UBS *Investor Watch*

Analyzing investor sentiment and behavior

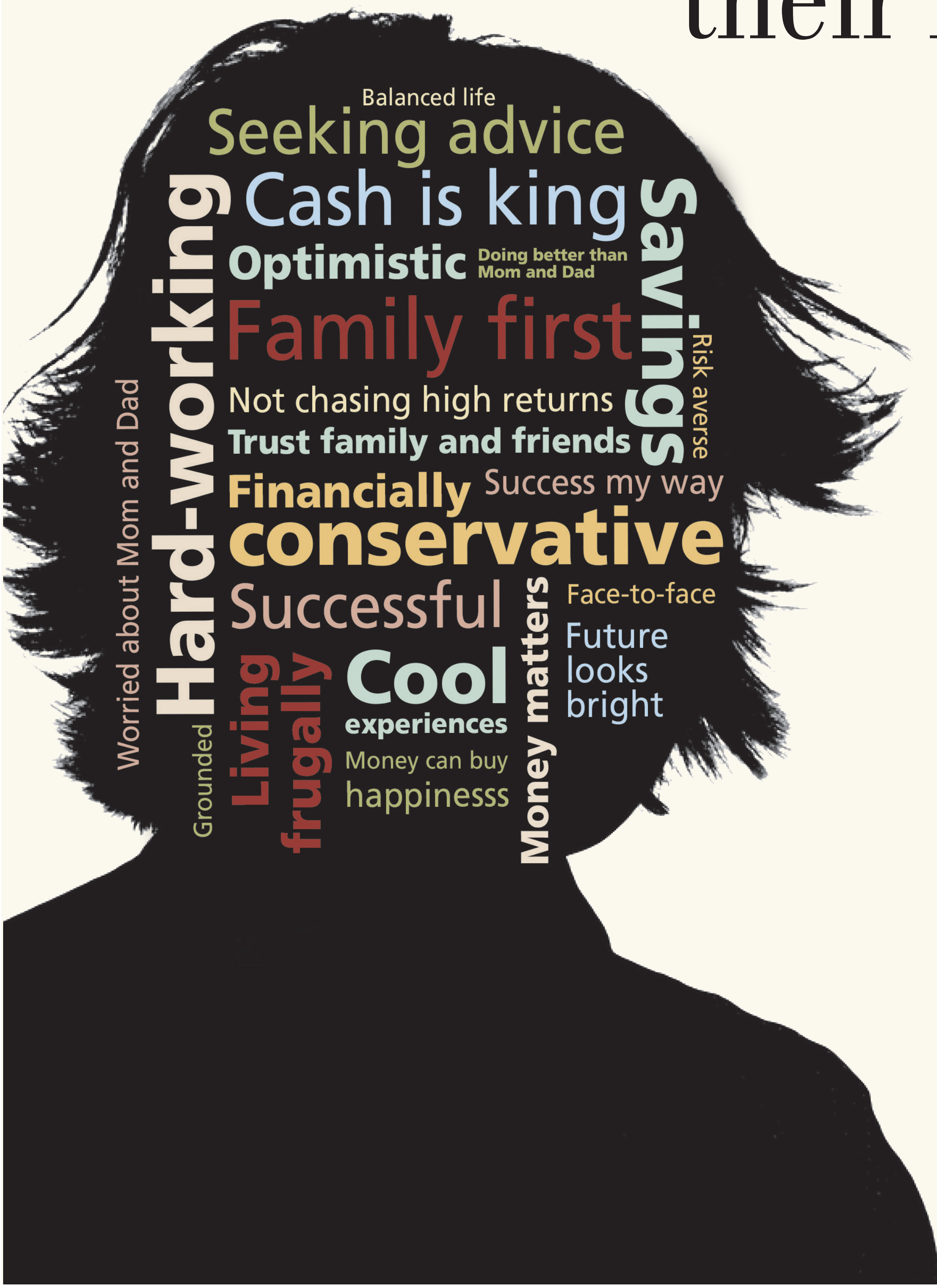
1Q 2014

Think you know the Next Gen investor?

Think again.

UBS

See what's *really* on their minds



Lazy. Entitled. Narcissistic. Spendthrifts. Digitally obsessed. Google the term "Millennial" (ages 21-36), and these are some of the words you will find to describe this generation. But our research of over 1,000 Millennials shatters those stereotypes. We see investors who are extremely conservative, savers not investors, and not nearly as self-directed as one would expect. And they worry about their parents' financial health and futures as much as they worry about their own.

Millennials' attitudes about money, risk and success have been shaped by two unprecedented phenomena: (1) access to lightning-fast technology innovation and (2) dramatic economic and market volatility that constrained their job prospects and earning abilities, as well as disrupted their parents' real estate values, investment portfolios and retirement savings.

The Next Gen investor is markedly conservative, more like the WWII generation who came of age during the Great Depression and are in retirement. This translates into their attitude toward the market as we see Millennials, including those with higher net worth, holding significantly more cash than any other generation. They fully buy into the redefinition of risk as permanent loss, an investor insight we observed in the 2Q 2013 edition of *UBS Investor Watch*. And while optimistic about their abilities to achieve goals and their financial futures, Millennials seem somewhat skeptical about long-term investing as the way to get there.

