

Investments of Passion



# World Wealth Report

2009

# WORLDS HNWIS SCALE BACK ON THEIR INVESTMENTS OF PASSION AMID ECONOMIC UNCERTAINTY AND RISING COSTS

The financial crisis and economic uncertainty of 2008 clearly had an impact on HNWI investments of passion and lifestyle spending, with luxury goods makers, auction houses, and high-end service providers reporting significantly reduced demand worldwide.<sup>42</sup> The cost of luxury items also rose: The Forbes Cost of Living Extremely Well Index (CLEWI), which tracks the cost of a basket of luxury goods, rose 12% from 2007 to 2008, double the rate of inflation.

Outright global demand was weaker for luxury collectibles (e.g., automobiles, yachts, jets), luxury consumables (e.g., designer handbags, shoes, clothes), art, and jewelry, but there was also a shift in luxury-purchasing habits, as many HNWIs looked to secure their wealth in assets with long-term tangible value.

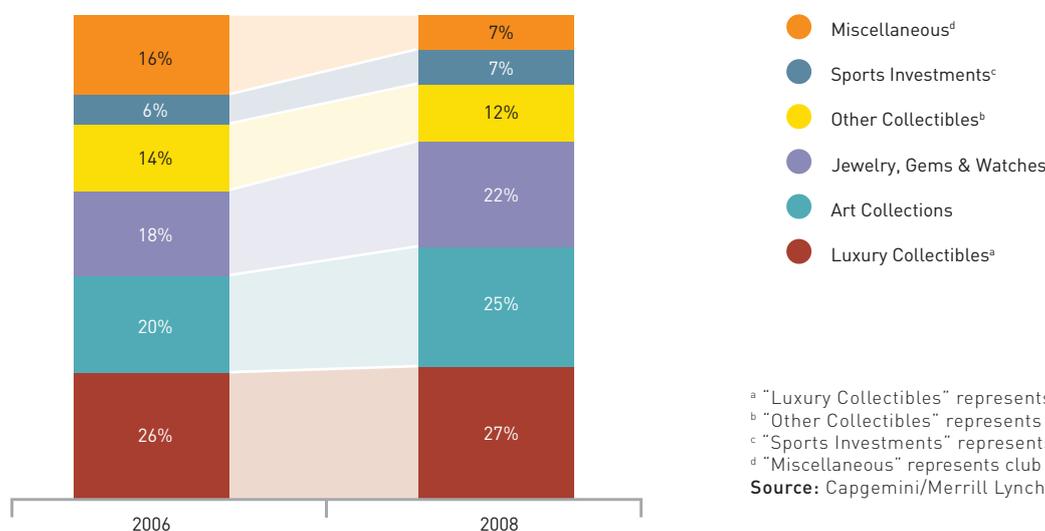
Actual HNWI spending patterns also varied considerably, as always, from region to region, between mature and emerging nations, and between wealth bands. For instance, demand for luxury goods fell significantly in mature markets (which account for more than 80%<sup>43</sup> of world-wide luxury-goods sales), as the financial crisis deepened in the first half of 2008. At that time, demand was still strong from emerging markets, but as the year wore on, emerging-market HNWIs also pulled back, amid declines in key sources of their wealth (oil, commodities, and stocks).

LUXURY COLLECTIBLES REMAINED THE PRIMARY HNWI PASSION INVESTMENT, BUT DEMAND WAS DOWN

Luxury collectibles continued to account for the largest portion of HNWIs' passion investments in 2008—27% of the total among HNWIs globally (see Figure 13), and 33% and 29% respectively among HNWIs in Japan and North America.<sup>44</sup> The global-average allocation to luxury collectibles was up marginally from the pre-crisis level of 26% in 2006, but 2008 clearly saw an outright decline in demand for all of the major purchases in the collectibles bracket.

