



SEI New ways.
New answers.®

Are you a **Bear, Bull or Owl?**

Decoding the attitudes and decision-making of wealthy investors

seic.com/privatewealth



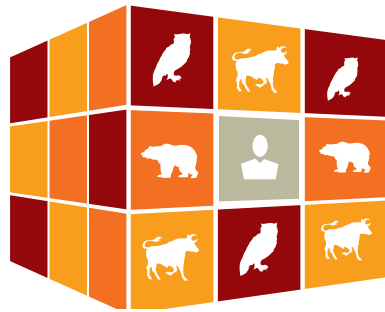
“Risk comes from not knowing what you’re doing.”

Sage advice, it seems, but would you accept it on face value if it came from an unknown source? What if the source was well-known and reliable, let’s say, Warren Buffett?

In fact, Buffett did say, “Risk comes from not knowing what you’re doing.” And we quote him here to make two points. First, the source of information matters, and second, Buffett is right. Knowledge mitigates risk. In this case, it’s not just what you know, but what you know about yourself. What kind of investor are you? How do you make decisions? What are you trying to achieve? Such insights are essential for consistent, long-term results.

While most of us can’t relate directly to Buffett, arguably the most successful investor of his day, we can learn valuable lessons from other successful investors. For the last three years, SEI has been observing and documenting the investing habits and attitudes of a group known as ultra-high-net-worth (UHNW) investors, or those with a net worth greater than \$10 million. Let’s call them wealthy investors.

This paper will argue that stereotype profiles like Bulls and Bears are overly simplistic and miss a vital third profile — the Owls. Bulls are supposedly positive, upbeat and speculative, and willingly incur healthy doses of risk. Bears on the other



hand, are generally more orthodox, conservative and cautious. SEI research has shed light on a class of investors who perch firmly between the those two extremes

Owls, long overlooked by the industry, exhibit clear characteristics that set them apart from the other profiles. They're consultative and self-assured, yet reflective. They're pragmatic but open-minded. They're responsive yet realistic. If you don't identify with the Bulls or Bears, perhaps you're an Owl.

Discovering **YOUR PROFILE**

Wealthy Investor Profiles



BULLS

Positive
Upbeat
Optimistic
Speculative
Independent
Risky
Convinced



OWLS

Consultative
Assured
Balanced
Reflective
Pragmatic
Open-minded
Responsive
Realistic



BEARS

Modest
Orthodox
Conservative
Sensible
Cautious
Rational
Traditional

BEFORE

we dissect the unique behaviors, biases and decision-making of each investor group, let's look at where the three groups agree.

Wealthy investors propel economy

America's wealthy investors often own businesses or lead companies that help propel the U.S. and global economies. Of those surveyed, half were entrepreneurs, 40%, employed, and the balance retired. The experience and perspective of this group provides valuable insights into the economy and markets that go beyond the talking-heads of cable news.

