ST. JAMES'S PLACE
WEALTH MANAGEMENT

MONEY RELATIONSHIP MONITOR 2020

Hong Kongers' Relationship with Money in Uncertain Times

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Welcome

Reflecting on a challenging time for investors

The year 2020 has been heavily defined by the impact of the COVID-19 pandemic, becoming a watershed moment as the world looks uncertainly to the future. The pandemic has led to record declines in global economic activity, as disruptive forces push many businesses, industries, and individuals to the edge financially. This has culminated in the largest economic recession since the Great Depression of almost a century ago.

For Hong Kong, the COVID-19 pandemic could not have come at a worse time. Economic outlook, industry performance and consumer sentiment were already at record lows largely due to the political unrest that took the city by storm. Coupled with the US-China tensions and China's slowing economy, the onslaught of COVID-19 has deeply battered the city's economic outlook.

What the pandemic has shown firstly, is that we live in unpredictable times. Financial worries, economic volatility and recessionary pressures have reached unprecedented levels, affecting a wide range of investments and asset classes.

Additionally, the swift and sudden disruption caused has given much pause in assessing our financial affairs – reminding us that a potential crisis is never far away. As volatility continues to beset financial markets, many investors are desperately looking for safe havens, and more are turning to financial experts for independent guidance to help invest their money safely and wisely.

St. James's Place Wealth Management Asia (SJP Asia) launched this report to better understand the hard truths about how Hong Kongers manage their money, as well as the softer aspects around how they take on board and use financial advice in building wealth and enriching their lives.

SJP Asia's research examines the insights of over a thousand middle-to-affluent class Hong Kongers with investing experience, attempting to analyse and understand their relationship with money and how it motivates them. The report corroborates some things that we already know – that most Hong Kongers are hardworking, industrious and want to build a better life for themselves and their loved ones. It also highlights some things that we ought to know – that we should all save more and that chasing wealth through work alone can be cyclical and requires sacrifice.

As the future, at least in the near-term, still looks uncertain, investors and individuals alike should study their financial habits with clarity, if only so that they can learn from the lessons of others and build a better future.

The value of an investment can fall as well as rise. You may get back less then you invested.

How are Hong Kongers Investing?

Investing Within a Comfort Zone

Earlier in the year, SJP Asia conducted research to examine how Hong Kongers are investing their money and their attitudes towards and perceptions of various asset classes.

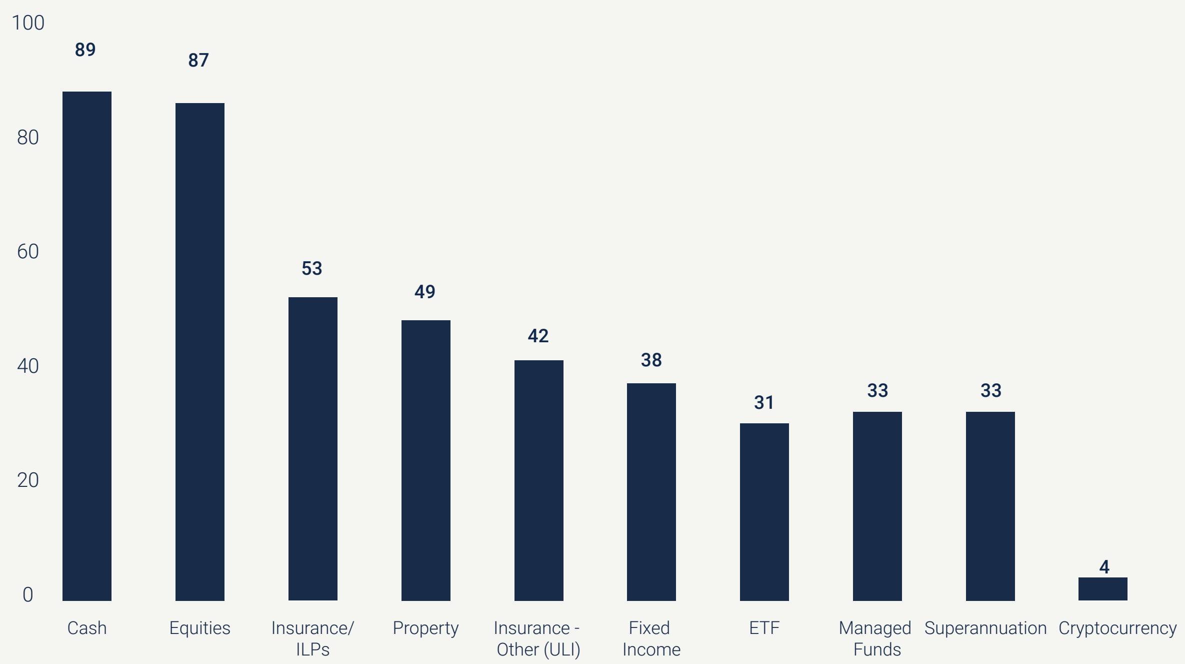
Outside of cash, Hong Kongers have the most exposure to equities, insurance (investment-linked policies or ILPs) and property. Conversely, the least popular asset classes are managed funds, ETFs, superannuation funds and cryptocurrency.

As investors tend to stick with what they know, these findings are not hugely surprising. Our research shows that while the majority of Hong Kongers are generally confident in investing and managing each asset class, the two areas where investors have the least confidence are cryptocurrency (63%) and managed funds (48%).