When it comes to achieving success and financial stability, Millennials are as worried about their parents as their parents are about them. As a result of seeing their parents' retirement and investing plans disrupted by market volatility, Millennials put concerns about their parents' financial stability near the top of the list of worries. In turn, parents of Millennials worry that their children will have a harder time achieving financial stability and success, and feel they must provide help along the way.

Millennials are realistic about needing advice when it comes to meeting their financial goals. Surprisingly, when making a financial decision, Millennials are no more self-directed than other generations. Rather than relying exclusively on social media and online sources, Millennials tell us that they look for face-to-face advice from people they trust, and who listen to them—particularly family or a family-referred professional.

1

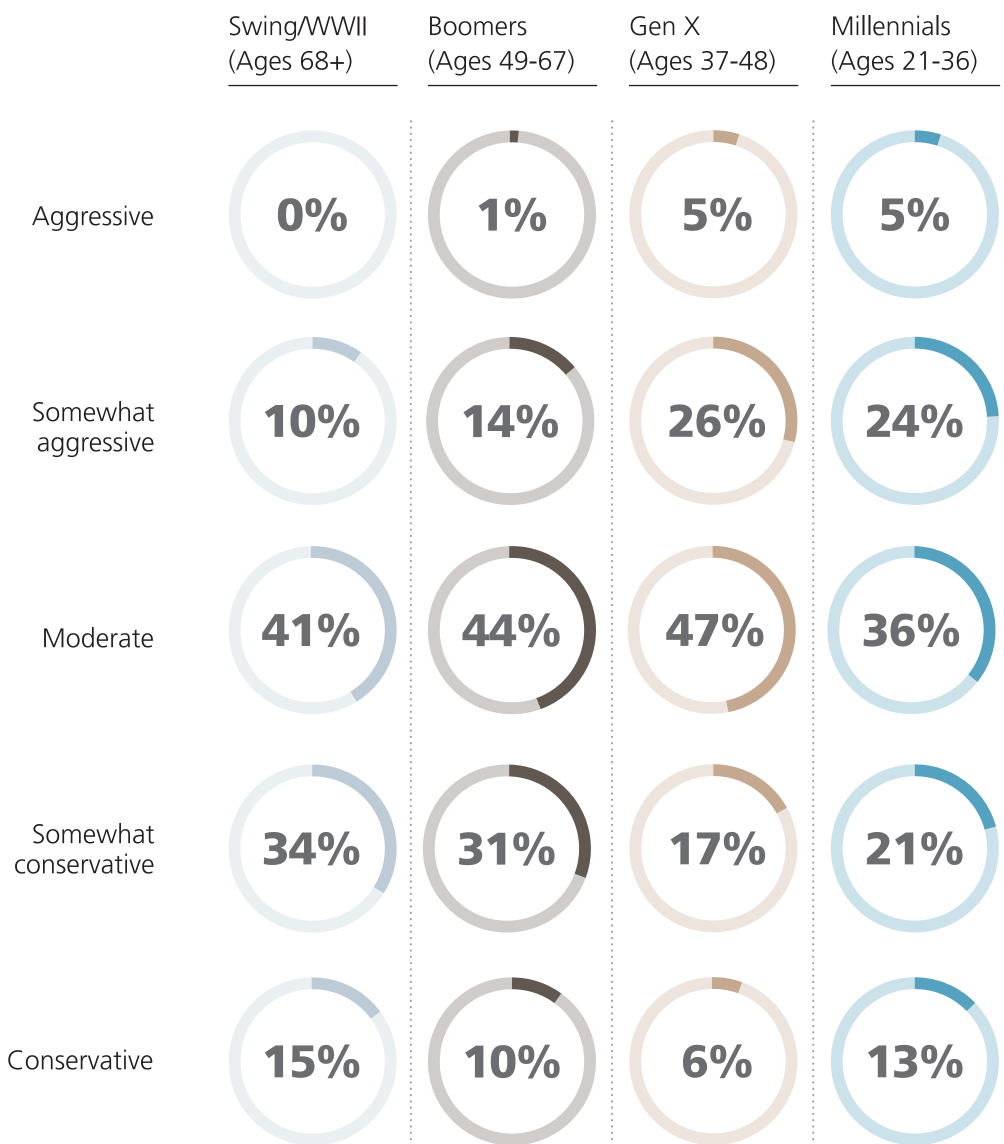
Financial crisis has led to a highly conservative mindset among Millennials

Millennials experienced the financial crisis and all the market volatility and job security issues that came with it—early in their careers. This has had a significant impact on their mindsets.

Investors of all generations are most likely to have a moderate risk tolerance. But Millennials and WWII generation investors are more likely to describe themselves as truly conservative. This is remarkable given the impact the Great Depression had on the WWII generation and speaks to the potential permanent scarring that 2008 had on the Millennial investor. Gen X is more likely to have an aggressive risk tolerance.