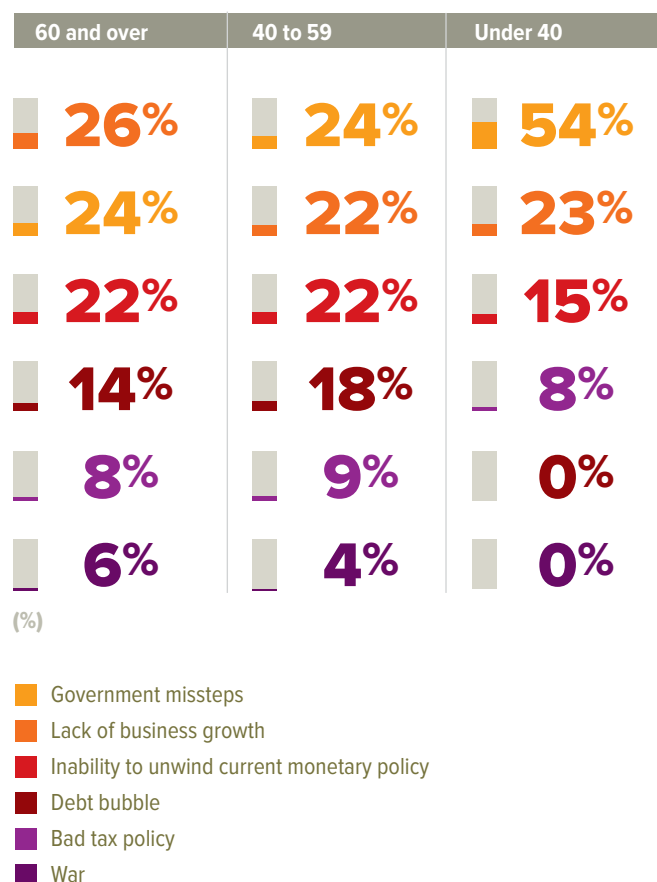
The vast majority of respondents to SEI's most recent survey consider U.S. indebtedness a looming threat to any long-term economic recovery. Moreover, they don't expect meaningful relief until after 2020. Additionally, 91% of those surveyed expect taxes to continue increasing over the next five years.

Worries over excessive debt are coupled with concerns about government mismanagement. The recent government shutdown sent tremors across the minds of wealthy investors. Notably, those under 40 who were twice as concerned as their elder peers about the potential failings of government (See Figure 1). This seems counter-intuitive because with youth comes optimism. However, this revelation suggests the cliché is untrue. The under-40 crowd has seen too much bad government in recent years. They have become more cynical than their older peers.

For America's UHNW investors, the top three risks for the U.S. economy are:

- 1. Government missteps**
- 2. The debt bubble**
- 3. A lack of business growth**

FIGURE 1: Wealthy investor views on the biggest risks to the U.S. economy for the next decade



Source: Scorpio Partnership, SEI.

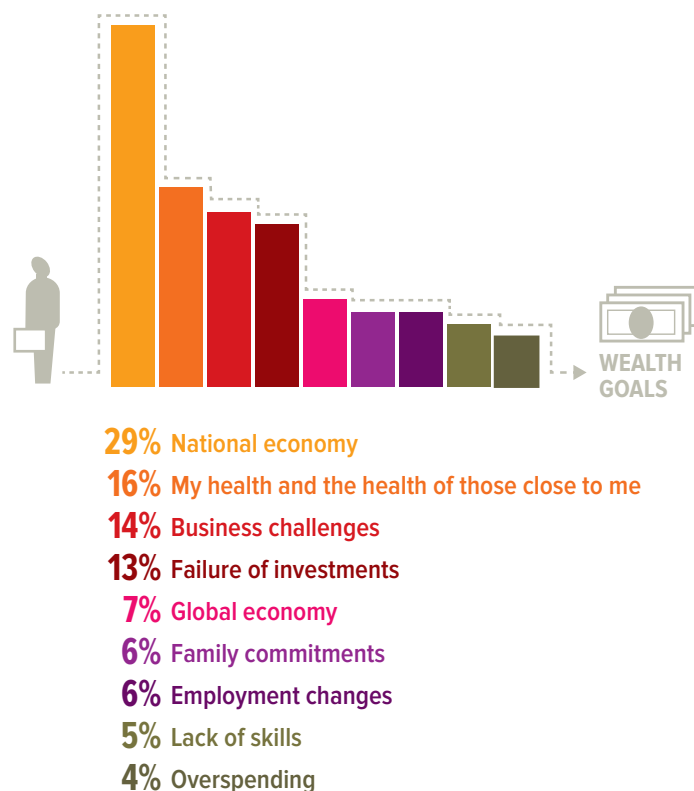
On the personal side, apart from the national economy, these investors worry about things largely outside their control, like their health and the health of their family. They're watchful for threats to their business, and declines in their personal investments (Figure 2).

