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Opinion

Investing money like the wealthiest

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A study conducted by UBS sheds interesting light on the investment policies of the wealthiest people in the world. What the average investor can learn from them.

Many investors grapple with the question of when is the right time to buy and sell equities or which stocks might be the most promising. Such questions may seem exciting, but they are fundamentally irrelevant or at least of secondary importance. Achieving long-term success on the stock market is ultimately not the result of oracle-like predictions, but rather the consequence of an optimised investment strategy and the selection of the most promising asset classes. A look at the allocation of family offices responsible for managing the assets of wealthy families reveals some interesting insights.

A total of 320 single family offices all over the world were analysed in the "UBS Global Family Office Report 2024". The total assets held by the included families totalled over $600 billion, which, according to the authors, makes the study "the most comprehensive and revealing of its kind".

The ultra-rich, those that have assets worth several hundred million or even several billion available for investment, do not amass their wealth with savings accounts. Large wealth is built through entrepreneurship. So it's hardly surprising that 50% of the assets analysed are invested in equities, undoubtedly the most attractive form of investment over the long term. Of this figure, 28% is invested in listed securities and 22% in private equity (PE).

Plenty of equities and little real estate

Listed equities make up 31% and private equity18% of the holdings at family offices domiciled in Switzerland. The high proportion of unlisted equities may come as a surprise at first glance, but not on closer inspection: This is particularly high not least because it also includes extensive direct investments in companies where family shareholders often exert active control.

In comparison to the wealthiest, who have half of their assets invested in equities, only about 7% of the average Swiss person's savings were invested in equities in 2023, according to SNB data. In contrast, Mr and Mrs Swiss have allocated 47% of their assets to real estate. Their largest chunk of wealth by far is driven by the desire to own a home, something that requires a high level of mortgage loans. This preference for concrete gold represents a monumental difference to the investment policy of family offices. The wealthiest invest just 10% of their assets in real estate, predominantly in direct investments. Equities are therefore the undisputed number one in the real value ratio, a figure that exceeds 60% for the world's wealthiest people – far ahead of houses, condominiums and commercial buildings. While average investors tend to systematically overestimate the (net) return on real estate investments and underestimate the risks, the wealthiest adopt a significantly more defensive stance in this respect.

> "Gold is not a lucrative investment in the long term."

In what other investments have the wealthy put their money? The share of bonds and liquidity in bank accounts remains surprisingly high. For instance, 19% of assets are invested in listed fixed-interest securities and 2% in private debt, while 10% are held in bank accounts. It seems that even the super-rich, who essentially have a very high risk capacity, crave a certain degree of security. They want to be able to react flexibly to all possible developments with almost a third of their assets. But those who now assume that the wealthy would hold a high share of gold because of their need for security are mistaken. Only 1% is bunkered in the yellow precious metal.

With good reason: The fluctuation risks are arguably at least as high as those of equities, whereas the long-term return just compensates for the level of inflation. Gold looks unlikely to be a lucrative investment in the long term. Investments made in infrastructure, art and commodities can also be considered fairly negligible. Each of these categories represents less than 1%

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of the total wealth of the affluent. Art is more of a hobby for them than an investment.

The 5% share allocated to hedge funds is surprising. These complex products, which involve a lot of leverage, incur very high fees, usually making their returns sobering over the long term. Why do family offices continue to invest in hedge funds and PE fund-of-funds structures in spite of the fact that investors are concerned about liquidity and the associated exit opportunities, according to the UBS report?

Making yourself irreplaceable

It may sound cynical: As is the case with some pension fund consultants, family office managers also harbour a certain interest in complexity as a way of consolidating their own role as 'supervisor' in relation to their wealthy clients and making themselves irreplaceable. This is achievable through a certain amount of complex products that require intensive monitoring and often lack transparency. It can also be assumed that family office managers receive nice compensation from the well-oiled marketing machinery of the financial sector.

There are also interesting findings when we consider the regions in which the wealthy invest their money. It transpires that family offices from all over the world are subject to a significant home bias. American family offices invest 82% in the United States, whereas the European representatives invest only 38% in this region. In turn, the super-rich from America invest a mere 10% in Europe, while investors on the old continent invest a staggering 54% in their region.

Strong home

The distinctive home bias suggests that the wealthiest are active investors. This is because if they were to invest passively on a consistent basis, then their country of origin should not have a significant impact on the geographical distribution of their assets. When it comes to listed equities, passive investing would mean, for example, that the MSCI World equity index, over 60% of which is composed of American companies, ought to be the benchmark for all family offices – irrespective of their geographical location. This is not the case, leading to the interpretation that passive investing is being rejected.

What can average investors learn from the investment behaviour of the super-rich? Firstly: The vast majority of our long-term disposable assets ought to be invested in equities – whether they are in listed or privately held companies. Since private and presumably also most institutional investors do not have privileged access to excellent target companies in the private equity sector, in contrast to the wealthiest, they are advised to limit themselves to equities traded on a stock exchange.

Secondly: Both Swiss and German investors place far too much emphasis on real estate, the returns on which tend to be overestimated and the risk underestimated. Thirdly: Gold and cryptocurrencies play no relevant role in the wealth of the wealthiest. Fourthly: Family offices make active investments and focus on only a few, albeit the most promising, asset classes.

The Oracle of Omaha, Warren Buffett, once summarised it as follows: "The difference between successful people and very successful people is that very successful people say 'no' to almost everything."

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