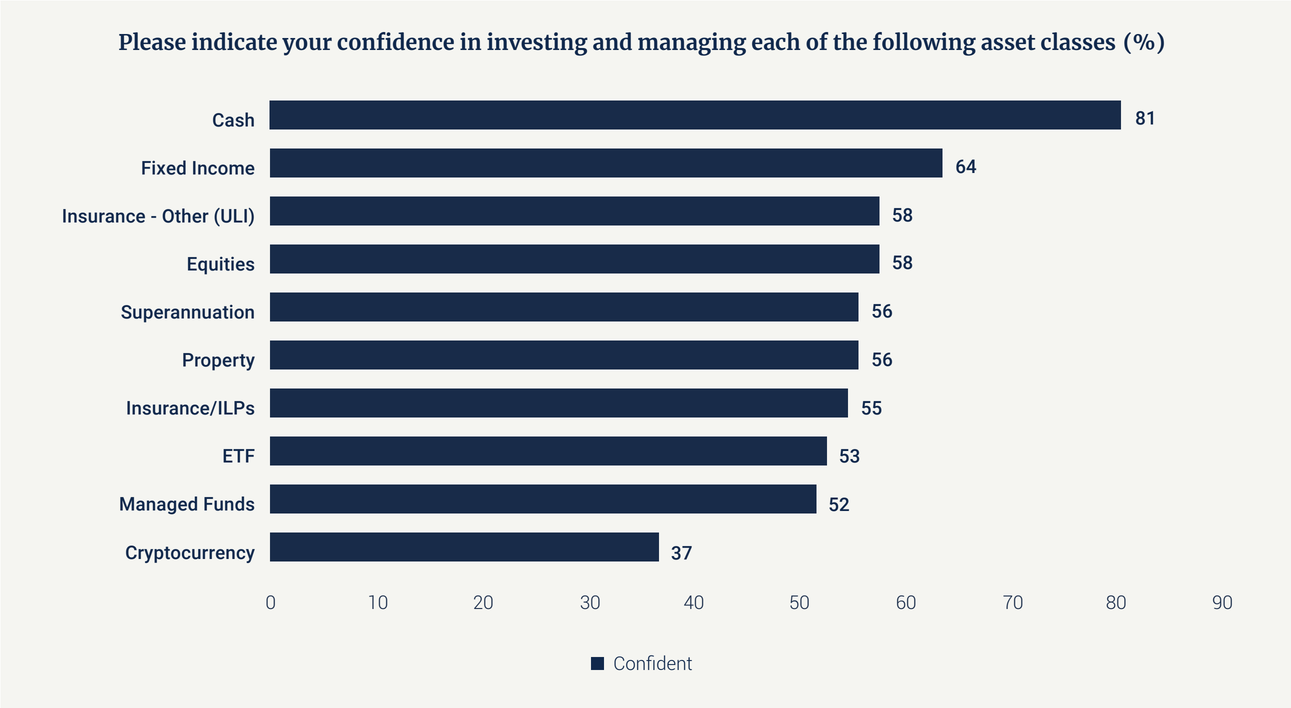
This is aligned with the prevailing notion among investors that managed funds and cryptocurrencies require a certain level of technical savvy and investment expertise for optimal returns, while superannuation funds in Hong Kong are generally tied to factors outside of investors' immediate control, such as their income levels, career tenures, and governmental return rates.

As Hong Kong has a mandatory savings and pension scheme (the Mandatory Provident Fund or MPF) for all permanent residents and citizens, this may also explain the relatively low uptake of superannuation funds as an active asset class.

Please indicate the asset classes in which you are personally invested in currently (%)



The value of an investment in equities can fall as well as rise. You may get back less then you invested.



Given the year that has been and how Hong Kongers have invested their money, it is likely that many Hong Kongers' investment portfolios have been negatively impacted. Just based on 2020 first half performance, where many G20 economies saw a downturn of at least 25 to 30 points, many investors have been mauled by bear markets globally.

Yet, even in such conditions, investing has become even more essential. With interest rates serving as collateral in the fiscal fight against COVID-19's economic impact, the value in cash or bank deposits will slowly erode against inflation. This leaves many investors in a difficult predicament.

Remaining Steady During COVID-19

When asked in February 2020 to assess which asset classes they were most satisfied with in the preceding year, satisfaction levels were highest for property (77%) and Fixed Income (75%).

Hong Kong has always boasted one of the world's most expensive real estate markets. However, the fundamentals of the city's retail property market have worsened sharply due to the political tensions of the past year. Furthermore, the recent national security law and the unabating COVID-19 pandemic have sparked a shift in investor interest away from the city, triggering concerns of a mass capital exodus.

While these events have threatened to upend Hong Kong's status as Asia's financial hub, it seems that it has not slowed down the city's property market. The reality is that political risks in Hong Kong are difficult for investors and occupiers to quantify and until things become clearer, Hong Kong remains an important offshore funding platform for Chinese companies.

In fact, the home price index rose by 0.1% to the highest level in 10 months since June 2020, according to Rating and Valuation Department[1]. The rise in existing home prices bolsters the view that property is highly regarded as a haven asset for investment amongst Hong Kongers.

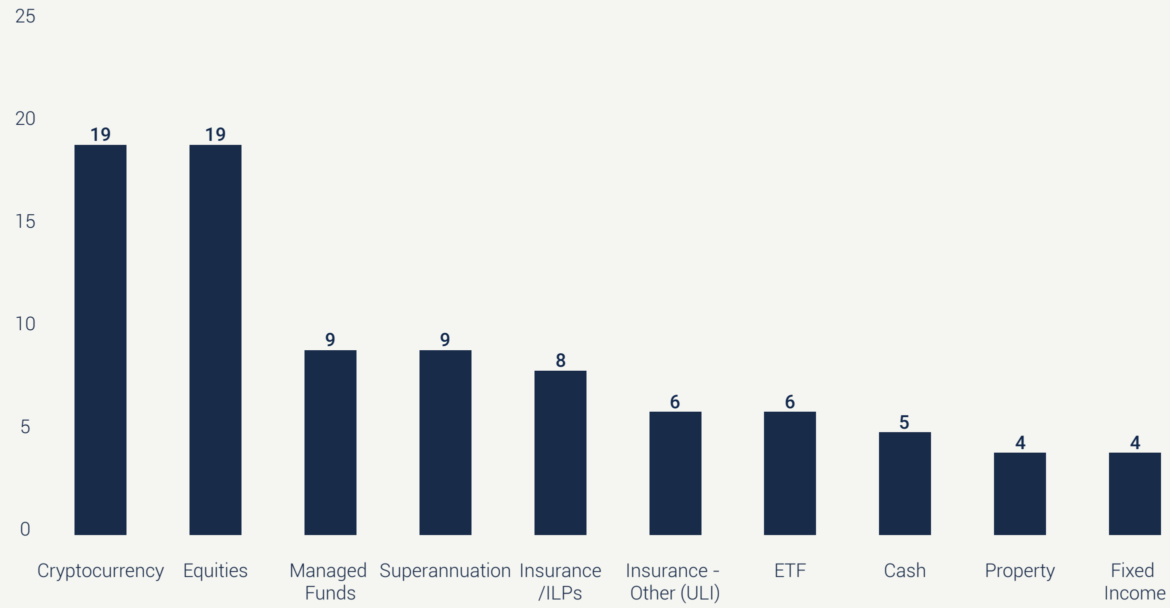
Moreover, Hong Kong's property will continue to hold potential with the development of the Greater Bay Area, which will see the rise of high quality infrastructure and entrance of tech and finance-driven industries in the city. As the Greater Bay Area continues to grow in importance, investment appetite towards quality property will undoubtedly grow in parallel.

The most disappointing asset classes based on performance were cryptocurrency (19%) and equities (19%). The onset of COVID-19 and other adverse market events may have led to more cries for investors to liquidate and hold cash assets, but most financial advisers will always recommend reinvesting cash in other return-generating assets for wealth creation over time.

In September 2018, the price of Bitcoin, one of the most prominent cryptocurrencies, had fallen by 80% of its peak and was in percentage terms, even larger than the bursting of the dot-com bubble in 2002. Cryptocurrencies have since lost favour among Hong Kong investors, largely disappointed by the inherent volatility of the asset.