Millennials have similar conservative risk tolerance tendencies as WWII generation

Question: *"How would you classify your risk tolerance today?"*



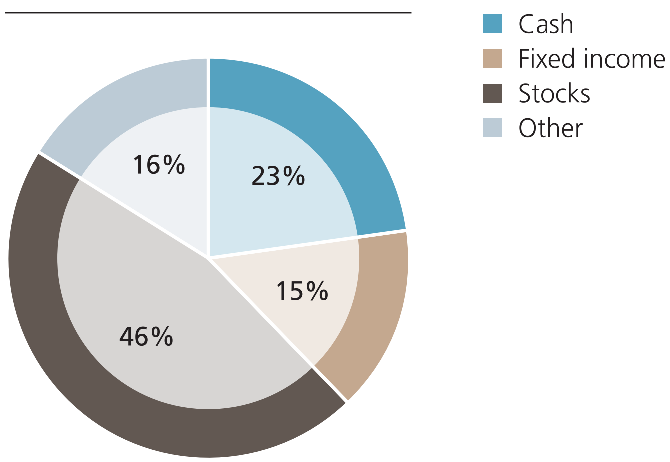
If Millennials' risk tolerance is conservative, their average asset allocations are extremely conservative. As we said in the 2Q 2013 issue of *UBS Investor Watch*, investors now define risk as permanent portfolio losses, and Millennials seem to agree with that definition. Millennials hold more than half of their assets in cash (52%), with less than one-third of their assets (28%) in equities. This is directly counter to traditional long-term investment allocation advice.

While Millennials have fewer assets than older generations and may have immediate cash flow needs, the average cash allocation is high (42%) even among older Millennials (ages 30-36) who have at least $100,000 in assets. So clearly this allocation is not just based on cash needs, but reflects wariness about financial markets.

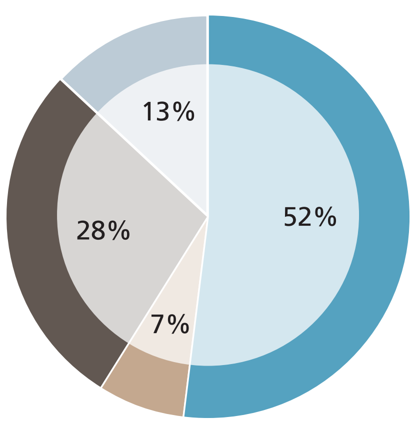
Millennials hold dramatically higher cash allocations, reflecting a wariness of the market and long-term investing

Question: *"Please provide your approximate overall asset allocation across all your accounts. 'Other' includes alternative investments, structured products, real estate (excluding own home), commodities/futures/options; 'cash' includes CDs/MMFs."*

Non-Millennials



Millennials

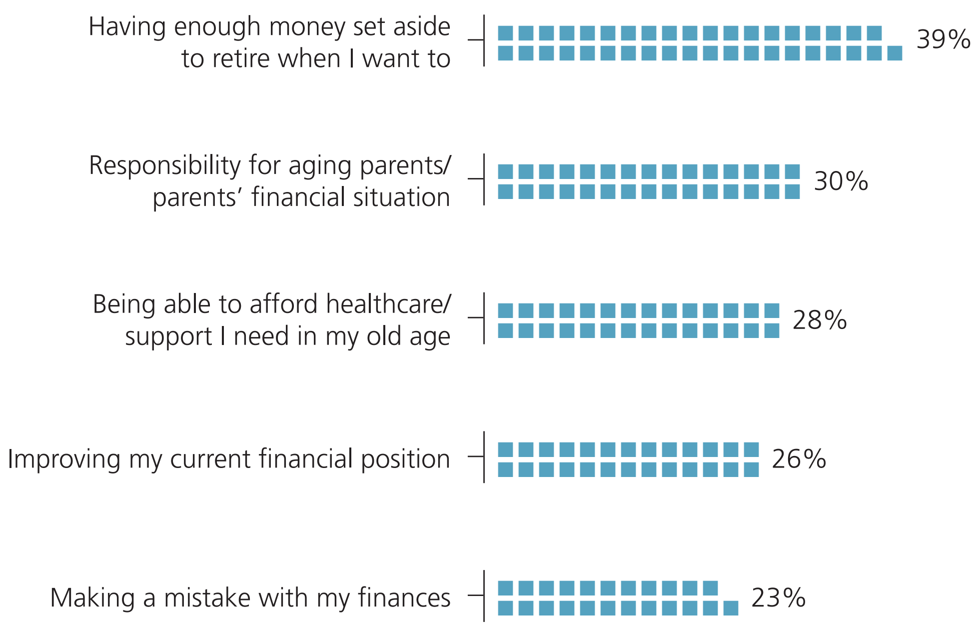


Millennials are the most worried of all generations. But unlike what might be expected, their concerns are very long-term in nature—retirement and their own long-term care—issues that are decades away. They are also worried about their financial situations and avoiding making financial mistakes.

But Millennials don't just worry about themselves. Contrary to the "entitled" label often placed on Millennials, their second-biggest concern behind retirement is about their parents' financial situation, and taking responsibility for their parents as they age.

Millennials have a broad perspective, including concerns about their retirement and their parents, which directly contradicts the "entitled, short-term focused" stereotype

Question: *"How worried are you about each of the following regarding your personal finances?" (Percentages represent those "highly worried.")*



2

Focused on personal success, not chasing higher returns

While they are younger and have a longer time horizon ahead of them, Millennial investors take a more conservative approach than Gen X investors do. Eighty-three percent of Millennials are not trying to outperform the market, and a significant portion (24%) focus primarily on how they're doing compared to their goals, rather than compared to the market.

