



SOPHISTICATED INVESTOR

Super-rich investor club shifts away from stocks

High-net-worth members move to investments 'outside traditional avenues'

By Thomas Kostigen, *MarketWatch*

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SANTA MONICA, Calif. (MarketWatch) -- An investment club comprised of super-rich members is moving away from public equities and into alternative investments.

Tiger 21, an investment club whose members have at least \$10 million each, says its allocation to stocks is down almost 10% from a year ago. "Our members are still committed to long-term wealth accumulation and preservation, but increasingly, they're more apt to rely on investments outside traditional avenues such as mutual funds or even individual publicly-traded stocks and bonds, for an important portion of their investment portfolio," says Michael Sonnenfeldt, Tiger 21 founder and chairman.

Specifically, Tiger 21, whose members' assets combined are \$7 billion, says about 30% of those assets are invested in stock, slightly less than 28% is in real estate, 15.6% is in fixed-income investments, 8.8% is in private equity, 9.6% is in alternative investments such as hedge funds, and 9% is in cash.

New York-based Tiger 21 is a peer-to-peer learning group for high-net-worth investors. Some have created, built and sold their own businesses. Others have risen through the corporate ranks, including Wall Street firms, as investment managers or attorneys. There are 123 Tiger 21 members around the county.

Fifty-five percent of these members say they see 2007 trending toward the riskier side of the equation, while only 5% say this year will see a reduction in investment risk. Twenty-five percent of members are neutral, seeing no real change over last year. Typically, Tiger 21 members say they are no longer relying on their salaries and compensation or their former company's earnings to support their lifestyles. Members say they are generally dependent on passive investment income derived almost totally from their personal holdings.

A 3% rule

Over time and as a general rule, Tiger 21 members say they have learned that spending 3% of assets annually to live is the maximum one can spend each year before stressing one's portfolio and tilting it towards short-term income over long-term gains.

And, they say, holding 9% of assets in cash allows them to withstand three years of market distress without having to liquidate long-term holdings at unnecessary losses. It's interesting to note the conservative nature of this asset allocation, especially given the increased weighting toward private equity investments. The data seem to show that while these high-net-worth investors are only willing to shave off 3% of their portfolio for living expenses (at \$10 million, let's say that's \$300,000 a year), yet they are willing to increase their exposure to what seems like riskier investments: hedge funds and private equity instruments.

The reason, they say, is that private equity, to them, isn't riskier.

"Private equity has more value in an illiquid form," Sonnenfeldt says.

And only 10% of members felt that any recent hedge fund implosions would have a high likelihood of reducing their commitment to the asset class. This harkens back to good, old financial planning 101, where correlation is considered key to optimizing a portfolio. Sure, for the average investor this means optimally mixing stocks and bonds to reap the biggest rewards with the least risk. But for the wealthy investor, there is simply too much exposure in the capital markets to risk loss. After all, at \$10 million, the concern is with wealth preservation.

Global worries

There are some worries weighing on the minds of Tiger 21 members: Terrorism and globalization.

"Our members have a general sense of long-term optimism, based on America's traditional capacity to create value, but are deeply concerned about the risks of terrorism and America's competitiveness," Sonnenfeldt says. Specific to globalization, Tiger 21 members expressed concern over "Chindia" and the value of the U.S. dollar.

These may be macro issues that most investors don't consider for the long-term health of their portfolios, but maybe they should.

Clearly, as we've seen this month, the overseas markets can drag the U.S. market along with them.

"Stock Market Whiplash?," a Tiger 21 report, says members with the most direct and long-term experience in the markets often cite the historically low credit spreads and growing convergence of returns between different asset classes as underlying concerns for the future.

Most members cite fixed income, cash, and diversification as the elements of their portfolios which give them most comfort.

"On that score, the wealthy may have something in common with the average investor," the Tiger 21 report says.

That is, if the average investor is moving away from investing in stocks.