In contrast to its performance however, cryptocurrencies (42%) are still among the most popular assets to invest in, after cash (46%). Despite the widely scrutinised financial risks seen through 2018, many investors still want to increase their investments in cryptocurrency assets in the next 24 months. This may be in part due to cryptocurrencies such as Bitcoin being decentralised from any regulatory authority or jurisdiction, which is something that might play an important long-term role in a bifurcating world with increasing global tensions.

Please indicate your level of dissatisfaction with how your investments in these asset classes have performed in the past 12 months (%)

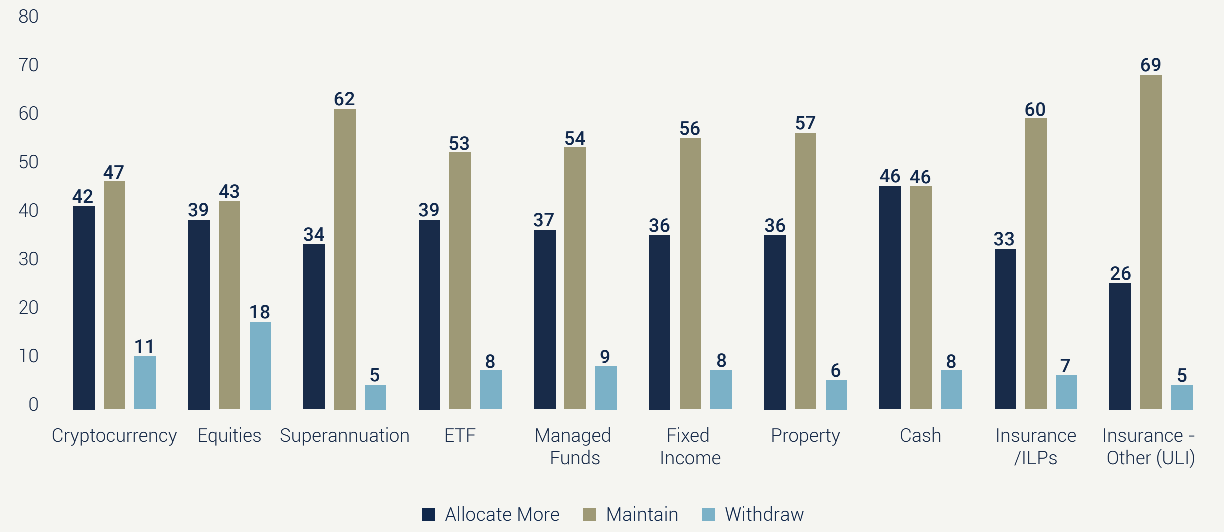


[1] https://www.scmp.com/business/article/3095549/hong-kongs-june-home-prices-rise-10-month-high-buyers-defy-coronavirus

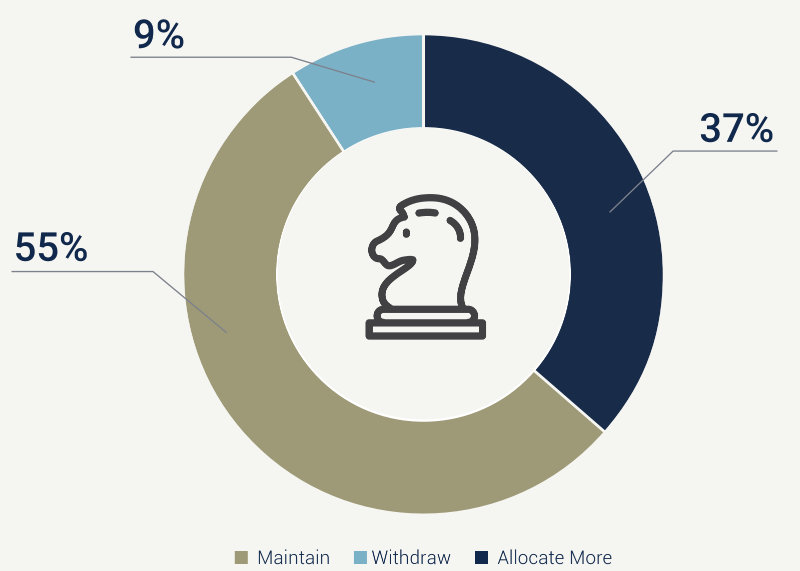
However, despite the challenging times, across all asset classes, 37% of Hong Kongers are still choosing to allocate more funds towards their investments and 55% choose to maintain their current level of investment. This highlights that most investors in Hong Kong clearly understand the need to maintain a strong investment portfolio.

Insurance products, both ILPs and ULs, are the most neutral asset classes, with 60% and 69% of investors respectively, opting to maintain these. Insurance policies by their nature are long-term investments and the value of insurance is often only truly realised in a crisis, so it would be counter-productive to discontinue them.

Please indicate if you intend to invest more or less of your personal money in these asset classes over the coming 12-24 months (%)



Investment Appetite



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Increasing Appetite for Sustainable Investing

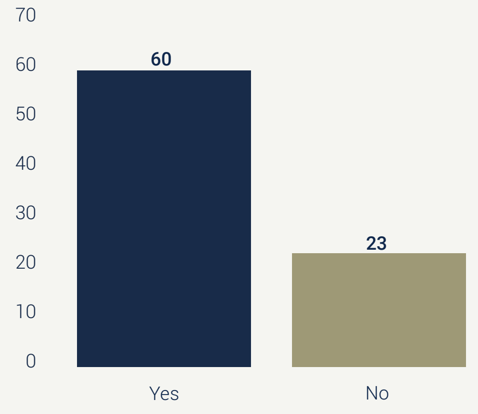
As well as keeping a firm eye on returns, 2020 has been an interesting year for sustainable investing. The fallout of the COVID-19 pandemic has generated an uplift in interest from investors in the Environmental, Social and Governance (ESG) credentials of potential investments, and markets and companies across Asia are responding as a result.

In terms of retail investors in Hong Kong, while an interest in sustainability credentials has been recognised for some time in younger generations, we now see this transpiring across the board more generally with retail investors of all ages. Our research finds that for 60% of Hong Kongers, ESG factors are a priority consideration in the investments they select, with 43% saying that their interest in ESG investing is increasing.