When they invest, Millennials are not trying to beat the market

Question: *"Which of the following best describes your investment approach?"*

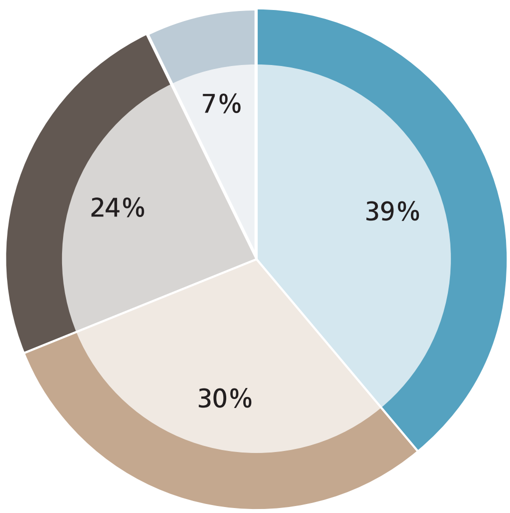
3

Millennials define success based on relationship, financial and experiential factors

While in the past, success was typically measured in financial and career terms, Millennials, like all generations, have expanded this definition to include financial, emotional and experiential factors. A strong financial component remains, particularly having financial freedom. But the most important factors are emotional/relationship-based, particularly having a happy family and having a deeply meaningful relationship with one's spouse/partner. Experiences also play a role; living a full life with a wide variety of experiences is viewed as another key success factor.

Millennials' definition of success

Questions: *"How do you define success? How do you know that you have arrived—what are the hallmarks of success? Please select your top three."*



Emotional
- Having a happy family (45%)
- Having a deeply meaningful relationship with my spouse/partner (37%)
- Staying true to the values I believe in (18%)
- Leading a calm, simple life with people who care about me (17%)

Financial
- Having financial freedom (48%)
- Being able to provide for future generations of my family (15%)
- Being well-compensated for what I do (14%)
- Owning things I aspired to have, e.g., art, second home, boat, etc. (12%)

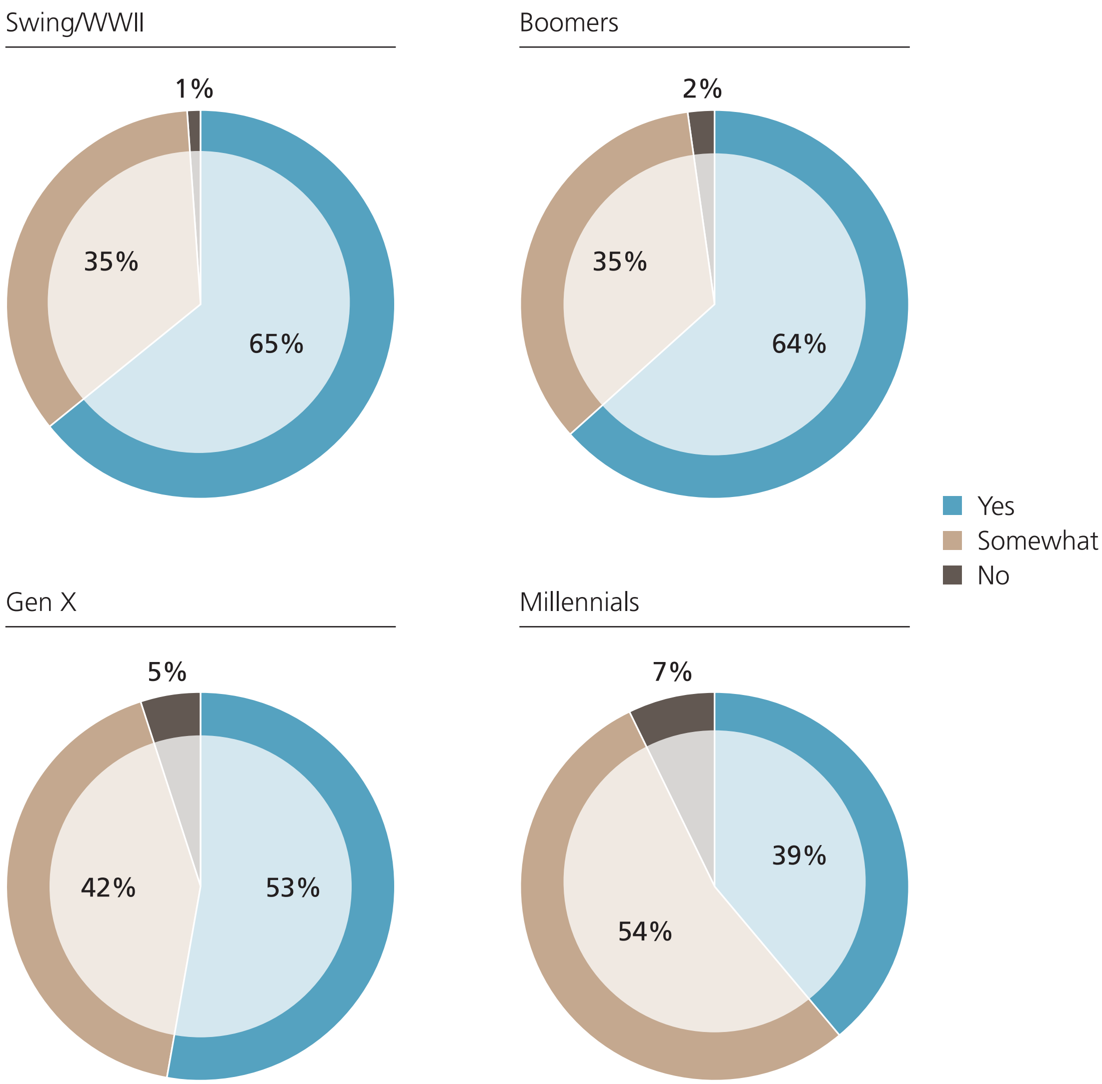
Experiential
- Living a full life with a wide variety of experiences (37%)
- Enjoying the work I do (29%)
- Being someone people seek out for my advice/opinions (4%)
- Knowing interesting, creative people (2%)