Asset allocation trends among the wealthy

With growing government debt coupled with rising taxes, wealthy investors worry over the erosion of both national and personal fortunes. How does continued uncertainty affect investment portfolios? For one, many wealthy investors are looking beyond national borders. No less than 70% of survey respondents said they currently prefer emerging markets over the developed markets of North America and Europe. But those preferences tell only part of the story. The U.S. is still the second most popular investment market, trailing only China.

Preferences aside, the challenge lies with investment selection. The asset allocation of the wealthy investor is an interesting guide for all. As a group, equities dominate, accounting for 37% of the total portfolio of the wealthy investor. That's followed by cash and cash equivalents (21%) real estate (17%) and fixed income (16%). Finally, alternative investments including private equity, venture capital, commodities, and hedge funds, comprise 9% (Figure 5).

FIGURE 2: Personal obstacles to achieving wealth goals



Source: Scorpio Partnership, SEI.

America's wealthy investors favor the emerging market story. But North America continues to be seen as a valuable investment arena.

BULLS, BEARS AND OWLS

Identifying the “real” investor in you

The data that has been presented thus far tells only a part of the story. The importance lies in how we interpret the data when making an investment decision. What rests behind wealthy investor decisions? Certainly not all investors are alike — so examining the nuances is critical to understanding the wealthy investor, and more importantly, ourselves.

Inevitably, factors influencing investor decisions are diverse. As shown earlier, obvious factors, such as age, attitudes about the investment environment and personal financial objectives all play a part. Yet there is a deeper factor to consider — the emotional attitude and personal biases toward investing. That brings us back to our investor profiles — Bulls, Bears and Owls. As we discuss this phenomenon, let's be clear on one point. No investor profile is better than another. All three profiles have value. The key is to know what kind of investor you are and where you fit on the spectrum of investment behaviors. As noted earlier, a bullish investor embraces risk and is driven by a conviction of positive returns. Bearish investors take relatively less risk and, while they still expect positive returns, proceed with caution. Meanwhile, the financial industry has largely overlooked Owls. Their moderate and deliberate approach is not sexy. They don't make headlines in *The Wall Street Journal* or on CNBC, yet they comprise a meaningful share of the total market. Let's discuss all three groups: What makes each group tick? What do they fear? What are their goals and expectations? And, critically, what profile best describes you?

Learning from mistakes

Research shows Bulls and Bears learn from dissecting their mistakes. Owls, on the other hand, appear somewhat less influenced by mistakes, suggesting their measured and pragmatic approach to decision-making help to iron out missteps (Figure 3). Indeed, Owls are the least likely to act unilaterally while Bulls generally act independently even when others suggest they should not.

For help with investment portfolios, Owls are the most likely to take the counsel of investment professionals. Bears, on the other hand, tend to rely on trusted family and friends as much as an investment professional (Figure 4).

Not all investors are alike.
Research reveals a distinct investor profile — the pragmatist Owl.

Neither Bears nor Bulls, Owls exhibit a blend of both. They achieve success in ways different from others.