Private jet owners sold their planes in increasing numbers, as existing and potential HNWI customers of private jet manufacturers continued to feel the impact of declining corporate profits and tight credit markets. Business jet orders for Bombardier, the world's leading business jet maker by value of deliveries, fell 42% in 2008 (from 452 to 262). Orders from previously high-volume business segments, in particular fractional-ownership groups such as NetJets, slowed considerably.<sup>45</sup> As of the end of November 2008, the number of used jets available for sale worldwide had risen by 62% from a year earlier to reach an all-time high.<sup>46</sup>

**Figure 12. HNWI Allocations of Passion Investments, 2006 vs. 2008**



<sup>a</sup> "Luxury Collectibles" represents luxury automobiles, boats, jets, etc.

<sup>b</sup> "Other Collectibles" represents coins, wine, antiques, etc.

<sup>c</sup> "Sports Investments" represents sports teams, sailing, race horses, etc.

<sup>d</sup> "Miscellaneous" represents club memberships, guns, musical instruments etc.

**Source:** Capgemini/Merrill Lynch Financial Advisor Surveys 2007, 2009

<sup>42</sup> "Luxury goods sales to drop as much as 20% in first two quarters of 2009 according to latest Bain & Company luxury forecast", Bain & Company press release, April 20, 2009

<sup>43</sup> Ibid

<sup>44</sup> Capgemini/Merrill Lynch Financial Advisor Survey, 2009

<sup>45</sup> Kevin Done, "Business aircraft makers face severe test", February 8, 2009, [www.ft.com/cms/s/0/15a51a1a-f613-11dd-a9ed-0000779fd2ac.html](http://www.ft.com/cms/s/0/15a51a1a-f613-11dd-a9ed-0000779fd2ac.html)

<sup>46</sup> The Economist, "Corporate jets - Deeply Uncool", January 8, 2009, [http://www.economist.com/displaystory.cfm?story\\_id=12906373](http://www.economist.com/displaystory.cfm?story_id=12906373)

Luxury car demand also sank in 2008, with sales down in the U.S. at all major luxury makers—Porsche (down 25.2%), Maybach (32.6%), Lamborghini (21%), Mercedes (11.5%), and BMW (9.7%). Emerging markets provided some solace, with Bentley sales up 53% in China and 18% in the Middle East in 2008, although Bentley's global sales figures were down 24% from record high levels of 2007.<sup>47</sup> Luxury car purchases, it seems, are moving like many markets for the wealthy from the hyper-priced and exotic to the more reasonably priced and familiar.

The yacht market offered another indicator that HNWI's were scaling back on passion investments. Attendance at yacht shows was down in 2008, prices were slashed, and the pool of unsold yachts grew. In the super-yacht market, there were reportedly discounts of up to a third being offered on yachts valued upward of \$30 million, and sales of high-end pleasure boats plunged after a decade of unprecedented growth. From 1997 to 2007, Beneteau's annual sales grew from \$235 million to more than \$1.4 billion—only to sink 50% in 2008.<sup>48</sup> Also notable was the drop in demand from buyers that have been active in recent years—in particular HNWI's from the Middle East and Russia, where wealth was hit by sharp declines in the price of oil and commodities.

#### FINE ART ATTRACTED HNWI BUYERS SEEKING TANGIBLE VALUE; DISCRETE PRIVATE SALES JUMP

Fine Art remained the primary passion investment for Ultra-HNWI's in 2008 (27% of their total passion investments), and was the second-largest (25%) for HNWI's. For HNWI's, the allocation to Fine Art actually rose from the pre-crisis allotment of 20% in 2006, as investors gravitated to assets with a more enduring value. However, the art market still had a tumultuous year—ranging from a speculative buying frenzy to a price correction of about 30%.<sup>49</sup>