Achievement
- Achieving more than my parents or my peers (7%)
- Reaching a very senior job position, e.g., C-Suite (7%)
- Owning my own business (5%)
- Being able to give significantly to charity (3%)

Based on their own definition for success, nearly all Millennials (93%) see themselves as at least somewhat successful as do investors overall. Millennials are more likely than other investors to view themselves as "somewhat" successful rather than definitively successful, but this seems based on life stage rather than any lack of optimism. In fact, the majority of Millennials expect they are or will be more successful than their parents, even though their parents are less confident about this.

Millennials, like all investors, see themselves as successful

Question: *"Based on your own definition of success, do you consider yourself successful?"*



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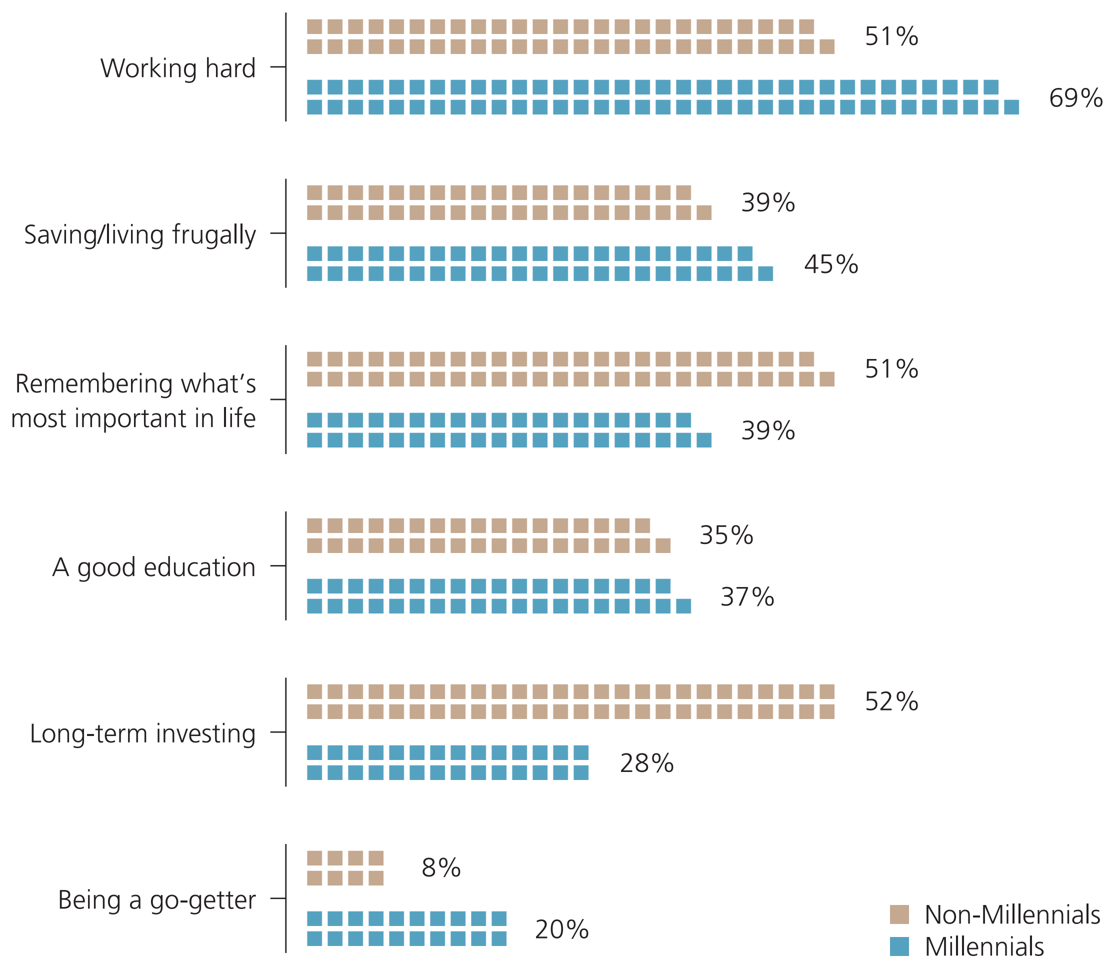
Millennials are skeptical of long-term investing as a way to achieve success

Millennials' views on how to achieve success help illuminate their mindsets toward long-term investing. While all generations view working hard and saving/living frugally as key factors for achieving success, Millennials are most likely to have this view—with seven out of 10 believing working hard is a top factor. In contrast, while the majority of investors from other generations believe long-term investing is a key to achieving success, only 28% of Millennials do. With Millennials having less faith in long-term investing, they plan to work harder and save more to reach their goals.