FIGURE 3: The decision-making characteristics of wealthy investors

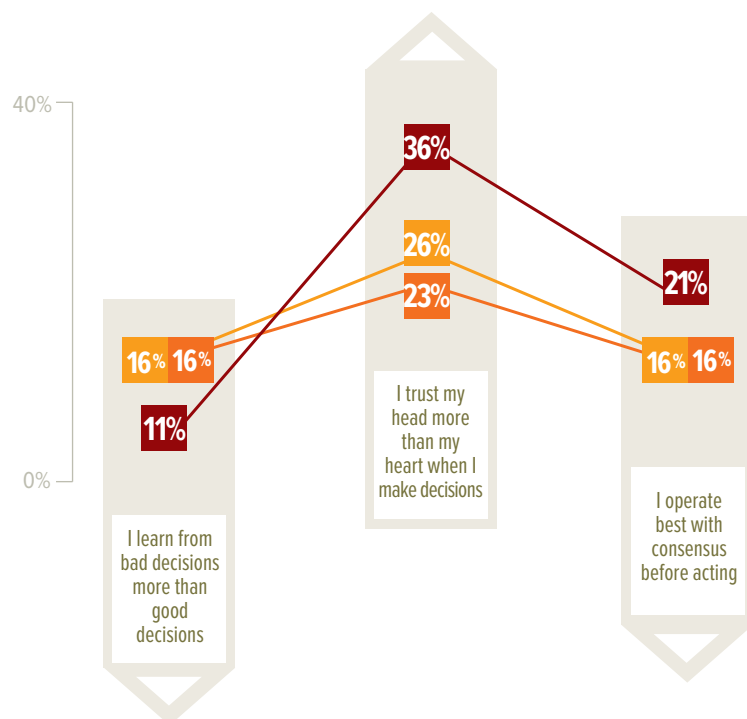
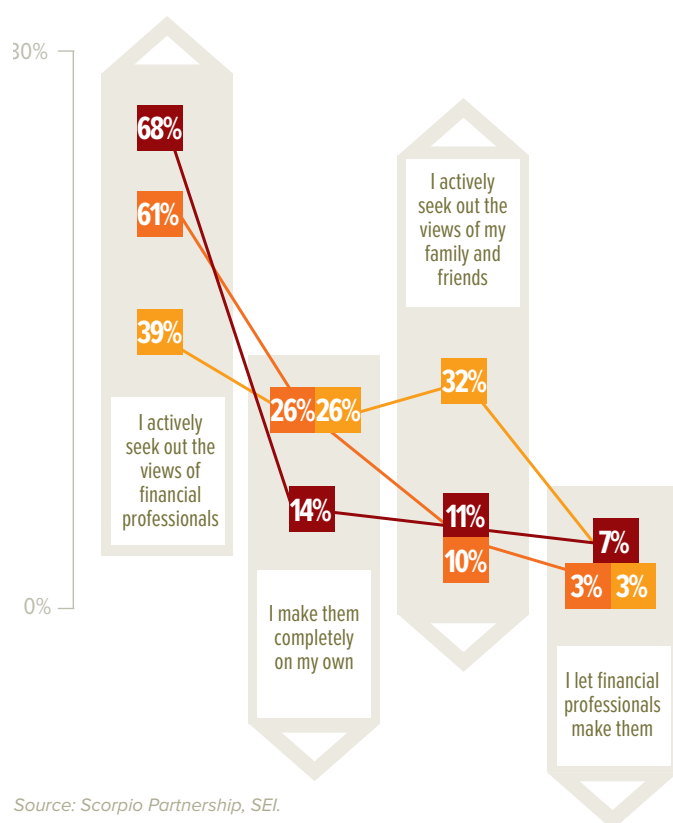


FIGURE 4: The key influencers on wealthy investor investment decisions



Source: Scorpio Partnership, SEI.

