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## How the Rich Save Today

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by Lora Shinn  
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### In a down economy, what are the wealthy doing with their money?

Experts who work with the wealthy and observe their spending habits say rich folks are sitting on their cash. Just like the rest of us, they're worried about the future. Suddenly uncomfortable with the nation's financial volatility, the wealthy are revisiting their investment and savings strategies, says Chris Geczy, director of the Wharton Wealth Management Initiative at the Wharton School in Philadelphia.

"They're consuming less and saving more," Geczy says.

Like so many other Americans, "the mass affluent were overextended" in real estate and investments gone sour, he says. Now, they are more likely to invest in fixed-income vehicles.

"They're still scared of risk," he says.

Investment professional Nancy Rooney has noticed this fear, too.

"There is a subset who -- since September and October -- are frozen and so nervous," says Rooney, managing director and head of the Northeast investment business for private wealth management at J.P. Morgan in New York, which says it serves 51 percent of the Forbes 400 list of U.S. billionaires.

"They're looking at their principal left and realize, 'If I lose any more, I'll jeopardize my quality of life,'" she says.

Here are a few ways the wealthy are saving in the current recession -- and lessons average investors can learn from the rich.

#### Put Safety First

Today, many wealthy people are thinking about safety over yield, Geczy says. The wealthy are scouring the Internet, looking for the best rates on CDs, money market accounts and other FDIC-insured options, he says.

"They're still hugging close to fixed income, Treasury bills and fixed assets," he says.

The FDIC only insures up to \$250,000, so multiple savings accounts at solid institutions are key to liquid returns, says Tim Grizzle, a certified public accountant and CEO of Georgia Logic, an Atlanta-based financial planning firm for high net-worth individuals, who also wrote "Creating Wealth in a Turbulent Economy."

"Those who are cash-heavy spread the wealth over multiple banks to ensure FDIC insurance," Grizzle says.

Rooney says that when shopping around for a bank, it's important to look into an institution's overall financial health.

"Your biggest decision this year is where you're going to put your money," Rooney says.

As long as you choose a bank that's FDIC-insured, there will be no risk to the first \$250,000 you deposit. However, if a bank fails and is taken over by the FDIC, your great rate could disappear, as there is no guarantee an acquiring bank will honor your previous institution's rate.

Banks that offer a much higher-than-average rate of return may be cash-strapped and at risk of failing, Geczy says.

On the other hand, competitive rates aren't necessarily a sign of trouble. For example, some online-only banks can offer great rates because they don't have the expenses of a brick-and-mortar bank, including everything from rent to electricity bills and janitorial services.

It takes a savvy researcher to discern the difference between a bank that's cash-starved and one that's an efficient operator. If a bank offers an unusually high return, ask questions, Rooney says.

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"I wonder why it's above market -- why do they need deposits so desperately?" she says.

Before choosing a bank, investigate its Bankrate Safe & Sound rating. And remember that not all savings vehicles are alike -- some are federally insured while others aren't.

#### Protect Against Inflation

Like everyone else, the wealthy have to worry about rising prices eating into their savings. For now, inflation remains subdued; in fact, some experts are more worried about the prospect of *falling* prices, or "deflation."

Banks are paying out very low rates on savings instruments today. However, the return may be better than it appears, thanks to today's low inflation rate. For example, if you find a savings account with 1 percent interest in an environment where inflation runs minus 1 percent, you've netted a 2 percent rate of return.

Still, deflationary trends are historically unusual, and many forecasters expect inflation to come roaring back sometime soon. Inflation can be dangerous to anyone -- rich or poor -- who keeps too much money in safe, low-yielding savings vehicles.

"If you're set on cash, your No. 1 enemy is inflation," Rooney says.

When inflation inevitably starts to creep upward again, your savings buy less. For example, a car with a price tag of \$10,000 in 2007 might cost \$10,403 in 2009. But your savings account still only contains \$10,000 unless you've found a bank averaging a 4 percent after-tax rate of return over the past two years.

"There are some serious consequences to saving cash for too long," Rooney says.

For that reason, Rooney urges the wealthy and other investors to invest some money in products likely to at least keep pace with inflation.

"Every time we build a portfolio, we build some kind of inflation protection into portfolios, such as investments in gold and commodities," she says.

Treasury Inflation-Protected Securities, commonly known as TIPS, are another hedge against inflation, and an instrument the average person can easily purchase.

#### Turn to Experts

Like the rest of us, the wealthy don't enjoy paying taxes. Many worry they'll have to fork over more money to the federal government under new proposals introduced by Congress and the Obama administration.

So, the wealthy are turning to trusted advisers for advice on tax-exempt investments, such as municipal bonds. Well-off individuals also choose highly-rated municipal bonds because they're considered more stable investments, due to the insurance that many of these bonds carry.

Los Angeles-based Certified Financial Planner Justin Krane, president of Krane Financial Solutions, works with Hollywood film and television professionals. He says his clients know they could be "hot" for several years, only to see their star power cool.

"They are scared and worried about their ability to consistently earn a large income," Krane says.

Once their star falls, celebrities might need to live off their investments, whether the economy is up or down.

"We usually keep a fair amount of cash on hand, and invest their personal or nonretirement accounts more conservatively, usually in municipal bonds," he says.

Kane also uses custodians like Charles Schwab and Fidelity to pool his clients' FDIC-insured CDs issued by different banks. Clustered into one account, the CDs are easier to purchase, manage and keep track of.

If you plan to follow in the investing steps of the rich and famous, be careful where you step. Investing in products such as municipal bonds requires a level of sophistication that may be beyond many casual investors, Geczy says.

For example, California and Michigan's state budgetary meltdowns could increase the risk of purchasing municipal bonds in those markets. And just because a bond is "municipal" does not guarantee that it is "tax-free."

Rooney agrees, adding that it is difficult to predict the projected success and underlying credit-worthiness of a specific municipal bond.

"It's an inefficient marketplace," Rooney says. Choosing municipal bonds isn't as easy as stock-picking, Rooney warns. It may be best to start off with a mutual fund or find a qualified adviser to help you select a bond.

Geczy adds that the right brokers and advisers can help investors craft a well-balanced savings and investment portfolio that works for their timeline -- whether you want access to immediate savings or are thinking more long-term.

Ask for referrals and comparison shop like the wealthy do. Bankrate can help you find a financial adviser. In addition, research investment adviser firms at the [U.S. Securities and Exchange Commission Web site](#).

Proper research is crucial to choosing the right investor, Geczy says. "It's easier to do homework upfront than after."

But even after you've hired your star broker, "you still have to monitor trusted advisers," says Geczy.