LGT Gruppe Stiftung
Herrengasse 12, FL-9490 Vaduz

Tel. +423 235 11 22, Fax +423 235 16 77
lgt@lgt.com, www.lgt.com
UID: CHE-208.624.214

Media release

LGT study: ten years of investor behavior in comparison

Swiss investors learn from crises, but remain true to their investment mix

Zurich, 4 June 2020. **From the financial crisis of 2008 to the corona crisis in spring 2020: high-net-worth Swiss investors have experienced turbulent times in recent years. They have learned lessons from the crises, but if anything has changed in their portfolios, then only in the short term. These are the findings of the latest comprehensive LGT Private Banking report on investor behavior in Switzerland, Austria and Germany. Personal advice remains important despite a wave of digitalization, and little use is still made of sustainable investments.**

For the last ten years, LGT has commissioned a comprehensive biennial study on the investment behavior of private banking clients in Switzerland, Austria and Germany. The study is conducted by the Department of Asset Management at Johannes Kepler University in Linz under the leadership of Prof. Dr. Teodoro D. Cocca. The LGT Private Banking Report contains long-term data for the DACH region and highlights how external events and personal attitudes impact the behavior of high-net-worth investors. This year's study focused on investor behavior since the 2008 financial crisis as well as during the current corona crisis. High-net-worth investors were surveyed to this end in January/February 2020 and in a follow-up study in April 2020 (Switzerland only).

Crises give rise to fears, but only have a short-term impact on the asset mix

80% of respondents in Switzerland, Austria and Germany experienced the 2008 financial crisis as investors, and around half thereof perceived it as a far-reaching event. In a long-term comparison, the LGT Private Banking Report shows that although crises give rise to fears, the asset mix is generally only impacted in the short term as a result of an increase in allocations to cash or gold. Actual behavioral changes can be seen at most in a minority of investors. For many, the "search" for returns remains the strongest driver of their investment behavior.

The 2008 financial crisis has resulted in a more critical attitude towards banks and relationship managers. This was confirmed by 65% of respondents who experienced the crisis as investors. The current report shows that confidence in and satisfaction with banks in the years that followed the crisis had returned, before being put to the test again during the corona crisis. This time around, banks and relationship managers appear to have again only partially passed the "crisis test". This is especially true for so-called Soloists: for 60% of private banking clients who make their own investment decisions, satisfaction with the bank and relationship manager declined significantly between January and April 2020. Also of note is that the share of these Soloists has increased from 37% to 41% since 2010. "The more critical attitude resulting from the experience of the crisis has led this segment of investors to stop relying on the banks and make their investment decisions autonomously. This trend appears irreversible," explains Prof. Dr. Teodoro D. Cocca of Johannes Kepler University in Linz, who led the study.

63% of respondents who experienced the financial crisis as investors say that they have since avoided investments that they do not understand. In addition, they say that they base their investment decisions more on facts (60%), have become more cautious (60%) and that they have made their portfolio more conservative in order to take fewer risks (52%). It therefore appears that high-net-worth private banking clients now tend to be more rational in their investment decision-making than ten years ago. The corona crisis also supports this hypothesis. The Swiss respondents remained calm: panic-driven purchases were rare.

Only half thereof made adjustments to their portfolio between mid-February and the end of April 2020, and the majority of these adjustments were undertaken to buy attractively priced equities.

Crises and other negative events also always lead to a short-term flight to cash or gold. Over the past ten years, the share of cash in portfolios has fluctuated between 28% and 34% depending on the stock market situation, and has shown a reverse trend to the share of equities held in portfolios. After the financial crisis, allocations to equities began to slowly rise again (risk was increased). In contrast, due to the debt crisis in the eurozone and the depegging of the Swiss franc from the euro in 2015, equity allocations decreased and risk was reduced. The move away from risky investments is always, however, only of short duration. Respondents are aware of the risks associated with equities, and perceive these as tending to be higher than for other asset classes. However, at the beginning of 2020, 59% of the Swiss respondents did not see another asset class that would generate attractive returns in the prevailing low interest rate environment. "Although they consider equities to be overvalued, they are riding the wave. This also has to do with the fact that the investors do not have a good enough understanding of the 'real' alternatives to equities – such as private equity – and are skeptical about them," says Prof. Dr. Teodoro D. Cocca. "The banks have not succeeded in communicating to investors how alternative investments can be used in a meaningful way for portfolio diversification."

In 2020, German respondents hold an average of 12% of their assets in alternative investments. For both the Swiss and Austrian investors, this figure is 4%. In the specific case of private equity, 40% indicate that this asset class develops independently from equity markets and other investment categories – and that adding them to their portfolio could make sense. However, one third of the respondents feel that private equity investments are too difficult to understand. In the equities segment, investors continue to tend to prefer domestic investments. This home bias has been decreasing slightly in Switzerland since 2010 (from 72% to 66%). Geographic diversification has improved somewhat, although, as found in earlier LGT Private Banking Reports, overall, diversification is suboptimal.

