What makes Asia's wealthy tick

Despite bearing the brunt of several costly natural disasters and economic crises, the number of affluent individuals in Asia continues to rise quickly. Nicola Davies examines the psychology behind the investment patterns of the region's wealthy.

Asia is no stranger to its share of financial peaks and troughs. The region that suffered a currency crisis in 1997 and 1998 has been affected by a succession of economic setbacks since, the most recent being the global financial crisis that resulted in the current eurozone sovereign debt crisis. This has impacted global investor confidence in markets deemed to be more risky.

Yet despite the straitened circumstances in which much of the developed world finds itself, economic growth in this region continues to be fueled by growing domestic markets, investments in reconstruction and infrastructure projects. It's led to sustained economic strength, which is bolstering the numbers of wealthy in the region.

Ledbury Research, which specialises in the analysis of global wealth trends, predicts that by 2016 the US will still account for the most centa-millionaires, or individuals with at least US$100 million in assets, possessing at least 17,100 such individuals. But China will not be far behind; its centa-millionaires are set to double to at least 14,000.

"We believe the number and concentration of centa-millionaires accentuates the trajectory of current global wealth flows," says James Lawson, director of Ledbury Research. This expansion is likely to be replicated in lower wealth tiers over the coming years. Asia, and most particularly China, is set to boast a large proportion of the world's wealthy.

The rapid growth of the numbers of high net worth individuals in Asia has led to a rising interest in the psychology behind the investments of the region's wealthy. Banks and financial advisers that can best understand the preferences of these clients can better meet the needs of their clientele if they understand why and how they decide to make the investments that they do. What exactly is it that makes them tick?

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Knowing what drives their actions will allow bankers to specifically target those behaviours and gain their business. By being able to analyse and predict how and why they make the riskier decisions, bankers can accommodate their preferences to gain their recommendations and grow their clientele base.

GENERATIONAL GAP

A key psychological component of the investment preferences in the region's millionaires relates to demographics. Put simply, there are, broadly speaking, two generations of high net worth individuals in the region.

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The first generation comprises individuals between 40-50 years of age, who grew up in poverty, and were lacking in access to modern technologies and conveniences. Stock and corporate opportunities launched these individuals into the world of the billionaires.

Robin Li, founder of Baidu, and currently ranked the second wealthiest man in China, belongs in the first generation of high net worth individuals. Both his parents were factory workers and he grew up in the Shanxi Province. From the most humble of beginnings, he was propelled into great wealth over a relatively short period.

Indeed, most of China's high net worth individuals only briefly experienced intermediate wealth on the road to their fortune. The difficulty and harshness of their experience of poverty is a key influencing factor within most of their economic decisions.

They tend to make riskier investments than their international cohorts and hold, on average, a higher percentage of cash or the equivalent. They possess many portfolios, ranging from 25%-35% in equities, 20% in bonds and the remainder in riskier hedge funds and real estate investments.

Many first generation Chinese are wary of the long-term, sustainable growth of the local economy and their lasting fortunes. This reflects on their investment portfolio, which is often biased towards projects with near-term returns rather than those with a long-term projection.

Most of the first generation of wealthy is also wary of showcasing wealth and power. As a consequence they tend to dislike receiving any public prominence, such as being featured on the wealth lists of *Forbes* or the *Hurun Report*, a local China list of the country's wealthiest individuals.

The second generation of high net worth individuals in Asia tends to be more aggressive in their investment choices, largely because they grew up in different circumstances than their first generation counterparts. Not having experienced the extreme poverty, this younger generation of investors have less fear of returning to a time of deprivation; they don't have the same mistrust of the market that the first generation do.

This generation has so far enjoyed sustained growth in their investments, making them more apt to invest into capital growth and the preservation of capital over long-term periods. Having a different mindset, they see the market as a steady growth in capital rather than a risky endeavor that should only be dipped into and gotten out of quickly.

Both generations of China's wealthy have become increasingly willing to enjoy their wealth through the purchase of high-quality luxury brands and services. In fact, the wealthy segment of China's population is one of the top purchasing groups of luxury products in the world, as any quick visit to

PENCHANT FOR PROPERTY

One investment commonality between almost all high net worth individuals in Asia is a strong predilection for property investments.

This is where behavioural finance can provide some insight into the psyche of the rich in Asia. Arun Abey, co-founder of Ipac Securities and author of *How much is enough?* utilises the areas of psychology and behavioural finance to provide insight into high net worth individuals.

He believes that, "one of the reasons for [Asian investors'] bias towards property is the fact that it is very tangible". If the market for property goes down, they still have an investment in hand. Unlike wealth on paper, property is a tangible asset. There is no possibility of losing it through market fluctuations.

Alistair Meadows, head of Asia Pacific International Capital Group at Jones Lang LaSalle, cites that high net worth individuals in Asia are a leading source of capital flow in London's commercial real-estate market. According to the firm, the percentage of Asian investors increased from 6% in 2010 to at least 20% in the first half of 2012.