Global Fine Art auction sales totaled \$8.3 billion in 2008, down \$1 billion from 2007, with U.S. Fine Art sales generating \$2.9 billion, down \$1 billion from 2007. Sales in London generated \$2.96 billion in 2008, up a bit (\$271 million) from the year before.<sup>50</sup> Notably, though, private sales nearly doubled, as some HNWI sellers sought discretion, and a quicker sale turnaround.<sup>51</sup> Declining sales in the popular Contemporary Art category—in which sales generated 34% less than in 2007<sup>52</sup>—

was driven largely by a decline in consignments, as well as some investors refraining on purchases. The profile of the art buyer also changed, with demand shifting to more traditional types of art, such as Impressionists or earlier forms of art.<sup>53</sup> The decline in the art market prompted cutbacks by auction houses at Sotheby's and Christie's, which have been resizing their organizations and abandoning capital guarantees to sellers.<sup>54</sup>

As in previous years, more European (30%) and Latin American (27%) HNWI's invested in Fine Art than did their Asian (23%), North American (21%), and Middle Eastern (17%) counterparts.<sup>55</sup> Still, the number of Middle Eastern buyers at Christie's auctions globally has risen 400% since 2004, so Mideast buyers now rival Russian buyers in terms of sales.<sup>56</sup> Still, while investors from emerging markets have increasingly helped fuel the rise in Art sales, prices have come down globally, allowing serious collectors and connoisseurs to buy at more 'reasonable prices'.

#### HNWI'S ALLOCATED MORE TO JEWELRY, GEMS, AND WATCHES THAN BEFORE THE CRISIS

Jewelry, gems and watches attracted the third largest share of passion investment overall (22%), and the top allocation in Asia and the Middle East. HNWI's certainly devoted proportionately more to this category in 2008 than the 18% allotted in 2006, before the crisis, suggesting HNWI's were more likely to perceive jewelry, gems, and watches as "safer", tangible investments that might retain long term value.<sup>57</sup> Ultra-HNWI's devoted a relatively lower percentage (20%) to this category.

Nevertheless, the overall growth in global jewelry sales slowed markedly in 2008—to 2.5% growth from 9% in 2007, as the European and American markets cooled.<sup>58</sup> Despite the challenging global circumstances, the historic Wittelsbach blue diamond (35.56cts) fetched \$24.3 million in a London auction in December 2008, the highest price for any diamond or jewel ever sold at auction.<sup>59</sup> Watches were the only category in which healthy sales growth was evident (9%), and that increase was largely due to emerging-market demand.<sup>60</sup> Sotheby's Geneva auction house recorded record sales of about \$15 million on watches, including a Patek Philippe that sold for \$1.55 million.<sup>61</sup> Sales and interest in the Middle East and Asia have continued to stay strong in this category, despite the crises.

<sup>47</sup> Hannah Elliot, *Luxury Cars Aren't Selling Either*, January 14, 2009, [www.forbes.com/2009/01/14/detroit-luxury-automakers-biz-manufacturing-cx\\_he\\_0114luxcars.html](http://www.forbes.com/2009/01/14/detroit-luxury-automakers-biz-manufacturing-cx_he_0114luxcars.html)  
<sup>48</sup> Carol Matlack, "Downturn Hits Europe's Luxury Yacht Makers", *BusinessWeek*, April 13, 2009  
<sup>49</sup> *2008 Art Market Trends*, April 2009, Artprice.com, ([http://imgpublic.artprice.com/pdf/trends2008\\_en.pdf](http://imgpublic.artprice.com/pdf/trends2008_en.pdf))  
<sup>50</sup> Ibid  
<sup>51</sup> Toby Usnik, Christie's Corporate Communications, interview by Capgemini, April, 2009  
<sup>52</sup> *2008 Art Market Trends*, April 2009, [www.artprice.com \[http://imgpublic.artprice.com/pdf/trends2008\\_en.pdf\]](http://imgpublic.artprice.com/pdf/trends2008_en.pdf)  
<sup>53</sup> Javier Espinoza, "In The Name Of Art", *Forbes*, February 4, 2009  
<sup>54</sup> Alexandra Peers "The Fine Art of Surviving The Crash in Auction Prices", *The Wall Street Journal*, November 20, 2008