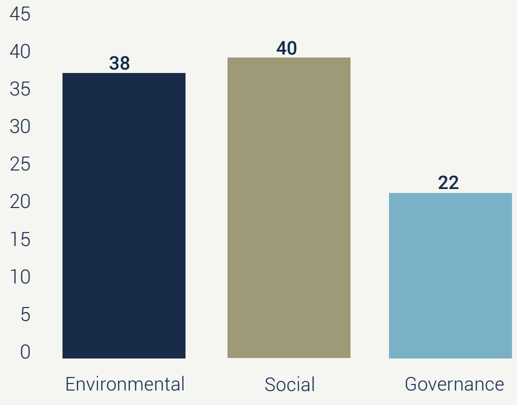
However, despite this trend, misconceptions persist. Three in five (60%) in Hong Kong still believe they need to compromise on the returns they can achieve in order to invest responsibly, when in fact the opposite is true – recent market performance data in fact shows a strong correlation between investments with strong ESG ratings and financial performance. Those assets with good ESG credentials are also more likely to have better long-term growth prospects, since they are by nature more sustainable.

When it comes to which issues are important to investors, social issues are the top concern for investors in Hong Kong, with 40% identifying this as the most important issue, followed by environmental issues at 38%, and governance at 22%.

Do you think that you will need to compromise returns in order to invest responsibly ? (%)



Top concerns for Hong Kong investors (%)



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Appetite for Risk

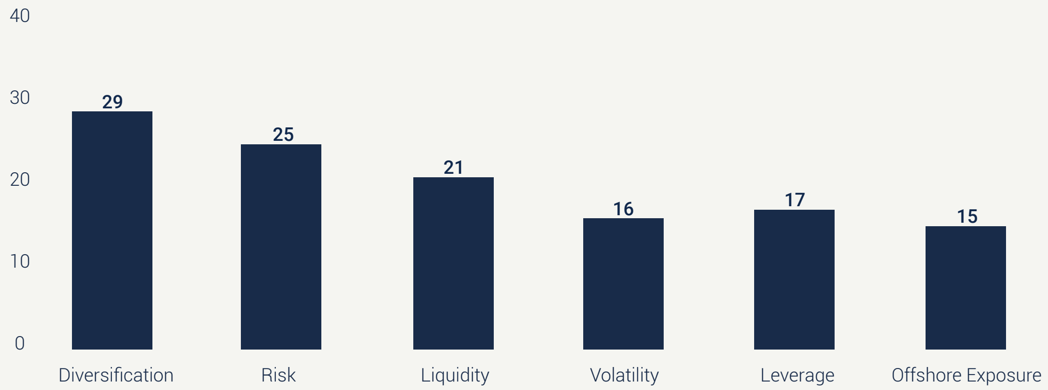
Diversifying Amid Volatile Markets

Diversification (29%), risk levels (25%) and liquidity (21%) are the three most important considerations for investors in Hong Kong, which is reflected in how they intend to adjust their portfolios in the future.

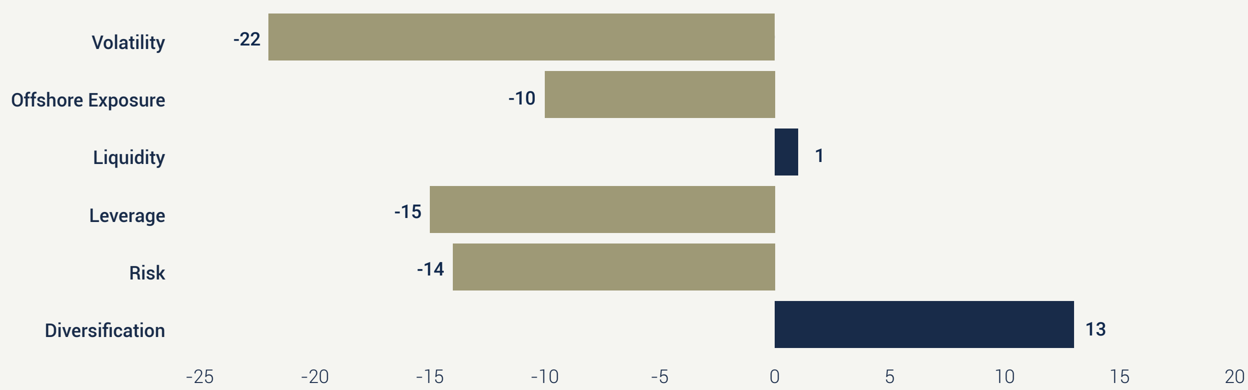
When asked which features of their portfolio they intend to increase or decrease, diversification is the only element that investors intend to increase (by 13%), reflecting its importance as a tool to hedge against market risks and uncertainty. On the other end is volatility, which investors had opted to reduce the most (by 22%).

Some degree of volatility is generally associated with investing because it is essential in generating returns. Large deviations in a stock's price for example, can point to greater investment risk but also highlight opportunities for investors to cash out and "beat the market". However, this was not the case for investors going into 2020. High levels of volatility point to the probability of further market declines, so there is a foreshadowing of the events to come.

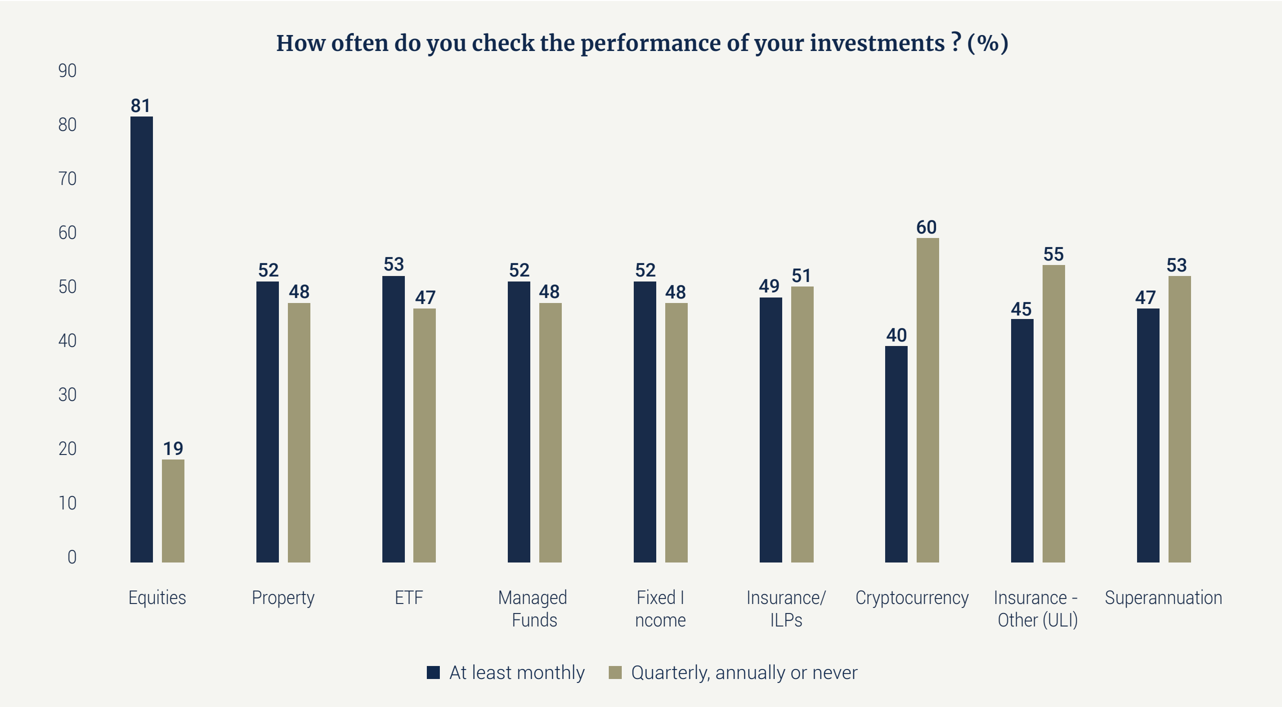
Please select the degree to which each of the following investment aspects are reflected in your current overall investment portfolio ? (%)

