

MORGAN STANLEY WEALTH MANAGEMENT INVESTOR PULSE POLL REVEALS ILLINOIS INVESTORS OPTIMISTIC ABOUT U.S. AND GLOBAL ECONOMIES BUT EXPRESS SERIOUS CONCERNS ABOUT STATE'S FINANCIAL FUTURE

INVESTORS CONFIDENT IN MEETING FINANCIAL GOALS BUT HIGHLY CONCERNED ABOUT WELL-BEING OF STATE, US ECONOMY AND FEDERAL BUDGET DEFICIT

ILLINOIS PENSION CRISIS DRIVES CONCERNS OVER STATE FISCAL HEALTH

HOUSING IS MIXED; MAJORITY OF CHICAGO INVESTORS SAY THAT FORECLOSURES HAVE AFFECTED THEIR NEIGHBORHOODS.

CHICAGO, APRIL 22, 2013 - In parallel with a rising stock market, Chicagoland investors say they are confident that the nation's economy is on the right track but are highly skeptical when it comes to believing that the state's economy will improve anytime soon, mainly because of concerns relating to the state's pension crisis.¹

Most Chicagoland investors are bullish about the global economy (74%) and US economy (70%) but those numbers drastically dip at the state level:

- A majority (58%) sees a worsening of the state economy by the end of this year.
- Only 16% believe the state economy will be better by the end of 2013 compared to 40% believing the global economy will be better and 45% feeling the same way about the national economy.
- Economic issues top the list of Chicagoland investors' concerns. 93% are worried about the financial well-being of the state with 80% describing themselves as "very" concerned.
- Investors are most concerned with the pension crisis (52%), Illinois state deficit (20%), state taxes (13%) and budget cuts (8%).

"The poll shows that Illinois investors are optimistic about the national economy and opportunities in the markets, despite lingering concerns about the state's economy, particularly when it comes to pension issues," said Kevin Forman, Regional Director for Morgan Stanley Wealth Management in Chicago. "While the national outlook is a welcome change after years of pessimism, investors in the Land of Lincoln are more concerned about their state's economy than investors from any other state who took part in the poll."

¹**Survey Methods:** as part of the national survey of 1,000 US investors, age 25 to 75, with \$100,000 or more in investable household financial assets, an oversample of 302 Chicago area investors were interviewed. Approximately one-third of those interviewed had \$1 million or more in household financial assets. Poll conducted Jan. to March, 2013, by GfK Public Affairs and Corporate Communications.

Housing is mixed with few investors sensing improvement in Chicago's Real Estate, while many think it is a good time to purchase real estate.

Amid some signs of a national housing recovery, only one in three investors (32%) sense improvement in their local housing market (average 9% price appreciation) yet it is still below the nationwide average of 41%.

- Six in ten Chicagoland investors (61%) say foreclosures have affected nearby neighborhoods, far higher than the 43% of nationwide investors that claim the same for their neighborhoods.
- 36% say prices are flat, and 30% see a price decrease (average 12% price decrease).
- In the past three years, 46% of Chicagoland investors have made some type of real estate transaction. Many have taken advantage of historically low interest rates via refinancing (31%), especially younger investors (40%) while only 9% have made new property purchases.

Many Chicagoland investors do, however, think it is a good time to purchase real estate: primary residences (78%), rental property (48%) and second homes (39%).

Optimism for portfolios and growth

In parallel with a rising stock market, investors are optimistic about the prospects for their portfolios and growth of the global and US economies.

Tracking very closely to national results, investors are confident about reaching their long-term financial goals. In addition:

- 91% expect their investment portfolio to be “better” or “the same” at year-end and 90% believe their financial well-being will be the same or better.
- Chicagoland HNW investors are confident (83%) that they will achieve their long-term financial goals.
- Nearly as many of those not retired (81%) are also confident that they are on track in their retirement planning.

Asset allocation favors equities with a sizeable commitment to cash, fixed income, and other investments;

In Favor investments are Broad Index Funds and dividend bearing stocks;

Out of Favor investments are Home State Munis, General Obligation and Corporate Bonds, Treasuries, and International Stocks and Mutual Funds;

In Favor sectors are Pharma, Tech, Energy, and Bio-Tech.

Equities make up the biggest single portion of Chicagoland investors' portfolios (44%), followed by cash (23%), fixed income (19%) and all other investments (14%).

Chicagoland investors say good investments for 2013 are S&P 500 index funds (51% saying “good”), dividend bearing stocks (51%), and Dow Jones Average index funds (45%).

Bad investments for 2013 are home state municipal bonds (8% “rated as good”), general obligation bonds (13%), corporate bonds (24%), Treasuries (25%), and non-US international stocks and mutual funds (25%).

Good investment sectors for 2013 are Pharmaceuticals (70%, good), Technology (65%), Energy (62%) and Bio-Technology (60%).

Millionaires are different

Investors with household assets of \$1 million or more, who make up a third of poll respondents, are more likely to see improvement in their portfolios from 2012 (77% vs. 53% in lower asset group) and, predictably, are **less concerned** than HNW investors overall about:

- Funds to cover the unexpected (44% vs. 68%)
- The ability to retire when desired (28% vs. 58%)
- Living beyond one’s assets (36% vs. 55%)
- Funding a child’s education (23% vs. 48%)
- Paying off the student loan debt of their spouse, children or grandchildren (12% vs. 27%)

In the opposite direction, millionaires are somewhat **more concerned** about the trade deficit (93% vs. 80%, overall), phase-out of personal exemptions and deductions (93% vs. 86%, overall), volatility in the stock market (87% vs. 78%), and terrorism (82% vs. 74%).

From an **investing perspective, millionaires are also more bullish** than HNW investors overall on real estate for purchasing a second home (50% vs. 39%) and on investing in REITs (51% vs. 39%).

Financial advice is in high demand

Investors want financial advice—specifically, communication and analysis. Nearly eight in ten Chicagoland investors (77%) use one or more financial advisors, and for millionaires the percent increases to 88%.

- 87% want guidance and resources on changes in the fed tax policy & exemptions
- 86% want guidance on their portfolio asset allocation
- 83% want clear communication on how assets can contribute to a retirement income stream
- 81% want new investment ideas; analysis of the economy and potential portfolio impacts; and downside portfolio protection

- 66% want guidance on estate planning to minimize tax effects on assets passed to heirs

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