<sup>55</sup> Capgemini/Merrill Lynch Financial Advisor Survey, 2009  
<sup>56</sup> Stefania Bianchi, "Christie's Jewels Sale Sees Dubai Wealthy Shrug Off Econ Woe", *The Wall Street Journal*, April 28 2009  
<sup>57</sup> Capgemini/Merrill Lynch Financial Advisor Survey, 2009  
<sup>58</sup> "Luxury goods sales to drop as much as 20% in first two quarters of 2009 according to latest Bain & Company luxury forecast", Bain & Company press release, April 20, 2009  
<sup>59</sup> *Christie's 2008 Global Art Sales Total \$5.1 billion*, Christie's press release, February 12, 2009  
<sup>60</sup> "Luxury goods sales to drop as much as 20% in first two quarters of 2009 according to latest Bain & Company luxury forecast", Bain & Company press release, April 20, 2009  
<sup>61</sup> Jewelers Specialty Insurance Services, *Jewelers Block & Fine Arts Newsletter - High End Jewelry Auction Mixed*, December 2008, Volume 2, Issue 12

## ALLOCATIONS TO OTHER COLLECTIBLES HELD STEADY WITH PRE-CRISIS LEVELS

Investments in Sports Investments (e.g., in teams, race horses) and Other Collectibles (e.g., wine, antiques, coins, memorabilia) accounted for 7% and 12%, respectively, of all passion investments in 2008. Those proportions were steady around pre-crisis levels of 2006, but again, outright demand for these items was clearly weaker in 2008.

For example, the Liv-ex 100 index, which tracks the price of 100 of the world's best investment-grade wines, has fallen steadily since July of 2008. Some wine investors, hit by the global financial fallout, resorted to selling their collections of expensive claret in a bid to raise cash.<sup>62</sup> Even the Bordeaux wine market, which was once impervious to market fluctuations, froze after Lehman collapsed in September 2008. However, by the year's end, Bordeaux sales had revived to more normal levels, as "affordable luxuries" became favored.<sup>63</sup>

## LIFESTYLE SPENDING ROSE ON HEALTH/WELLNESS, BUT DROPPED ON LUXURY TRAVEL

Notably, Health and Wellness was the only lifestyle spending category to see a significant increase in spending in 2008. Of surveyed HNWI's, 54% globally, and 64% of those in the Asia-Pacific region, said they increased spending on this category<sup>64</sup>—which includes activities like high-end spa visits, fitness-equipment installations, and preventative medicine procedures like full body scans.

Economic uncertainty did, however, cut into HNWI spending on luxury and experiential travel. Forty percent of HNWI's overall, and 55% of HNWI's in North America, said they reduced such spending<sup>65</sup>—dashing early hopes that luxury travelers would not spurn travel during the financial turmoil.<sup>66</sup>

Purchases of luxury consumables also fell, and 43% of all surveyed HNWI's, and 60% of those in North America, said they spent less on luxury consumables in 2008.<sup>67</sup> Luxury goods maker Bulgari announced a 38% lower operating profit in the third quarter of 2008, compared with the same period in 2007, with sales for accessories falling by 16%.<sup>68</sup> Richemont, the world's second-largest luxury goods firm, reported that its sales fell 7% in the last three months of 2008.<sup>69</sup>

<sup>62</sup> Kelvin Tan, "Wine & Art investments down, but not out", November 21, 2008, [www.asia-inc.com/investing/332/332.html](http://www.asia-inc.com/investing/332/332.html)

<sup>63</sup> Mehmet Yorukoglu, House of Burgundy, Inc., New York, interview by Capgemini, February 2009

<sup>64</sup> Capgemini/Merrill Lynch Financial Advisor Survey, 2009

<sup>65</sup> Ibid

<sup>66</sup> PricewaterhouseCoopers LLP, Travel & Tourism: *A rough ride for luxury travel?*, December 2008