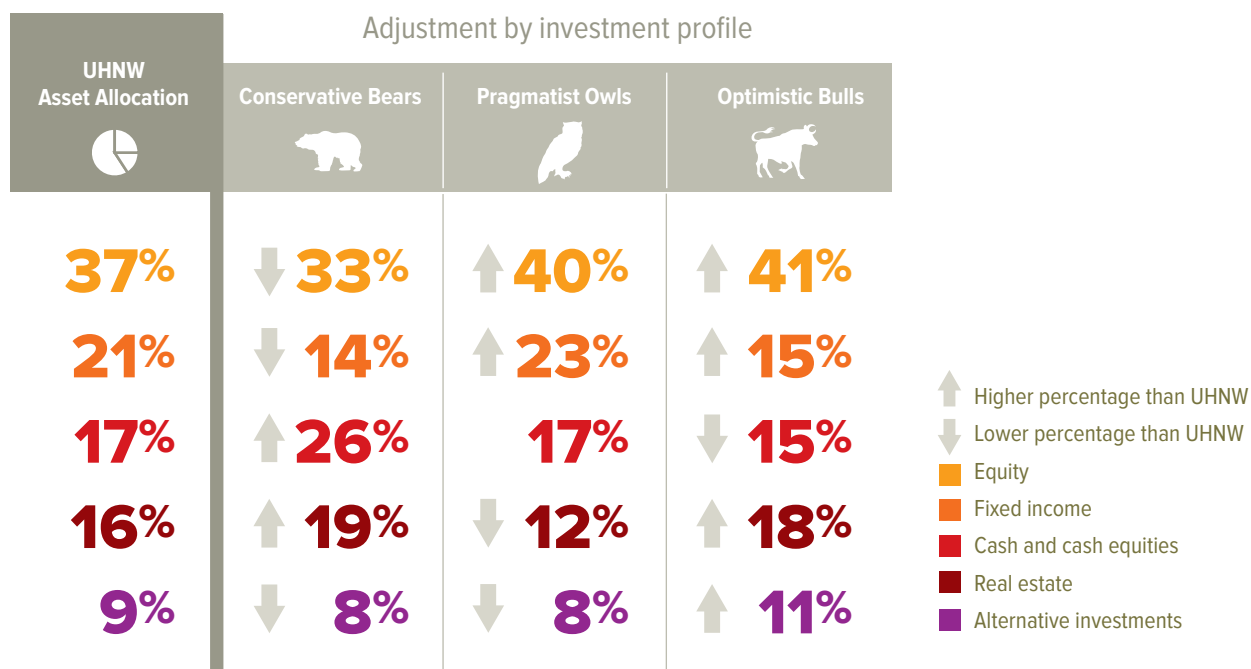
Old stereotypes don't hold up

Surprisingly, age is not a reliable indicator of investment behavior. We found old Bulls and young Bears and everything in between. The stereotype that investors turn conservative with age doesn't hold up in this case. A predominance of survey respondents over age 60 were less bearish than many of their younger counterparts. Having seen more full market cycles, the over-60s are more owlsh, while the under-40s are hardly bullish. When it comes to investing, young guns are holding their fire.

The attitudes of the three profiles and their approach to investment decision-making supports the presence of three distinct groups. Asset allocation decisions over the next 12 months tell the same story. For instance, **differences in weighting in cash or cash equivalents are marked.** Both Bulls and Owls maintain a 15% to 17% allocation, as opposed to 26% for Bears. Bulls and Owls are also similar in their view toward equity, which for 2014 will be around 40%, yet only 33% for Bears.

Where the shift takes place between the two profiles is in fixed income. Owls allocate significantly more than the Bulls and Bears, who are notably underweight compared to all wealthy investors.

FIGURE 5: 2014 Asset allocation plans of America's wealthy investors



Note: Alternative investments include private equity, commodities, venture capital and hedge funds.

Source: Scorpio Partnership, SEI.

In terms of market preferences, Bulls are, well, bullish on the U.S. economy, relative to Bears and Owls, and possess nearly twice as much of a belief that the nation will be the leading strongest performer. Bulls believe the U.S. will maintain its superpower status over the next five years and are optimistic the government will address debt issues well before 2020. However, the Bulls remain the most concerned about how government actions will impact the recovery. While Bulls are essentially hardwired optimists, they are also affected by change. Recent economic and market conditions could temper their strongly held views.

Using the head versus gut

The research clearly shows marked differences of opinion among the profiles. Overall, both Bulls and Owls are twice as confident as Bears about achieving their financial goals within five years. **This confidence is notable given that Owls are 50% more likely to rely on their head when making investment decisions, while Bulls place a greater faith in their heart and gut.**

The survey findings should raise questions about your preferences and attitudes, the profiles themselves provide a shortcut as well as examples of how your peers (Bull, Bear or Owl) make decisions or, in other words, how much they rely on their gut versus their head.

Whether we realize it or not, most of us rely on our gut and nonconscious thoughts to make decisions. Warren Buffett is known for trusting his intuition and listening to his gut when investing in companies. But, that intuition is backed by information. According to biographer Alice Schroeder, Buffett oftentimes retreats to his office for days, poring over calculations ahead of an investment decision in order to determine with his head whether his gut instincts are right.

