

June 15, 2004

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# U.S. Led a Resurgence Last Year Among Millionaires World-Wide

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Four years after a stock-market downturn flattened many investment portfolios, a new study finds that one of every 125 Americans is a millionaire -- reflecting a growth rate not seen since the late 1990s, at the peak of the stock-market bubble.

The 2004 World Wealth Report, compiled by brokerage firm Merrill Lynch & Co. and consultancy Capgemini Group, paints a picture of financial resurgence among the world's wealthy. The number of millionaires in the U.S. was up 14%, and the U.S. and Canada together added more new millionaires last year than Europe, Asia, Latin America and the Middle East, combined.

Most striking: the study found that in the U.S. and Canada, the number of ultra-rich -- those with investment assets of more than \$30 million -- has reached 30,000, about the same number of people as live in Juneau, Alaska's capital.

Wealthy individuals in most of the world enjoyed a strong 2003, ending two years in the doldrums. In the U.S., rising stock markets and wealth-friendly tax cuts combined to create strong returns for the wealthy. Globally, wealthy investors, after shying from stocks in 2001 and 2002, re-entered the market aggressively in 2003, expanding their exposure to 35% of their holdings from 20% (see [related article](#)<sup>1</sup>). Direct investments in real estate, such as commercial real estate, and in real-estate investment trusts edged up to 17% of total financial assets from 15% in 2002, according to the Merrill Lynch/Capgemini report.


## SERIOUS MONEY

See the number and fortunes<sup>1</sup> of high-net-worth individuals, or those with at least \$1 million in financial or liquid assets, world-wide in 2003.

Although home values and prices have risen sharply in the past few years, home equity doesn't figure as part of a millionaire's holdings, for the purposes of this study. But holdings in 401(k)s and IRAs do count.

The number of "high-net-worth individuals" in the U.S., or those with at least \$1 million in financial or liquid assets, jumped to 2.27 million last year, up from two million in 2002.

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Growth in the ranks of the rich marks a sharp turnaround from 2001 and 2002, when the population of millionaires in the U.S. remained largely flat and the fortunes of the wealthy declined by about \$200 billion, according to the report. The report showed that high-net-worth individuals in the U.S. and Canada held \$8.5 trillion in liquid and financial assets, up from \$7.4 trillion in 2002.

"While the wider populations of most countries are just starting to feel the effects of recovery, [high-net-worth individuals] as a group have been enjoying the fruits of recovery for the last 12 months," the report states.

The report doesn't detail the sources driving growth in assets among the wealthy, although small businesses and a rising stock market have traditionally been the main drivers. Initial public offerings and sales of small businesses, which create huge windfalls for entrepreneurs, surged in 2003. Deals expected this year, like the IPO of Google that could net its founders billions of dollars, are likely to continue the gains among the wealthy.

The Standard & Poor's 500-stock index rose 24% last year, while many overseas markets rose even more, accounting for much of the gains for the wealthy. In the U.S., the Bush tax cuts, which included a reduction in the top tax rate, as well as reductions in taxes on estates, capital gains and dividends, also helped bolster the fortunes of the fortunate.

A 2002 study by Capgemini found that more than half of the high-net-worth individuals in the U.S. were "new money," or self-made millionaires. Inherited money is declining as a share of wealth in the U.S., according to the study, accounting for less than 20% of high-net-worth individuals in 2002.

Despite the rise of self-made millionaires, the growing fortunes of the wealthy highlight the extent to which wealth remains concentrated among the few. Even after the huge economic gains during the bull market of the late 1990s, the wealthiest 1% in the U.S. control more than a third of the nation's wealth -- the starkest such concentration among industrialized countries.

A new study by Edward N. Wolff, a wealth expert and an economics professor at New York University, shows that while average families made some gains in the late 1990s -- due mainly to rising income, real estate and stocks -- the concentration of wealth held in the U.S. remained largely unchanged. The wealthiest 5% controlled 59.2% of the nation's wealth in 2001, little changed from the 60.3% in 1995.

### Room at the Top

Mr. Wolff, whose study, unlike the Merrill Lynch/Capgemini report, includes homeownership, says the gap between the very rich and the rest of the population probably won't close -- and could widen in coming years. While the ultra-wealthy are prospering, average real wages in the U.S. haven't kept pace. Real estate, which makes up a far bigger share of wealth for middle-class households, could take a hit with rising interest rates. President Bush's tax-cut programs disproportionately benefit those at the top of the wealth pyramid.

"We have to be concerned about whether this latest growth is concentrated at the top," says Mr. Wolff. "If it's concentrated at the top, we could see widening disparities of wealth in the population."

Underscoring the concentration of wealth among the very rich, a study last fall by Arthur Kennickell of the Federal Reserve Board shows the nation's wealthiest 1% owned about \$2.3 trillion in stocks, or about 53% of all individually or family-held shares. The wealthiest 1% owned 64% of bonds held by families or individuals, and 31% of total financial assets held by families or individuals, which includes everything from stocks to bonds to cash.

The Merrill Lynch/Capgemini report predicts continued good times for the wealthy around the globe in coming years, powered by rising stock markets, growth in emerging markets like China and India, and the broader economic recovery. The number of ultra-high-net-worth individuals is expected to grow 7% a year during the next few years, the report says, and the total global wealth of financial millionaires is expected to hit \$40.7 trillion by 2008, up from \$28.8 trillion in 2003.

One of the biggest surprises in the report was the dominance of North America. Besides adding more new millionaires last year than any other major region, North America also led in the growth of total wealth held by those with more than a million dollars in assets such as stocks, bonds or real-estate investments. The wealth held by ultra-high-net-worth individuals rose to \$2.5 trillion in 2002 from \$2.2 trillion in 2002. The wealth of Europe's financial millionaires rose by \$300 billion, while in Asia it rose \$600 billion.

