FINANCIAL POST

Saturday, June 5, 2010

Wealthy investors still recovering from the fight

Michael Nairne, Serious Money

Bloomberg

Only about one in five of the high-net-worth individuals expected any sustained growth in the world economy over the next few years, while nearly 30% expect deterioration.

Battered, worried and cautious. That seems to be the mindset of wealthy investors these days, based on the results of a recent global survey of 2,000 high-net-worth investors by Barclay's Wealth.

Indeed, respondents were generally gloomier than professional economists. Only about one in five of the high-net-worth individuals expected any sustained growth in the world economy over the next few years, while nearly 30% expect deterioration.

Very wealthy respondents, those with investable assets of $15-million or more, were particularly gloomy. Only about one in seven expects growth in the global economy. Of course, when you count your losses in millions and not thousands, you've got a reason to be depressed.

There were exceptions to this downbeat view. Respondents from Latin American and parts of Asia such as India, Hong Kong and Singapore were generally optimistic. Americans and Japanese were generally the gloomiest.

Investors seem to project their emotions onto the entire world economy: Their global outlook tended to mirror their prognosis for their local economy. As a result, wealthy investors from emerging countries tend to be much more optimistic than those from developed economies.

Of course, affluent investors are still digesting losses from the market meltdown. Nearly 40% of respondents reported that the recession had dealt their net worth a "negative" or "quite negative" blow. Irish and Spanish investors reported the deepest losses as their real estate markets have crashed following tremendous bubbles earlier in the decade. Ireland's stock market has suffered a 72% loss over the past three years as well. Talk about the "luck of the Irish"!

By contrast, most Canadian high-net-worth investors appear in excellent shape. After a decline in 2008, Canadian real estate markets have roared back to life.

The concern is that we may now be in our own mini-bubble. And in my experience, the portfolios of most well-diversified investors are back in the black, even though the Canadian stock market remains below its June 2008 high. Canadian bonds, preferred shares and gold are all in positive territory. Serious investors who took advantage of the opportunity to acquire Canadian corporate bonds during the dark moments of early 2009 have been particularly well-rewarded.

Compared with stock markets elsewhere in the developed world, Canadian equity investors have good reason to smile. As of May 28, Canada ranked third out of the 24 countries in the MSCI World Index in three-year return performance. Only Israel and Hong Kong did better. Our annualized loss of -2.7% pales beside the losses of Greece (-32%), Austria (-27.1%) and Italy (-19.5%).

Yet, the wealthy Canadian investors I talk to are almost as anxious as their global counterparts. There is constant, nagging worry that we are in the eye of a massive global macroeconomic storm that will soon return in full fury. Wealth preservation has moved to the top of many affluent investors' objectives.

Globally, more than 50% of wealthy investors are more concerned with wealth preservation now than they were before the recession and more than one-half are likely to avoid high-risk investments.

Worry can be a good thing, though. Many affluent investors today are asking questions about how their portfolio was managed over the past several years. Was our capacity for risk properly explored and measured by our financial advisor? Did we have a long-term, diversified strategy in writing? Did we have the right process and safeguards in place so that serious deliberation, not fearful emotion, guided our decisions? Asking these questions can help investors get ready for the next, inevitable downturn.

-Michael Nairne, CFP, RFP, CFA, is the president of Tacita Capital Inc., a private family office and investment counselling firm in Toronto.