All of these effects – a more critical attitude towards the banks' advisory efforts, dispensing with investments that one does not understand and the skepticism towards alternative investments – have led to little change in the portfolio structure of investors over the last ten years. The share of equities and of cash rose only slightly between 2010 and 2020 (from 34% to 36%, and from 28% to 29%, respectively). Only the share of bonds significantly and continuously decreased during that period (from 14% to 6%).

"With the 2008 financial crisis, the eurozone debt crisis, events such as Fukushima and Brexit, and simmering trade conflicts, private banking clients have experienced turbulent times over the past 12 years. If such turbulences have an impact, it appears to come in the form of short-term changes in investment and decision-making patterns. But in the longer term, it is surprising how low their level of influence remains," says Prof. Dr. Teodoro D. Cocca. "Also noteworthy is that despite technological advances, the demand for advisory services remains high, even 12 years after the financial crisis."

Personal advice remains core service for high-net-worth investors

Even if individual investors have increasingly relied on their own abilities due to their experiences during crises, personal advice remains very important for a large majority of clients. In fact, they desire a higher intensity of contact, especially in the context of personal discussions and events. The trend towards digitalization has flattened, particularly in the last two years. Online offerings, especially for placing orders and monitoring portfolios, are now of consistently high importance across all age groups, but in some cases their importance is declining slightly (2020: 75% vs. 2018: 79%). 59% of the investors continue to emphasize that placing an order by means of personal contact with their relationship manager is important. Only around one fifth of the respondents is considering whether a relationship manager is truly needed. In terms of advisory services, humans are clearly preferred over machines. "The majority of clients – regardless of age – does not appear to want to move away from the relationship manager model. Instead, they would like to have a combination of both," says Prof. Dr. Teodoro D. Cocca. This could also have to do with the fact that although 60% of investors have acquired greater financial literacy, the share of respondents who indicate they have no or only basic financial literacy has remained surprisingly high since 2010 (between 32% and 49%).

Over the past ten years, the willingness of private banking clients to change banks has also tended to decline, and loyalty to the bank has increased at the expense of loyalty to the relationship manager. In 2010, shortly after the financial crisis, 26% of the respondents had considered changing banks. In 2020, this figure is only 12%. At the beginning of 2020, 8% of respondents were satisfied with their relationship manager but not with their bank, and are therefore "at risk". The banks have thus succeeded in strengthening their relationships with clients in many areas. Further to this, due to the increasingly complex banking relationships, it has become more difficult for relationship managers to "bring along" their clients when changing from one institution to another.

Sustainable investments: more lip service than concrete action

Although sustainability receives substantial media attention and investors emphasize the importance of environmental, social and ethical aspects when selecting investments, little use is still being made of sustainable investments. Half of the investors are convinced that sustainable investments would help to establish ethical standards in the economy, improve social conditions and protect the environment and climate. The majority says it is "concerned" about climate change (83%) and the widening gap between rich and poor (75%). They also show strong interest in integrating ESG criteria (43%) in investments, sustainable funds (48%), impact investing and microfinance (55%). However, there is a very large difference between these statements and actual behavior: only 10% of the assets of Swiss investors is actually invested using sustainability criteria. The investors clearly prioritize returns over environmental or social risks – although most studies show that sustainable investments generate better long-term returns. However, it is difficult to change preconceptions: 31% of Swiss private banking clients still believe that returns on sustainable investments are generally lower than for traditional investments.

Sustainability has become an important topic for investment managers and banks in recent years. "However, the financial institutions have not really succeeded in conveying fundamental information or exciting investment stories about sustainability to investors. It appears as if they are pushing sustainable investing more externally than in their advisory services. Clients want more information and are expressing interest in concrete product offerings. This could help to dispel persistent preconceptions about sustainable investments, such as the perceived disadvantage in terms of returns. There is still room for improvement when it comes to sustainable investing," says Prof. Dr. Teodoro D. Cocca.

You can find the LGT Private Banking Report on our website at www.lgt.com Publikationen/Private Banking Report (German only).

Methodology

Under the leadership of Prof. Dr. Teodoro D. Cocca, the Department of Asset Management at Johannes Kepler University in Linz in January/February 2020 conducted the sixth survey since 2010 on the investment behavior of private banking clients in Germany, Austria and Switzerland. At total of 358 individuals were surveyed (106 in Germany, 100 in Austria and 152 in Switzerland). The main criterion for participation in the survey was disposable investment capital. In Germany and Austria, the minimum disposable investment capital was EUR 500 000 and for Switzerland, it was CHF 900 000. Due to the effects of the corona pandemic on financial markets, a follow-up survey was conducted in April 2020 with the private banking clients in Switzerland who had already been surveyed in January by the LINK Institute (127 individuals).

LGT in brief

LGT is a leading international private banking and asset management group that has been fully controlled by the Liechtenstein Princely Family for over 80 years. As at 31 December 2019, LGT managed assets of CHF 227.9 billion (USD 235.3 billion) for wealthy private individuals and institutional clients. LGT employs over 3600 people who work out of more than 20 locations in Europe, Asia, the Americas and the Middle East. www.lgt.com

Your contact

Christof Buri
Head Group Marketing & Communications
Tel. +423 235 23 03
lgt.media@lgt.com