Europe was especially weak in 2003, after topping the U.S. in 2002. Although the economies of Spain, the U.K. and Sweden perked up last year because of strong consumer demand, the lumbering giants of France and Germany weighed down European wealth creation. High unemployment, weak consumer demand and budgetary crises left Europe with wealth growth of only 2.4%. The number of high-net-worth individuals in France grew by just 5,000.

In Asia, India and China continued to set the pace for wealth creation. China's voracious demand for goods helped create new millionaires throughout the region, with South Korea, Thailand and Indonesia all benefitting. The number of high-net-worth individuals in Asia rose 8.4%, with 11.8% growth in China and 21.9% growth in India.

After being plagued by a real-estate bust and plunging stock prices in 2002, Hong Kong's financial millionaires rebounded to 2001 levels because of rising asset prices, increased demand from China and foreign direct investment, according to the report.

### **Latin American Ultra-Rich**

Still, the population of millionaires in Asia remains small relative to the region's vast populations, suggesting that wealth remains highly concentrated among a privileged few. China reported 236,000 high-net-worth individuals last year, while India had about 61,000 -- tiny compared with the 2.27 million in the U.S.

Latin America remains the site of the biggest gulf between the ultra-rich and the rest of the wealthy population. Ultra-high-net-worth individuals made up 2.4% of the total high-net-worth individuals, more than twice the levels of the U.S.

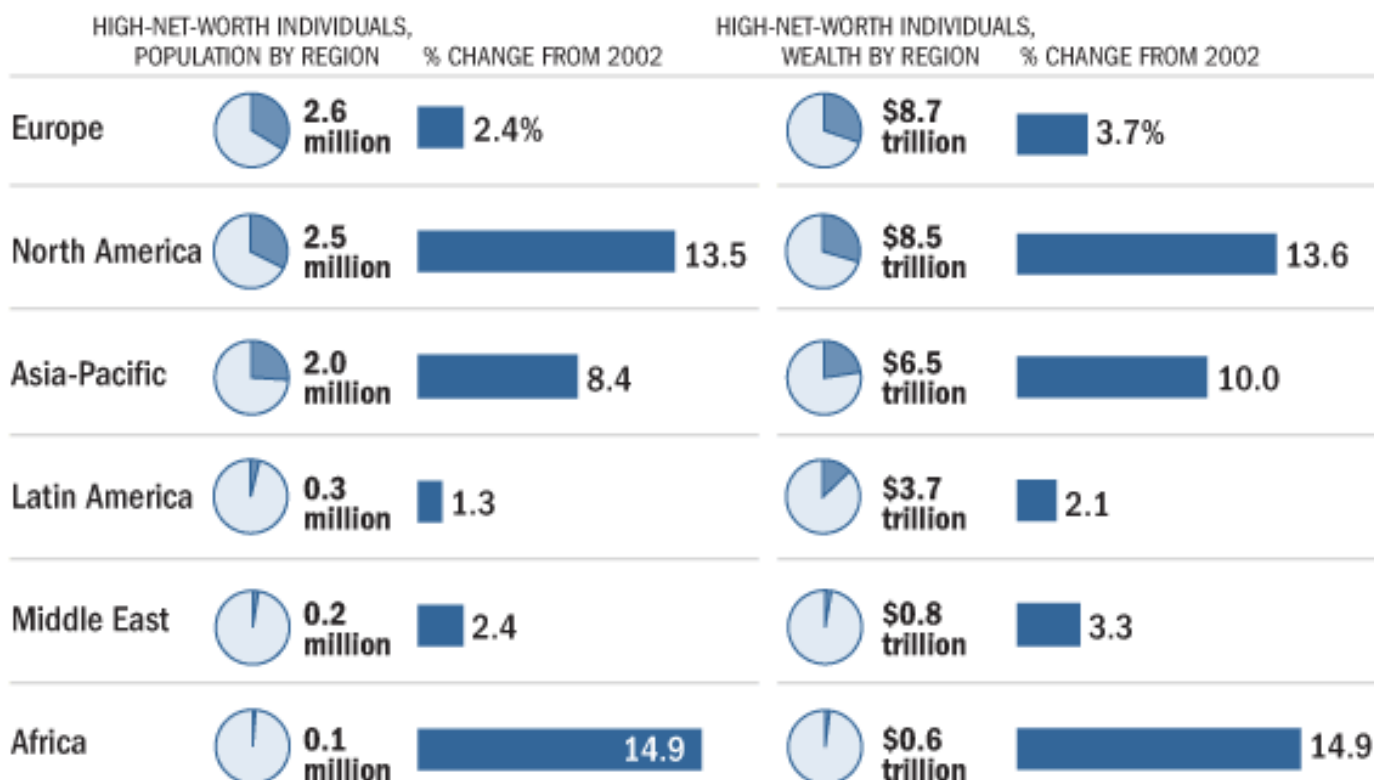
The soaring population of the wealthy world-wide has also caused a corresponding surge in inflation for luxury goods. A Merrill Lynch/Capgemini index shows that the costs of luxury goods in 2003 rose at more than twice the rate of overall inflation.

The surge in wealth is also fueling growing interest in inheritance, especially among the baby boomers. Studies estimate between \$41 trillion and \$136 trillion will be transferred across generations in the next 50 years in the U.S. The wealth report states that the money will be divided among heirs, charities and taxes. The size of the potential tax hit has led many high-net-worth individuals to shop around for tax-minimization strategies, and is driving new business for trust-and-estate planners, charities and tax advisers.

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## SERIOUS MONEY

The number and fortunes of high-net-worth individuals, or those with at least \$1 million in financial or liquid assets, world-wide in 2003



Sources: Capgemini; Merrill Lynch

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