Millennials still believe in hard work and saving their money

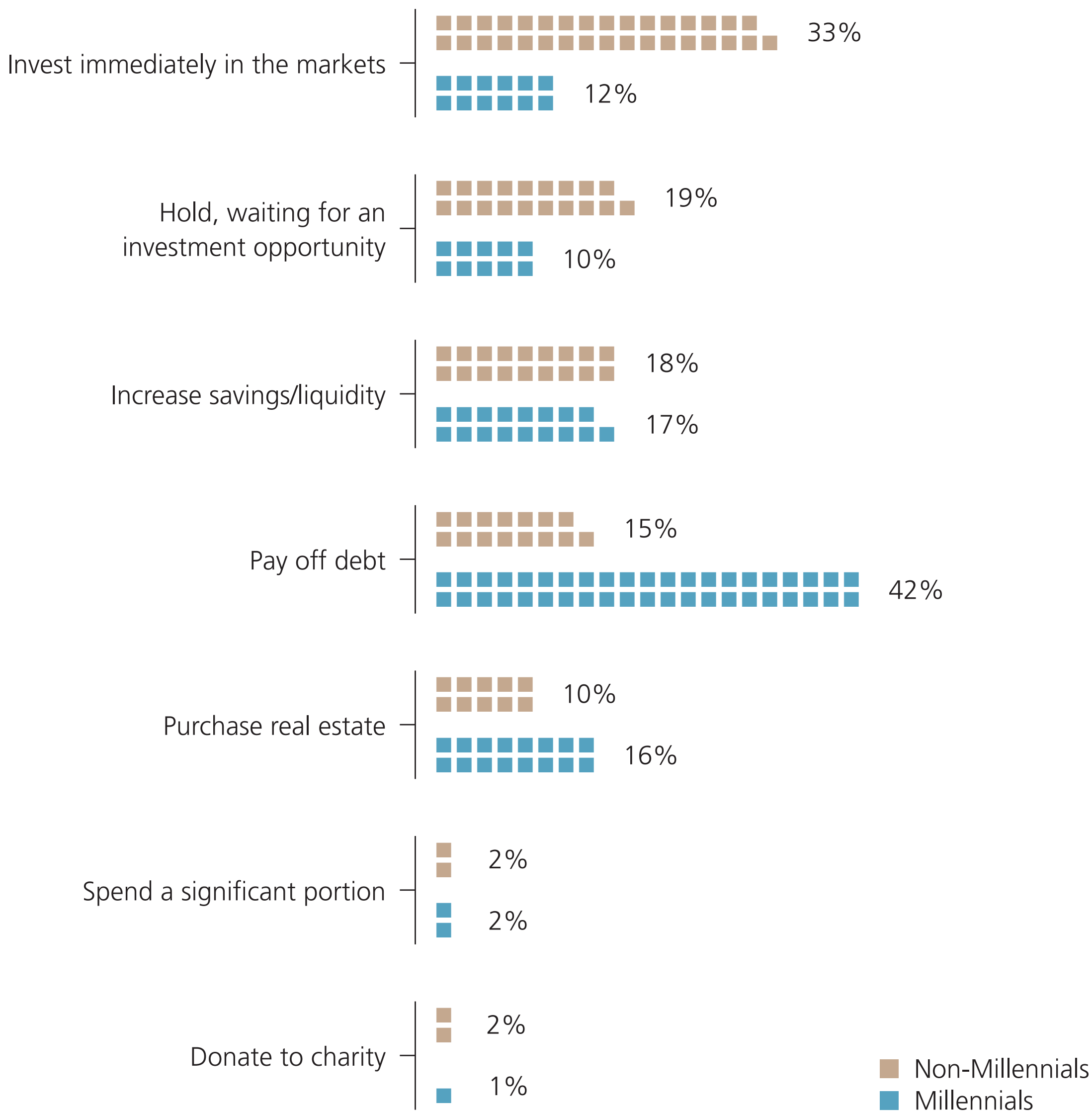
Question: *"How did you, or do you, plan to achieve success? Please select up to three most important factors."*



In addition, Millennials are the least likely to invest new money, with only 12% saying that they would do so, compared to 33% of investors of other generations. Instead, Millennials prioritize paying off debt, as they are likely burdened with college loans. Millennials' perspective on long-term investing is likely based on seeing the impact of 2008 on their parents' long-term investments, as well as being accustomed to instant gratification in the Digital Age.