While this figure mostly reflects data on commercial real estate, it is expected that Asians with money will continue to invest through residential investments in the West End. Likewise, due to the property crash, many Asians have capitalised on residential real estate in the US, choosing to build homes or vacation houses for themselves.

However, there are disadvantages to investing into property. The biggest one is accurately ascertaining its value at any given moment.

"Despite the property market being as inherently volatile as the equity markets, it is not marked to market. So on a daily basis, the fluctuations are not easily visible," says Abey.

Investors realise that although property can lose value, it is an investment that is not gained or lost on paper. It is an investment that is part of their net worth, but not a portfolio number. By acquisition of land, they increase their dominance, and maintain it in spite of market fluctuations.

With this in mind, Abey argues that high net worth individuals in Asia should acquire sensible strategies to invest in equities, which are far more transparent and liquid. ◢

Shanghai, Beijing or even Hong Kong shopping malls will reveal.

But the ones most likely to flaunt such wealth will be the second generation, many of whom have up with wealth. Not having the fear that it can all be lost, or the memory of what it was like to be in poverty, they feel secure in spending the capital that they have acquired, instead of holding onto it in case the bad times should come again.

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> RUPERT HOOGEWERF, EDITOR, *HURUN REPORT*

CONFIDENCE IS KEY

While there is some clear difference in the psychology behind the investments of the first and second generation wealthy in Asia, a number of psychological factors are also at work across all high net worth individuals.

The most important is confidence, which acts as the key motivating factor to investments. The Middle East emirate of Dubai, for example, lost much of its appeal as a financial hub with investors and companies when it had to be financially bailed out after its housing market collapse. But international estimates are being made about the comeback on the horizon for Dubai leading many local businesses to prepare for a return of wealthy individuals.

One such company is Insignia Lifestyle Management, which caters for the "elite echelons of high society" in Dubai. It intends to introduce a 'super credit card' decorated with jewels, pearls and precious woods for individuals with over £30 million (US$48.36 million) in assets.

Dubai's key hope is that wealthy in the Middle East and Asia will be willing to make a bet on its ability to rebuild to its place of prominence. Appealing to Asia in particular makes sense; Oliver Rust, managing director of Nielsen Hong Kong, says that high net worth individuals in this region have a greater appetite for risk-taking than anywhere else.

This can in part be attributed to the rapid growth of wealth in the region. Asia's quick economic expansion has made regional HNWIs more aggressive when investing because they feel more confident when opportunities for making money are more prevalent.

Nielson highlights that 38% of Hong Kong investors are willing to accept market volatility of more than 15%, compared to 24% of Europeans and 17% of North Americans. And when asked about the behaviors of Asian investors versus rich people in other regions, Tan Sing Hwee, Asia-Pacific chief investment officer at Société Générale's private bank comments, "Asian clients tend to trade a lot more aggressively than their European counterparts. The European client is more portfolio-focused."

This is because of high expectations among Asia's wealthy. Rupert Hoogewerf, publisher of the *Hurun Report*, notes that "The expectations are high in the context of China and the growth it has been seeing. If you've got spare cash and you're not getting 10% or 15% return, that's not considered good."

A SURFEIT OF CONFIDENCE?

While Asia's new generation of wealthy investors in particular are more confident, ambitious and willing to take risks this doesn't necessarily mean that it's wise for them to solely chase high risk, high-yielding investments.

Understanding psychology is important, but ultimately private banks and external asset managers (see box below) are employed to offer the wisest investment options they can provide their clients. Trying to gain potential profits is important, but they cannot put the client too much at risk unless they are explicitly told to do so.

The second generation may not be of the mindset that investments can collapse quickly, but private banks and institutional investors have to follow their own instincts and not completely defer to their clients. By ignoring their instincts or paying attention to what the markets are saying in an attempt to please the return aspirations of their high risk clientele, they risk huge profit losses for their firms and the very individuals they were trying to serve.

Companies need to keep HNWI personality traits in mind when they advise their wealthy clients. They have had it good for some time in Asia. But too much confidence can cause hubris. ◢

EXTERNAL ASSET MANAGERS

Private banks tend to be the traditional font of investment advice for the world's wealthiest citizens. Yet despite the undoubted years of experience that these institutions hold, the rising riches in Asia in particular have fostered the development of advisory rivals: external asset managers (EAMs).

While external asset managers have long been prominent in Europe, they have begun creeping their way into Asia over the past few years. And to better cater to their prospective clients they are taking the psychology of regional investors into account.

Chuck Ng, head of EAMs for Asia Pacific within the private banking division of Credit Suisse, says regional EAMs are shifting from the traditional Swiss model to one that is tailored to the idiosyncrasies of the region's rich. Swiss investors are less risky and see sustained growth as a viable investment strategy, but in an effort to please Asian investors they have begun to incorporate more risky portfolios and investments.

Second generation individuals in particular are attracted to EAMs, which offer more immediate returns on the investment. This means that the wealthy investors can get in and make money quickly, lessening their risk for long-term investment collapse; they experience immediate profit. ◢