around security and accountability, as well as access to resources, liquidity and information," Mr. Mount said, adding HNWIs feel most secure with large banks holding more than $10 billion in assets.

"Customers expect their financial partners to be at the ready, especially with capital-intensive purchases like real estate," he said.

"Bank relationship managers (RMs) are encouraged to provide a higher level of service to VIP customers to reassure them how they are working in their client's interests," he said.

"Companies should be transparent in communicating with VIP customers, while also connecting with customers on social media to address any issues or concerns. RMs will know if they should proactively call clients, but in any case, it's wise to have a thorough response ready if contacted."

While more than 80 percent of HNWI are confident in their own investment capabilities and 69 percent rely on the help of a financial advisor, some 80 percent are looking for investments in established profitable companies rather than more risky investments.

In the short term, HNWIs are staying the course, willing to accept risk in their investments and aiming for long-term growth.

Yet with a majority of HMWI currently re-evaluating their investment strategies and nearly half considering new places to deposit their wealth, it opens promising opportunities for banks and financial advisors to help guide them through the rough waters ahead.

Pamela N. Danziger is president of Unity Marketing.