Millennials much less likely to invest "found" money

Question: *"If you were given additional money, what would you do with it?"*



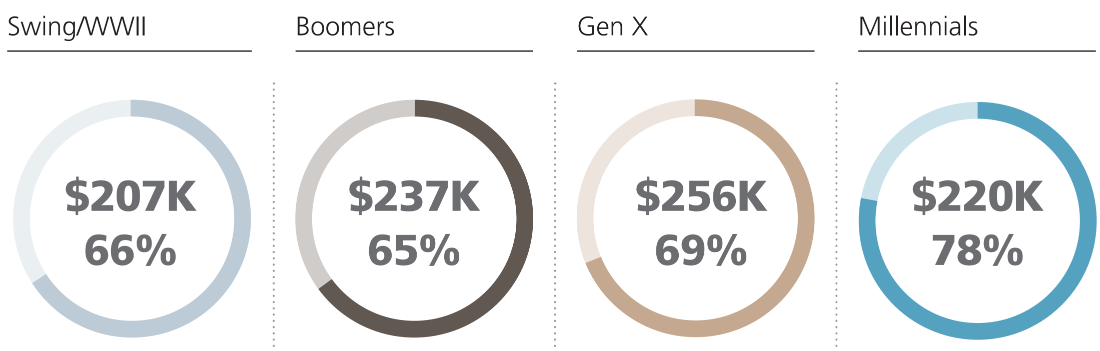
5

But money matters

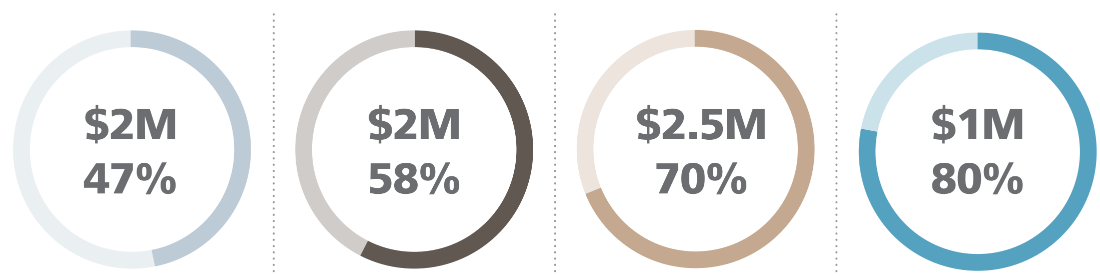
While success means more than just financial success and they are skeptical about long-term investing, money clearly matters to Millennials. The number one individual hallmark for success is having financial freedom, even if overall emotional/relationship factors trump financial ones. Millennials are more likely than other generations to believe that income is an important success factor (78% think so) and believe on average that it takes an income of around $220,000 to be considered successful. Additionally, four out of five Millennials believe money can buy happiness, more than any other generation and believe on average it would take an additional $1 million to make them happier. This $1 million figure is considerably lower than other generations, but given their life stage and having less wealth accumulated so far, it is not surprising that $1 million seems like nirvana to the Millennial investor.

Millennials most likely to believe money impacts success, happiness

Question: *"How much household income do you think one needs today to be considered successful?" (Percentages shown reflect those who believe income is a success factor.)*



Question: *"How much additional money would you need to make you notably happier?" (Percentages shown reflect those who believe money would increase happiness.)*



Millennial investors, not surprisingly given their age, feel less positive about their current financial situations than older generations. However, the vast majority feel at least "good" about their financial situations (82%), with two out of five feeling "very good" or "excellent." Furthermore, most Millennials feel their financial situations have improved in the last year and will continue to improve in the next year. In accordance with this optimism about their upward financial trajectories, Millennials are highly confident in their abilities to achieve their financial goals—in fact, just as confident as any other generation.

6

Millennials and their parents worry about each other

The vast majority of Boomers feel they are more successful (72%) and enjoy more financial stability (69%) than their parents. However, they do not expect the upward path to continue for their children. They are relatively evenly split on whether or not their children will be more or less successful than themselves, and they expect their children will have less financial stability.

In fact, one quarter of parents with children, ages 21-36, are highly concerned about the financial situations of their children/grandchildren. Most Boomers also believe adult children need more help today in order to succeed than they did when they were young adults, and they frequently become emotionally and financially involved (e.g., pay for things, co-sign a lease, line up job interviews, offer advice) to help their adult children succeed.

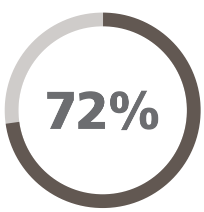
However, this family concern is not just a one-way street. As shown on page 6, three out of 10 Millennial investors are highly concerned about the financial situations of their parents, more so than any generation.

Despite the economic upheaval they've experienced in the last five years, the majority of Millennial investors believe they are or will be more successful, and that they'll have greater financial stability than their parents.

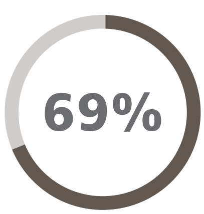
Millennials expect continued upward mobility, but Boomer parents are less optimistic

Questions: *1)"Thinking about the success you've achieved in your life, or expect to achieve, how does it compare to the level of success your parents achieved?" 2) "Think about the success your children have achieved, or that you expect them to achieve; how does it compare to the level of success you have achieved?"*

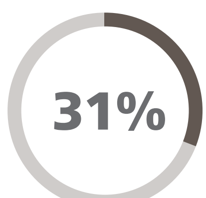
Boomers



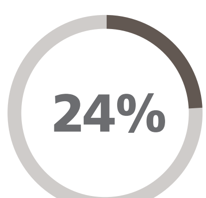
Believe they are more successful than their parents



