THE HARTFORD COURANT

April 23 and 24, 2013

http://courantblogs.com/dan-haar/morgan-stanley-investor-poll-upbeat-overall-fearful-of-foreign-markets/

Morgan Stanley Investor Poll: Upbeat Overall, Fearful of Foreign Markets

BY DAN HAAR

Investors are generally optimistic about the economy and financial markets but are fearful of foreign stocks, according to a new poll by Morgan Stanley. And that's odd, since the financial services giant is among many that are recommending more overseas investment in 2013.

The poll of 1,000 investors nationwide by Morgan Stanley Wealth Management shows that people listed foreign stocks and mutual funds as a bad investment more often than any other asset, other than U.S. government debt. Twenty-six percent said foreign stocks were bad, compared with 22 percent who said that's a good investment in 2013.

It depends on the asset, of course, but investors are clearly afraid of the unknown when it comes to foreign investments — despite the advice they're getting. By contrast, 45 percent said the familiar Standard & Poor's 500 stocks are a good investment, compared with 9 percent who called the blue chips a bad place for their money in 2013, and gold was the most popular choice as a "good" investment, cited by 48 percent.

"On balance, Morgan Stanley recommends between international and emerging markets, that you have at least two times invested there as you do in U.S. markets," said Rick Ryan, regional director in

New England and upstate New York for Morgan Stanley's global wealth management business, in an interview.

"I can assure you there are very, very few investors that have that kind of profile," Ryan added. "It's a conversation investors ought to be having with their advisers."

In other areas, chiefly the big picture, investors in the poll align with the mainstream advice they're getting. Thirty-nine percent said their household's financial condition is better now than it was a year ago, compared with 18 percent who said it's worse. And 42 percent see more improvement in 2013, compared with 14 percent who see a deterioration.

They were even more ebullient about their financial portfolios — which makes sense, since the S&P 500 index was up 16 percent in 2012, including dividends, and is up further this year.

When it comes to the U.S. economy, 46 percent expect improvement over the next 12 months, compared with 33 percent who expect a decline. A smaller group of 326 investors with at least $1 million in financial markets said they were even more optimistic about their own portfolios and the nation's economy — and were less fearful about foreign investments.

"I happen to believe, and I know our firm believes, that the world economies are healing and recovering," Ryan said, citing U.S. housing markets, Japan and even Europe as areas where improvement is happening.

Investors in the tri-state area were especially upbeat about the national economy, but the difference might not be statistically significant.

Some prognosticators are calling for a correction in the stock markets, which are at or near record highs, but Morgan Stanley, like other major financial firms, is generally advising a balanced portfolio, not a flight out of the markets.

Investors' single biggest worry is the government budget deficit, with 65 percent saying they are very concerned. They might have even more to worry about if the government were to sharply cut spending, thereby potentially choking off the recovery.

"I'm not sure they are extrapolating what would happen to the economy if we do something about it," Ryan said.

Forty-four percent said they’re very concerned about a downgrade in federal debt ratings. Forty-six percent said they’re concerned about a repeal or reduction in the home mortgage deduction and 44 percent cited “being able to afford quality health care” as a major worry.

Surprisingly, increases in taxes on dividends and capital gains tax rates were not a concern on the list, and an increase in the state tax was a major fear for 21 percent — somewhat more of the millionaire investors.

The poll has a margin of error of plus or minus 4 percentage points for the full group of 1,000 investors.