<sup>67</sup> Capgemini/Merrill Lynch Financial Advisor Survey, 2009

<sup>68</sup> Ibid

<sup>69</sup> Tacy LTD - Richemont Jewelry House Sales down 12% in Q4 2008, DIB, January 21, 2009, <https://www.diamondintelligence.com/magazine/magazine.aspx?id=7537>

<sup>70</sup> Robert Frank, "The Wealth Report: Giving by the Rich to Remain Strong in 2008", *The Wall Street Journal*, August 20, 2008

## RECESSION TOOK TOLL ON PHILANTHROPY AS 2008 WORE ON

While not exactly an investment, philanthropy is nevertheless a passion for many HNWI's and Ultra-HNWI's. There was little change in the allocation of HNWI wealth to philanthropy in 2008 in the first half of the year<sup>70</sup>—but charitable giving was severely impacted in the fourth quarter, as HNWI's gave less, and focused on fewer causes.<sup>71</sup> Moreover, the real impact of the financial crisis will probably become more evident in 2009. Indeed, 60% of North American HNWI's said they would be giving less in 2009 due to the economic downturn, though 54% of HNWI's in Japan said they planned to give more.

## ECONOMIC WOES ARE LIKELY TO SUPPRESS DEMAND FOR PASSION INVESTMENTS INTO 2009

While HNWI's and Ultra-HNWI's will always indulge in their passions, economic conditions are expected to suppress their demand in 2009. Although the renowned Yves Saint-Laurent collection, which sold for \$0.5 billion in February of 2009, was dubbed the "sale of the century", Christie's is forecasting lower volumes of sales for the year.<sup>72</sup> Some HNWI's and financial institutions may be putting their art onto the market to raise funds and capital, but sellers are also hesitant about the market, and may want to wait for an overall market return before putting pieces up for auction. The last art market downturn, which started in 1989, lasted for 4 years, but art experts say the market could prove to be more resilient this time around, as recent buying was more broadly based, including buyers in Asia, Russia and the Middle East.<sup>73</sup>

While auction sales will likely diminish in 2009, the quality and rarity of a piece—whether art, an antique, or jewelry—could quickly drive activity, since many serious collectors and connoisseurs still seem willing to lay out cash for a unique piece.

The global luxury goods industry, meanwhile, could well fall into recession, with an expected decline in global sales of 10% in 2009.<sup>74</sup> Nevertheless, name-brand luxury goods like Hermes and Cartier are expected to be resilient, as their exclusivity and brand heritage continue to appeal to the wealthiest of global consumers.<sup>75</sup> Nevertheless, 'affordable (and aspirational) luxury goods,' more widely accessible to HNWI's and the 'mass-affluent'<sup>76</sup> may suffer more of an impact amid perceptions that such purchases are a needless extravagance in tough times.

<sup>71</sup> Jan M. Rosen, "In Uncertain Times, Donors Hold Back", *The New York Times*, February 26, 2009

<sup>72</sup> Toby Usnik, Christie's Corporate Communications, interview by Capgemini, April, 2009

<sup>73</sup> *The Economist*, "A special report on the rich - A thing of beauty", April 2, 2009, [http://www.economist.com/specialreports/displaystory.cfm?story\\_id=13356594](http://www.economist.com/specialreports/displaystory.cfm?story_id=13356594)

<sup>74</sup> "Luxury goods sales to drop as much as 20% in first two quarters of 2009 according to latest Bain & Company luxury forecast", Bain & Company press release, April 20, 2009

<sup>75</sup> "Worldwide luxury goods market growth projected to slow substantially by end of year and head into recession in 2009", Bain & Company press release, October 29, 2008

<sup>76</sup> Individuals with US\$100,000 to US\$1,000,000 in investable assets

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- 202 trees were left standing as a result of the recycled paper used in this project.
- 10,070 gallons of water were saved.
- 16,638 pounds of global warming gases were avoided.
- 23,879 kilowatt-hours of energy were saved (8,200 kWh of energy can heat and cool an average US home for one year).
- 389 cubic feet of solid waste were kept out of a landfill.