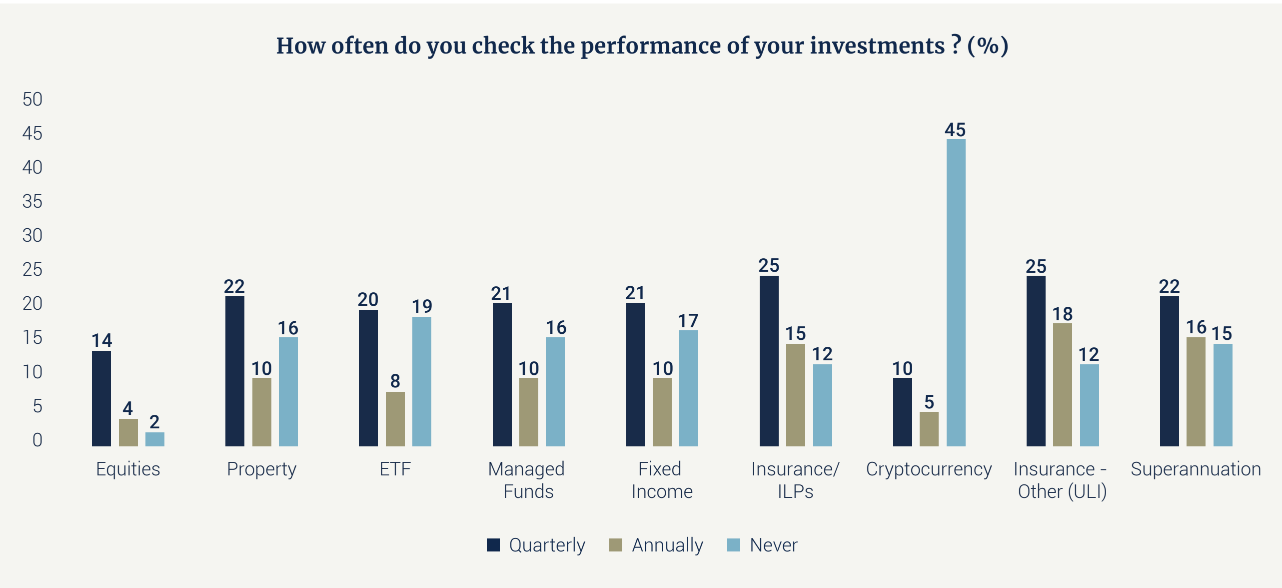


Please indicate whether you intend to increase, decrease or not change the following aspects of your investment portfolio in the coming 12-24 months (%)



Outside of cash, the asset class which investors provide the most hands-on management is equities. 81% say they review their investments in equities at least once a month, with 29% doing this daily. The asset class which is perceived to require the least management is cryptocurrency, with 60% saying they only review this on a quarterly or annual basis, if at all.





Hong Kong investors are also quite risk averse overall and quick to divest to try and limit their short-term losses. When asked how they would most likely respond if an investment's performance declined, over one quarter of investors (27%) would divest within 24 hours and 23% would wait and see for up to one week then divest if it continues to fall.

How will you most likely respond if an investment's performance declines rapidly ? (%)

How will you most likely respond if an investment's performance declines rapidly - Equities ? (%)

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Case Study: Time In The Market Vs Timing The Market

Seasoned financial advisers often advise how "time in the market" can be more valuable for growing investment portfolio values than "timing the market" and attempting to cash out on price fluctuations. This is exemplified no better than in the global stock market rout in early 2020.

Our research indicates from February to March 2020, that 87% of Hong Kong investors hold equities. In the event of adverse performance, 34% said they would divest within 24 hours, and a further 26% would divest within one week if the investment continues to fall. A further 10% said they would hold and another 10% would invest more.

From an examination of global markets from 19 February 2020 onwards (the first point in which many markets had started to fall), we can see that an average Hong Konger investor with HKD100,000 invested who exited within 24 hours, and did not re-enter, would have lost 24.24% of their investment's value on the S&P500.

This is in comparison to the minority who stayed invested and would have gained 1.35% on their investment portfolio just a little over six months later.

Scenario	S&P 500 Performance (HKD)	Invested Amount	Net Position
Investor entered market on 1 Jan and cashed out on 24 Feb. What is the net position?	-24.24%	$100,000	($24,240.55)
Investor entered market on 1 Jan and cashed out a week later after crash period (19 Feb) on 2 Mar. What is the net position?	-4.15%	$100,000	($4,152.06)
Investor entered market on 1 Jan and stayed invested throughout. What is the net position on 24 Jun?	-5.18%	$100,000	($5,176.76)
Investor entered market on 1 Jan and stayed invested throughout. What is the net position on 24 Sep?	1.35%	$100,000	**$1,354.58**

Index	30/09/2019 to 30/09/2020	30/09/2018 to 30/09/2019	30/09/2017 to 30/09/2018	30/09/2016 to 30/09/2017	30/09/2015 to 30/09/2016
S&P 500 GTR in US	15.15	4.25	17.91	18.61	15.43

Past performance is not indicative of future performance. Fund values fluctuate and can fall as well as rise. You may get back less than you invested.

What's Your Investor Persona?

When looking at appetite for risk as a baseline for investor personas, we can garner some interesting insights.

Namely, we generally see those in higher income brackets with a greater appetite for risk and they are also more active in managing their portfolios. We further see this group simultaneously more likely to divest from underperforming assets quickly and to engage a financial adviser.

We tend to see those with a medium-to-low appetite for risk being less educated about investing, but relatively active in their portfolio management, and more open to financial advice than not.

Finally, there is a notable group of investors where uncertainty dominates. They have low financial knowledge and are inactive investors and as a result fail to see as much value in financial advice – when they are probably the group most in need.