Our nonconscious thoughts play a larger role when the problem is complex; when information is ambiguous and changing; and when goals are ill-defined, shifting or competing. Sounds like investing, doesn't it? Clearly, it can be dangerous to rely on gut instincts when making decisions about something as important as our financial health.

Like Buffett, we need to be aware of our emotions, understand our preferences or biases, and guard against traps that can lead us into trouble. Most importantly, we need to be clear about what kind of investor we are and what we want to achieve. Whether you're a Bull, a Bear or an Owl, such knowledge will be of limited value if you're not equally clear about the desired outcomes.

Get advice from all corners

Early SEI research suggests wealthy investors are focused on a variety of important goals: maintaining family security, helping children become more successful, providing a quality education and assisting the less fortunate. A goals-based approach defines outcomes and measures each decision against that outcome. Investing without goals is like sailing without a fixed destination — the wind can take you anywhere.

To make your best financial decisions, remember

- › Know what type of investor/decision-maker you are (Bull, Bear or Owl)
- › Get the facts from both experts and your peers
- › Set strong goals that will guide your decisions and mitigate the adverse impact your gut (biases) can have on the decisions
- › Get a second opinion from a trusted copilot

We strongly encourage you to involve your family on strategic decisions that affect family wealth. The head of the household who traditionally made all the decisions is becoming a thing of the past, as spouses, children and other heirs are taking on more active roles.

The role of the beneficiaries is changing as well. They should be expected to acquire the requisite knowledge and skills to contribute to the conversation. Better informed beneficiaries help to ensure that family wealth is successfully transferred from one generation to the next.

Finally, the professional advisor's role is changing. Financial professionals need to supply more than just investment products. You need an advisor who contributes to the strategic planning process, one with the skills to assess risk and reward against family goals. Market indices and benchmarks are not the answer. They're just tools for making better decisions with the help of your family and your financial professional.

1 Freedom Valley Drive

Oaks, PA 19456

1-888-551-7872

seic.com/privatewealth

About the sample

There were 194 UHNW investors residing in the U.S. who took part in this fifth survey in the research program that started in 2011. The respondents were drawn from a range of independent sources. The average total financial assets of the individual respondents were \$13.2 million with, for the vast majority, less than 20% constituting their residential assets. Of these, 51% were self-classified entrepreneurs. The average annual income of the respondents was \$567,000, with individuals worth more than \$10 million having an average income of \$1.1 million per annum. The sample had an average age of 56, with 77% of the respondents being male. Interestingly, however, the average wealth of females participating was nearly double that of males.

This sample size is considered relevant in size and response levels for the community of private client investors. Indeed, overall, this survey program examining UHNW habits continues to be among the largest of its kind. To date, there have now been 766 UHNWs participating in the survey program, providing a very special window into the belief systems and requirements of an extremely difficult-to-reach client segment.

About the research authors

The research has been analyzed and prepared by Scorpio Partnership in close cooperation with the SEI Private Wealth Management group. Scorpio Partnership is an award-winning global research and development think tank. The firm is focused exclusively on understanding the requirements of private client investors and how wealth managers can better meet their needs. Founded in 1998, the business has now surveyed more than 20,000 high-net-worth and UHNW investors across more than 30 countries. In addition, it has also collected the views of more than 10,000 professional advisors in the course of its various business assignments. Scorpio Partnership and SEI have worked together for more than a decade.

For other recommended research on the topic of investor asset allocation, consult the RBC Wealth Management Capgemini World Wealth Report 2013.

For more information, visit SEI's Private Wealth Management website at seic.com/privatewealth or contact a member of the Private Wealth Management team at **1-888-551-7872**.

SEI Private Wealth Management is an umbrella name for various life and wealth services provided through SEI Investments Management Corporation, a registered investment advisor.