

Global Entrepreneur Indicator

from the Entrepreneurs' Organization

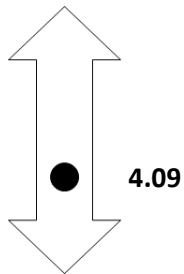
US Entrepreneur Alternative Asset Class Predictions

Interim Report Two: October 2010
 Dr. Sally Ernst

Summary of Findings

Only US entrepreneurs have indicated a reduction in the number of full-time employees over the past 12 months. They predict, however, that in the next quarter they will hire more full-time and part-time employees, and have the second highest expectations of growth of all the regions. A majority of US entrepreneurs report an increase in net profits, and a significant majority predicts increased profits into the next quarter. While long-term debt reduction remains a priority, American entrepreneurs have the most difficulty of all the regions obtaining loan capital from banks. They also expect access to short term lines of credit to deteriorate. US entrepreneurs are by far the least optimistic region with respect to property prices. The great majority of US entrepreneurs do business in their own country and with Canada. US entrepreneurs predict the environmental/recycling/green energy industry will be the fastest growing in the coming year.

US: Interim Findings – Second Survey (October 2010)



With an Indicator benchmark of 4.09 (out of 10), US entrepreneurs have a negative viewpoint overall about alternative asset class performance— a decline in sentiment compared to the May 2010 survey.

US entrepreneurs are the only region in this Indicator series reducing the number of full-time employees in the last 12 months, although they predict they will be creating jobs in the future. US entrepreneurs predict that in the next quarter they will hire more full- and part-time employees.

Entrepreneurs in the US are the exception to the other regions, in that they have not been employing more full-time people in their businesses over the last 12 months. Around half (51%) of US entrepreneurs reported that they decreased the number of full-time employees in the last year. Additionally, a majority of US entrepreneurs reduced part-time headcount in the previous year. This contrasts to the previous Indicator carried out in May 2010, in which more than three-quarters (76%) of US entrepreneurs increased their headcount, with the majority (70%) of those jobs being filled by full-time employees

In the coming 12 months, a clear majority of US entrepreneurs (67%) predict an increase in full-time employment in their businesses. At 53%, more than half also predict an increase in part-time and contract employment.

A majority of US entrepreneurs reported an increase in net profits, and a significant majority predicts increased profits in the next quarter.

In what amounts to a very positive outcome, entrepreneurs in the US reported an increase in profits of 55% for the previous three months, an 18% increase compared to the previous quarter (37%). Furthermore, the US shows an even higher degree of optimism about the next quarter (71%).

Long-term debt reduction is a priority for US entrepreneurs, but US entrepreneurs have the most difficulty obtaining loan capital from banks.

The US reported the highest percentage of entrepreneurs of any region (70%) reducing long-term liabilities.

This focus to reduce long-term debt by US entrepreneurs is set to continue in the coming 12 months with more than two-thirds (68%) predicting a reduction in long-term debt. Almost-two thirds (65%) of entrepreneurs in Canada also plan to reduce debt in the coming year. Asia Pacific stands out as the only region with a minority (40%) planning to lower their long-term loan liabilities.

The US region reports the highest percentage of entrepreneurs (57%) finding it difficult to access capital from the banking sector.

US entrepreneurs are by far the least optimistic region with respect to property prices.

US entrepreneurs are the least optimistic about property prices, with the significant majority of entrepreneurs (76%) expecting commercial property prices to fall and more than two-thirds (68%) expecting residential prices to fall. The US is by far the least optimistic region with respect to property as an alternative asset investment. Asia Pacific entrepreneurs are the only regional group predicting property prices will rise in the next year, with the significant majority (71%) predicting residential property prices will increase.

US entrepreneurs are divided evenly on the future price of gold.

There is a global consensus that the price of gold will increase. Half (50%) of US entrepreneurs predict they will see a higher market price for gold in the next 12 months. Again, significantly more Asia Pacific entrepreneurs (71%) believe the price of gold will rise than those of any other region.

US entrepreneurs expect interest rates to fall but access to short-term lines of credit to deteriorate.

In the US, more than half (56%) of entrepreneurs envision a fall in interest rates in the coming quarter. Only Asia Pacific and Canadian entrepreneurs predict interest rates to rise (63% and 64%, respectively). All other regions expect rates to fall, especially Latin America and the Caribbean, where well more than half (60%) of entrepreneurs predict rates to fall.

The US has the highest proportion of entrepreneurs (55%) who predict a decrease in their ability to use short-term credit.

The great majority of US entrepreneurs do business at home and with Canada. Few US entrepreneurs do business in Africa, a pattern replicated across the Americas.

Almost all US entrepreneurs (98%) conduct business within their own region. One in five (20%) US entrepreneurs have business dealings with Canada, which is fewer than the number of Canadian entrepreneurs that do business with the US (58%). Almost one in five (18%) US entrepreneurs choose to

conduct business in Western Europe. Very few (3%) US entrepreneurs do business in Africa. This pattern is replicated across the Americas; with a negligible number of Latin America and the Caribbean and Canada entrepreneurs (3%) conducting business in Africa.

There is some, although inconclusive, evidence that entrepreneurs are predicting the US dollar will weaken against the Chinese yuan and Canadian dollar.

Although the evidence is inconclusive, US entrepreneurs expect the US dollar to depreciate against the yuan. There is some evidence that entrepreneurs in Canada are expecting the Canadian dollar to appreciate against the US dollar.

Entrepreneurs around the world are not reporting a clear picture in respect to return on managed futures and hedge funds.

US entrepreneurs favor using business partners and associates, and accountants/tax advisors as their primary source of financial advice. Interestingly, they are looking to invest in personal retirement accounts.