	Active Investor	Everyday Investor	Safe Investor	Disengaged Investor
Appetite for risk / capacity for loss	**High**	**Medium**	**Low**	**Uncertain**
Demographics	30 - 44 / Higher income	35 - 49 / Higher and Lower income	35 - 44, 50 - 54 / Lower income	30 - 39, 50 - 54/ Higher and Lower income
Investment portfolio management style	High understanding of investment portfolio management	Low understanding of investment portfolio management	Low understanding of investment portfolio management	Low understanding of investment portfolio management
Activity level of investment management	Daily cash and equities management/ Weekly property, investment-linked policy, managed fund and ETF performance review / Monthly insurance, fixed income, managed funds and superannuation funds performance review	Monthly cash management / Weekly equities performance review	Monthly cash management / Quarterly property performance review excluding for superannuation fund which is reviewed annually	Monthly cash management / Weekly equities performance review
Likelihood to divest if an investment's performance declines	Would divest after 24 hours, excluding for equities, fixed income, managed funds and superannuation where would wait a week then divest if continues to fall	Wait and see for up to one week then divest if continues to fall, excluding for property, fixed income, superannuation and crypto, where no action would be taken	Take no action - excluding equities, where would wait for up to one week and divest if continues to fall	Take no action
Likelihood to seek advice before major financial decisions	Very likely	Quite likely	Quite likely	Quite likely and very likely
Perceived need for financial advice	Strong desire for investment and retirement planning advice, other areas recognised some need	Recognised need for some advice	Recognised need for some of advice	No need for financial advice, excluding for trust & estate planning and insurance where some need is recognised / Unsure of need for tax advisory
Openness to engaging a financial adviser to manage investments on their behalf	Yes (82%)	Yes (61%)	No (63%)	No (60%)

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Wealth and Happiness

Does Money Buy Happiness?

For close to nine in 10 Hong Kongers, it does. 89% say that being wealthier would make them happier and more than two-thirds (69%) say that monetary pressures are a large source of stress in their family relationships.

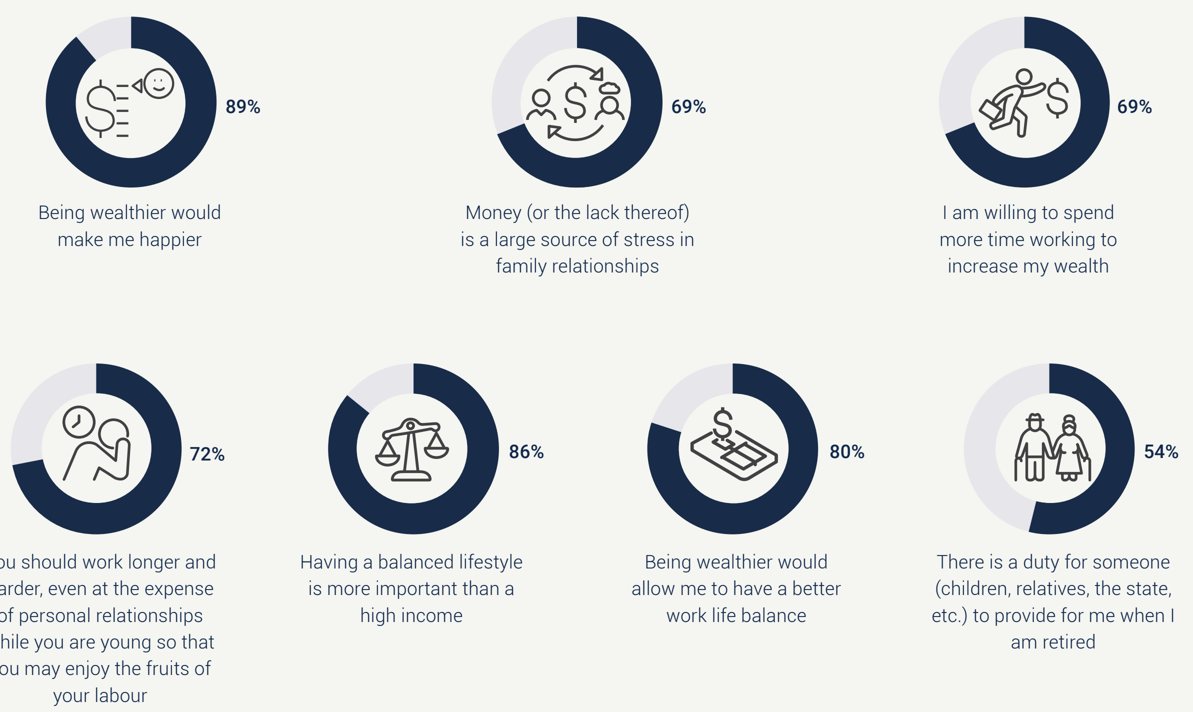
As a result of this perception, over two-thirds (69%) of people in Hong Kong are willing to spend more time working to increase their wealth. Almost three quarters (72%) are prepared to work longer and harder while they are younger, even at the expense of personal relationships, so they can enjoy the fruits of their labours when they are older.

However, at the same time, most Hong Kongers (86%) acknowledge that having a balanced lifestyle is still more important than a higher income. There are many potential reasons for these seemingly conflicting positions, not least of all because 80% believe that being wealthier will allow them to have better work life balance.

While having a financial end-goal is important, it shouldn't be at the expense of a healthy work-life balance, and with proper financial planning this often doesn't need to be the case.

Hong Kongers are clearly willing to work hard for their financial freedom and are prepared to sacrifice work-life balance and personal relationships in attaining it. However, the findings highlight that the accumulation of wealth has a highly cyclical nature, with many not fully realising the trade-offs needed to accumulate it.