Believe they are more financially stable than their parents

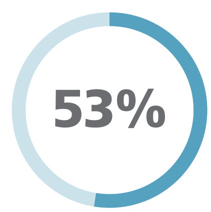


Believe their children will be more successful than themselves

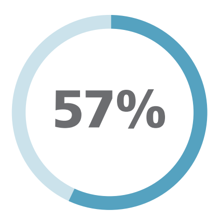


Believe their children will be more financially stable than themselves

Millennials



Believe they are/will be more successful than their parents



Believe they are/will be more financially stable than their parents

7

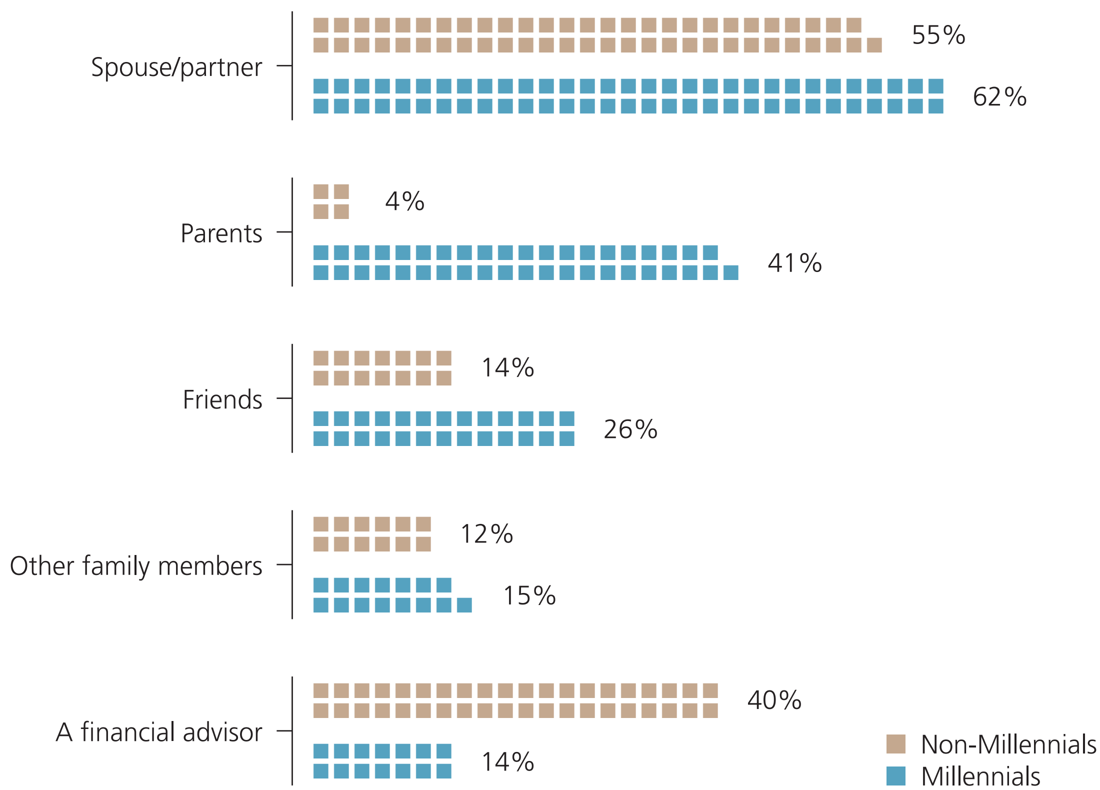
Millennials rely on family for financial advice

While most Millennials do not have a professional financial advisor, that does not mean they are self-directed; in fact, only 9% made their last key financial decision without consulting someone. More than any other generation, they look to their spouse, their parents, and to their friends for financial advice, and then make a decision based on this input from multiple sources. While some do research online—they are actually no more likely than other generations to use online sources for key financial advice.

Millennials are most likely to seek advice on real estate, other major purchases and investments—as well as when a decision could have a large financial impact, affects more people than just themselves and where they feel they have a lack of knowledge. In seeking out a new advice source, they most value experience, trusting the person, and recommendations from friends and family. Millennials actually worry more than other generations about getting good advice to help reach their financial goals and knowing if they can trust the advice they receive.

Millennial investors are most likely to seek advice from their spouse/partner and parents on financial decisions

Question: *"Who or where did you seek advice from to help you consider this decision?"*



Millennials most value the financial advice they've received about the importance of saving. When asked qualitatively to describe the best financial advice they've been given, the most common theme by far is the general value of saving, followed by living within your means. Additionally, many Millennials cite concepts, like spend wisely, save for retirement, save early, limit debt, save emergency funds and "a penny saved is a penny earned."

This stands in sharp contrast with other generations who frequently say that the best financial advice they received was about investing. While saving and investing are traditionally viewed as equal partners in building wealth, it seems for Millennials, with their risk-averse mindsets coming out of the financial crisis, as well as the advice they are getting from others, saving has become paramount.

Millennials consider the best financial advice they've received to be about saving

Question: *"What's the best advice anyone ever gave you about money/finances?" Common themes shown below, with larger themes being those which were mentioned more often.*

About the survey: UBS Wealth Management Americas surveys U.S. investors on a quarterly basis to keep a pulse on their needs, goals and concerns. After identifying several emerging trends in the survey data, UBS decided in 2012 to create the *UBS Investor Watch* to track, analyze and report the sentiment of affluent and high net worth investors.

UBS Investor Watch surveys cover a variety of topics, including:

- Overall financial sentiment
- Economic outlook and concerns
- Personal goals and concerns
- Key topics, like aging and retirement

For this sixth edition of *UBS Investor Watch*, 4,165 U.S investors responded to our survey from December 31, 2013 to January 7, 2014. The core sample of 2,532 investors have at least $250,000 in investable assets; 1,130 have at least $1 million in investable assets. This *UBS Investor Watch* includes two oversamples:

1. 1,069 Millennials: Respondents, ages 21-29, have at least $75,000 in household income or $50,000 in investable assets; respondents, ages 30-36, have at least $100,000 in household income or $100,000 in investable assets.
2. 564 investors who do not use a financial advisor: All have at least $250,000 in investable assets, and 276 of these investors have at least $1 million in investable assets.

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