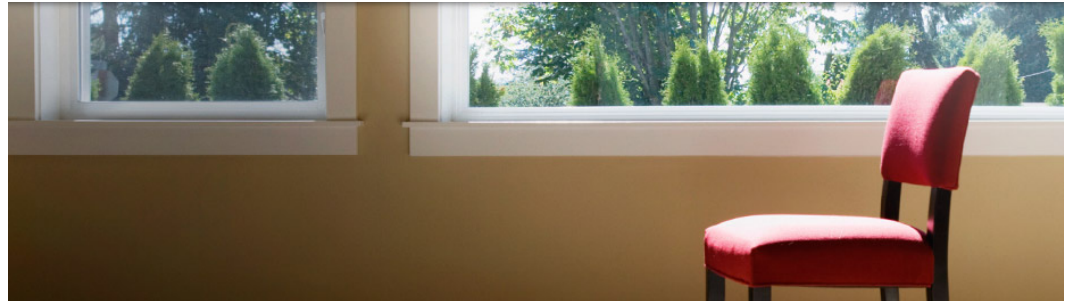


Hypothetical investments. Real worries.



One million dollars

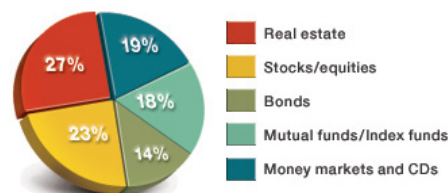
The subprime mortgage crisis. An economy that's shedding jobs. Dismal corporate returns. Despite the barrage of bad news, almost three quarters of the investors in a recent survey say they are sitting tight and staying the course of their long-term financial strategies.

In early February, the IBM Institute for Business Value (IBV) commissioned Braun Research to conduct a telephone survey with over 1,000 U.S. investors to gauge public confidence. The majority (60%) thinks things will get worse before they get better and that it will take over a year for the markets to stabilize.

"But very few investors expect to change their diversification," points out Suzanne Duncan, IBV financial markets industry leader. "They're taking a long-term approach to investing. The findings are encouraging."

The powerful attraction of real estate

Although the housing market is in turmoil, investors still believe in real estate. Asked what they would do if they had \$1 million dollars to invest, here's where they would put it.



And these are not neophyte investors. Almost three quarters of the interviewees consider themselves knowledgeable about the subprime mortgage issues, but only 8% believe this is the biggest challenge facing the country today.

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Investor worries

In your opinion, which one of the following, if any, is the biggest issue facing the country today?

| | |
|-----------------------------|-----|
| Healthcare costs | 30% |
| Energy costs/price of oil | 23% |
| National security | 19% |
| Global warming | 13% |
| Weakened real estate market | 8% |
| Stock market volatility | 3% |
| None of the above | 4% |

“Investors are surprisingly risk-hungry,” Suzanne Duncan says. “Reading between the lines, they are hoping they can generate enough money to withstand the effects of the two top issues that are keeping them up at night: rising healthcare and energy costs. We think that investors are willing to take on more risk to generate greater returns in the long run.”

What’s different about this crash?

After the majority of crashes in the past, large institutions mainly in the U.S. and Europe — not individual investors — stepped in to invest and restore confidence.

But this time around, these institutions are sitting on the sidelines, stockpiling cash to record levels. According to a Merrill Lynch fund manager survey, managers as of February were overweight in cash for the first time since 9/11.¹

Rather, it is institutions and sovereign funds in the oil-rich Middle East and cash-rich Asian governments who are coming forward, having pumped over US\$60 billion thus far into financial firms.

So it is an unlikely pairing of the “man-on-the-street” investor and the 800-pound gorilla sovereign funds that may be rescuing the markets.

Lack of trust

A relationship that needs tending

While investors still have confidence in the economy, their relationships with their advisors are fraying. Of those interviewed, about half used an advisor and of these, 46% would be willing to switch to another firm if the new company could show that it provided quality, unbiased advice and didn’t push its own funds. Investors are in an awkward position: managing money in a high-risk environment without having faith in their advisors. “Brokers ranked dead last on a list of professions in terms of who investors trust,” Suzanne Duncan said.

¹ [Merrill Lynch Global Securities Research & Economics Group](#)

List of professions by trustworthiness:

“It is extremely likely I would recommend this professional to family or friends...”

| | |
|-------------------------------------|-----|
| Your doctor | 52% |
| Your dentist | 47% |
| Your accountant | 32% |
| Your lawyer | 28% |
| Your stock broker/financial advisor | 22% |

Investment in green initiatives grows

One business strategy is resonating with investors: environmental or “green initiatives.” Three quarters of all respondents are more likely to invest in companies with environmental best practices and 73% would invest in companies that produce alternative fuels. Also attracting investment are businesses that:

- Give back to the environment (63%)
- Produce all natural products (58%)
- Are involved with organic foods and products (49%).

One thing’s for sure...advisors need to strengthen their client relationships quickly. Perhaps brokerage firms, fund managers and distributors should take note of the success of “green” strategies, which are based on the principles of transparency of information, public trust and long-term sustainability.

IBM Corporation

New Orchard Road, Armonk, NY 10504