Please indicate how strongly you agree or disagree with the following statements

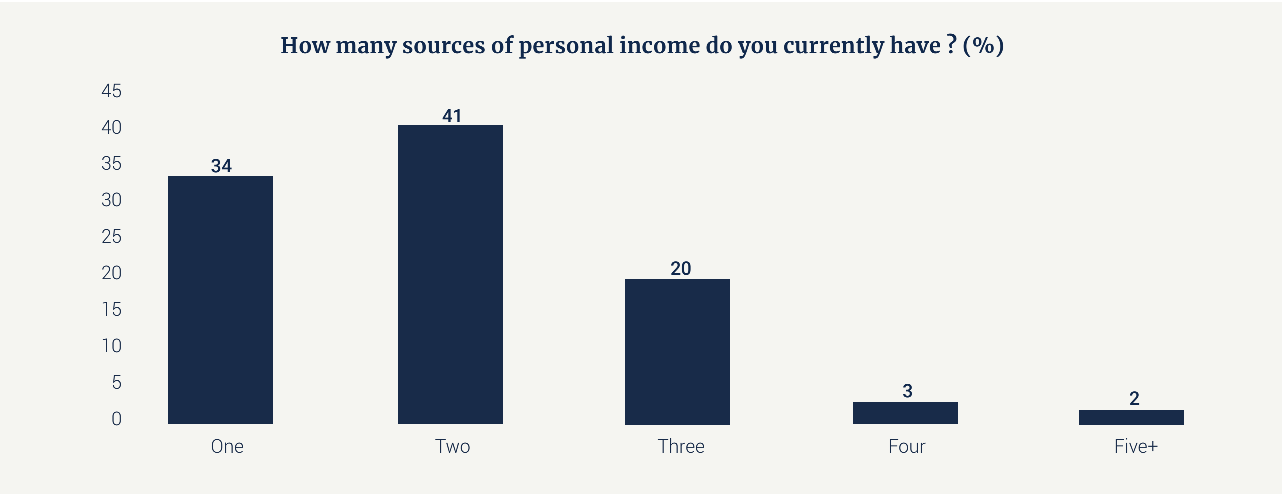


One Source of Income is No Longer Enough

Currently around a third of Hong Kongers (34%) only have one stream of personal income but 72% say that generating alternative sources of income is a priority for them in the coming 12-24 months.

The disruptive effects of COVID-19 have significantly affected many people's jobs. With high levels of retrenchments and more to come on the horizon from a worsening economy, Hong Kongers are concerned about what may happen in the future and many are looking to secure their financial positions.

Simply put, more income streams mean more security. A particular focus for many Hong Kongers in the current economic climate is how to utilise current savings to grow passive income, without utilising too much time and effort for growing these side-investments.



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Securing a Harmonious Retirement

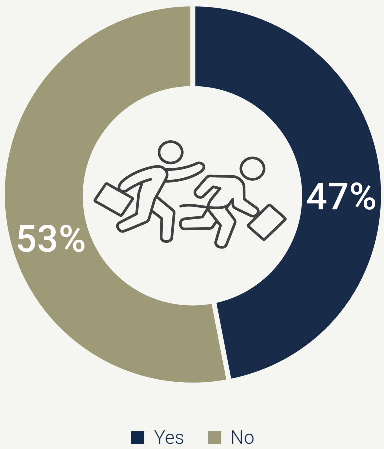
Another hot-button issue in the complicated relationship between money, happiness and family is around retirement planning.

More than half (54%) of Hong Kongers believe that there is a duty for someone (children, relatives, the state, etc.) to provide for them when they are retired.

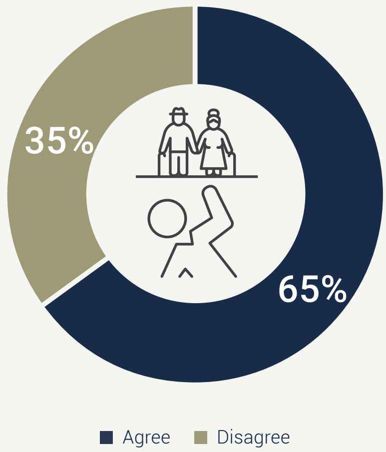
To make matters more concerning, more than half (53%) in Hong Kong forecast that they will not have enough money saved to sustain the lifestyle they want in retirement. Almost one-in-eight (12%) believe they will need to work past retirement age owing to a lack of savings, with almost two-thirds (65%) concerned about being a financial burden to those closest to them.

This issue will become even more pronounced in the next 30 years, where the estimated number of Hong Kongers aged 65 and above will number approximately 33% of the population[2]. This means almost one in three Hong Kongers will be in that age group, exerting significant pressure on other generations.

Do you feel that you are on track to have enough money saved for the lifestyle you want to live in your retirement?



I am concerned about being a financial burden to my family in my retirement



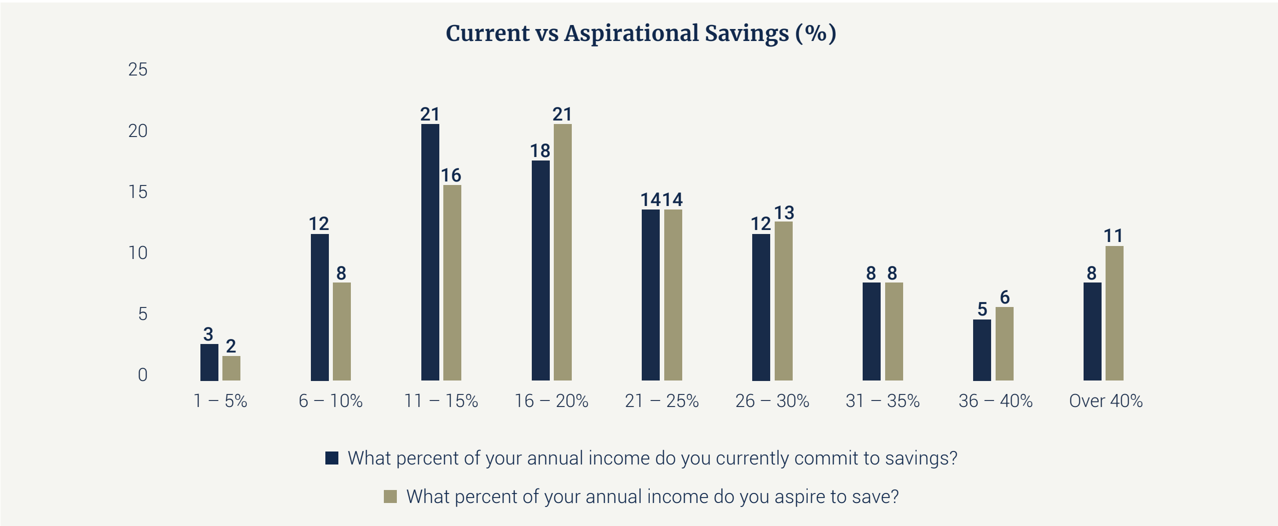
[2] https://www.statistics.gov.hk/pub/B1120015062015XXXXB0100.pdf

Attitudes to Saving

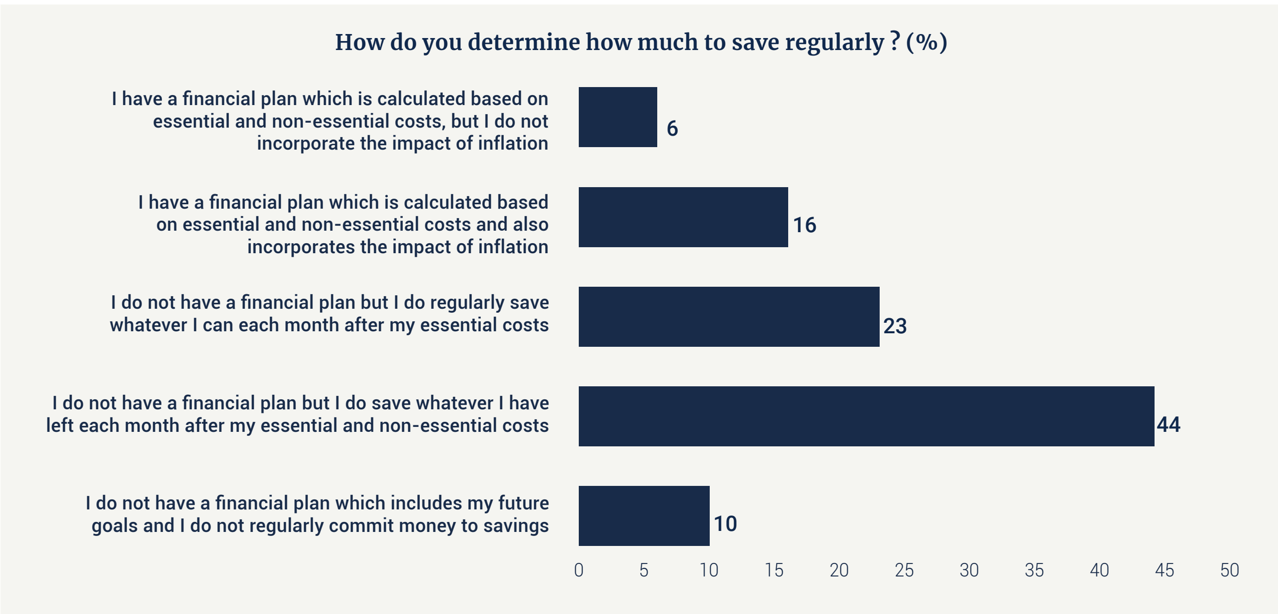
Are Hong Kongers Saving Enough?

Budgeting is a core component of financial planning. A good budget focuses on immediate monetary needs and issues while also planning for longer-term ambitions and goals.

While 74% of Hong Kongers aspire to commit more than 16% of their annual income to savings each year, only 64% are achieving this. As a result, two out of five Hong Kongers (40%) are either dissatisfied with their savings levels or unsure if they have enough.



Worryingly, more than three quarters (78%) Hong Kongers say they do not have a financial plan to help them save regularly. As a result, almost one in three (32%) are not comfortable with the amount of savings they currently have. Additionally, of those who do have a financial plan, 6% of plans do not incorporate the cost of inflation.



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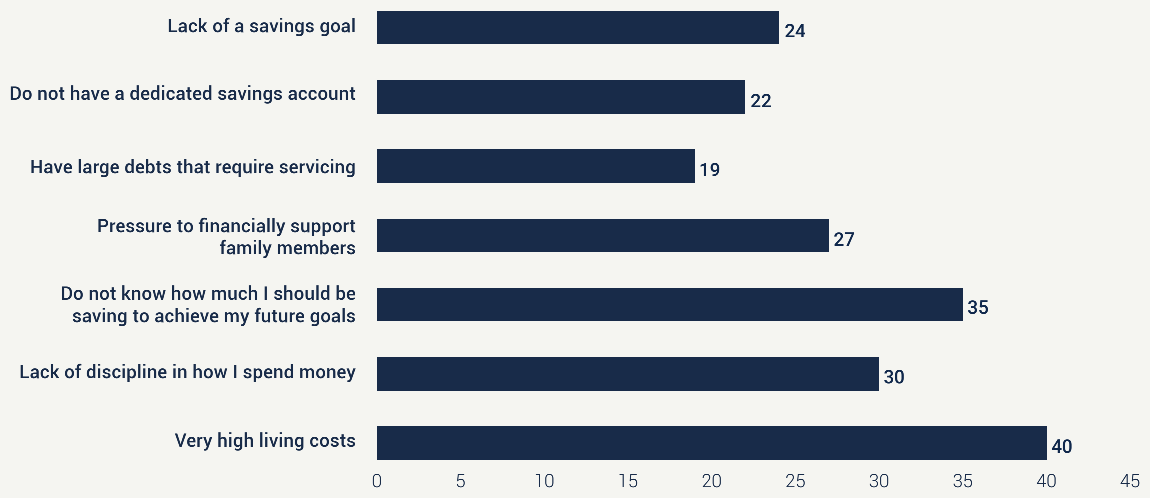
Among other reasons cited by Hong Kongers for not committing more to savings, are high living costs at 40% and a lack of knowledge as to how much they should be saving to achieve their future goals at 35%. With 32% saying that their living costs and income are not balanced, these are genuine areas of concern for Hong Kongers, many of whom wish to maintain a certain lifestyle in a city which has frequently been counted among the most expensive cities to live in the world.

Which of the following factors prevent you from committing more to savings ? (%)



The Value of Planning and Advice

Managing money properly can be a difficult subject to broach but it is absolutely essential, especially in the current economic climate. Investing has also become more complicated and will yield varying degrees of success, so extensive investment research grounded in solid financial advice is necessary for investors to survive and thrive beyond 2020.

People are willing to work harder and longer for their financial freedom and are prepared to make the tough decisions in sacrificing now for a better future. However, many also don't save enough to work towards their future goals meaningfully, or even have an adequate financial plan. COVID-19 has demonstrated that a disruptive crisis is never too far away. A potential job retrenchment or critical illness is already difficult enough for many to overcome, doubly so in this climate.

We advise Hong Kongers to start early and adopt good habits in financial planning and budgeting. When it comes to building wealth for the future, time is money. They should also adequately review their investment portfolios and any current policies. This can help them to identify blind spots in their financial security and insulate against the disruptive impact of COVID-19.

Seeking expert financial advice in this journey can help provide objectivity as well as valuable counsel, lessening the chance of investors making decisions driven by emotions rather than facts.

In the current climate, investing is no longer an option. It is a necessity. Working alone can pay the bills and sustain a lifestyle, but only through investing can Hong Kongers build their wealth and grow their money over the long term.

We hope that our Money Relationship Monitor serves as a useful resource for investors in Hong Kong to reflect on how they are approaching investing, financial planning, and wealth creation for the future.

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About the Research

The Money Relationship Monitor 2020 is an independent research study undertaken by Sandpiper Communications on behalf of St. James's Place Wealth Management Asia around financial advice trends in Hong Kong and Singapore. It provides insights into the attitudes of investors, how they perceive money and plan for the future, as well as the impact of money on their relationships.

The findings in this survey were analysed and established through a total of 2,064 interviews conducted online in February and March 2020 in Hong Kong (1,019) and Singapore (1,045).
Only respondents that were between the ages of 25-54 and who held personal investments in stocks, property, shares, funds, etc. were interviewed. All respondents were from households with a minimal annual income of between HK$400,000 to over HK$1,500,000.

Figures included within this research are rounded to the nearest whole number and may not add up to 100%.

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