The vast majority (82%) of US entrepreneurs cite business partners and associates as a source of financial advice, the highest among all the regions. US entrepreneurs also use accountants and tax advisors frequently for financial advice (82%). US-based entrepreneurs rely more on friends and family for financial advice (63%) than their Canadian counterparts (53%) and much more than Europe-Middle East-Africa-based entrepreneurs (47%).

Beyond their own businesses, US entrepreneurs invest in personal retirement accounts (80%), residential real estate (63%), stocks/bonds (59%), mutual funds (55%), corporate retirement accounts (36%), commercial real estate (35%) and private equity (12%). The US has the highest percentage of entrepreneurs invested in corporate accounts (36%) and mutual funds (55%).

US entrepreneurs have the lowest percentage of entrepreneurs invested in commodities (4%). Along with LAC, the US has the lowest percentage of entrepreneurs invested in art (9%), and the lowest percentage invested in venture capital along with Canada (4%).

The top three alternative asset classes that US entrepreneurs intend to invest in are personal retirement accounts (43%), stocks/bonds (30%) and mutual funds (27%). US entrepreneurs have the highest percentage looking to invest in personal retirement accounts (43%) and retirement accounts (22%). Along with Canada, US entrepreneurs have the lowest intention of any region to invest in green energy/clean technology (8%).

US entrepreneurs predict the environmental recycling green energy industry will be the fastest growing industry in the coming year, yet approximately one in 10 intend to invest in clean/green tech.

This survey showed that US entrepreneurs had an aggregate average score of 5.8 out of 10 for predicted growth across all industries in the coming 12 months, making the US slightly positive about the outlook for overall business and economic growth. This was, however, the lowest score of all the regions in this global survey. The US region's entrepreneurs singled out the following industries as their top five picks for future growth in the coming year.

- | | |
|---|-----|
| 1. Environmental/recycling/green energy | 7.0 |
| 2. Biotech | 6.8 |
| 3. Health/medical | 6.7 |
| 4. Technology | 6.5 |
| 5. Pharmaceuticals | 6.4 |

About the Research

This report is part of the Global Economic Indicator research program conducted by the Entrepreneurs' Organization in partnership with The Standard Chartered Private Bank. This research program began in May of 2010 and consists of a five-year series of quarterly surveys of Entrepreneurs' Organization members. The full report and findings are available at: <http://www.entrepreneurindicator.com/>.

The significance and uniqueness of this global research program lies in the very tight definition of a successful entrepreneur represented by the Entrepreneurs' Organization's membership base. All those surveyed have successfully founded a business grossing more than US\$1 million in revenue annually. Overall, EO members average US\$18.4 million in revenue per year. Between them, these entrepreneurs employ more than 1.3 million workers, with an average of 191 employees per entrepreneur. The average age of the entrepreneurs surveyed is 40. This group is generally very difficult to gain access to and poll. However, the Entrepreneurs' Organization holds a member base fitting these criteria that are captive to the organization, providing the ability to gain an entree to this highly important sample of the successful entrepreneur population.

This initial research surveyed more than 7,300 entrepreneurs in 42 countries from the Entrepreneurs Organization, achieving a response rate of 20% based on a minimum reach of 7,300.

Global Entrepreneur Indicator: Alternative Asset Classes

This is the second report providing readers the interim findings of a series of research activities over an intended period of five years being undertaken by Entrepreneurs' Organization (EO) in partnership with Standard Chartered Private Bank. At the time of writing, The Global Entrepreneur Indicator for Alternative Asset Classes is the first of its kind globally, which measures entrepreneurs' predictions on Alternative Asset Class performance.

Six versions of the Alternative Asset Class indicator have been produced:

- Global Indicator – aggregate of all respondents globally
- Country and Regional Indicators – aggregate for each country with a discrete response rate above 50. For this survey, the countries and regions include:
 - US
 - Latin America and the Caribbean (LAC)
 - Canada
 - Asia Pacific region (ASAP)
 - Europe-Middle East-Africa (EMEA)

Detailed Interim Research and Regional reports will appear at <http://www.entrepreneurindicator.com/>.

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Methodology

Survey

The survey incorporates elements of cited Alternative Asset Class investments as described in the research report literature scan below. The test for the choice of key indicators for the purposes of this research is that they are later measurable against actual asset class performance.

There are seven categories measured in the indicator:

- Currency
- Residential real estate
- Commercial real estate
- Precious metals
- Managed futures
- Hedge funds
- Selves/own businesses

Some additional questions of interest to Entrepreneurs' Organization about their members' opinions, which are not used in the calculation of the Indicator, have also been included in the Indicator survey. These, as well as data from Indicator questions, may be used in the Alternative Asset Class Indicator or other Entrepreneurs' Organization Indicators.

The Indicator is calculated as the category score, or averaged upper end and neutral percentages divided by 10, which are then averaged across all category scores with equal weighting to give the final Indicator benchmark out of 10.

Limitations

- Not all respondents may have received the email
- Over 50% surveyed were based in the US and represented 58% of respondents.
- Some regional Indicators have a small response rate relative to their size. These reports can perhaps be used in the context of the longitudinal data as a benchmark made richer over time
- There may be anomalies in the membership data, such as an owner or major shareholder rather than founder may be included in respondents or other anomalies.
- There may be anomalies caused by technology in the process from data extraction, to survey delivery, to responses, to first stage analysis. While noted as a limitation, this is for probity as these are estimated to be minimal.
- Per the below statistics, most of the membership base is categorized as founder or cofounder, however, more founders and cofounders could be included in the owner and major shareholder categories. Members in these additional categories could potentially be categorized as entrepreneurs, dependent on the nature of intent to innovate or innovation.

Founder or Co-Founder	53%
Owner	34%
Controlling Shareholder	9%
Other	4%

Response Rates Summary

ASAP	237
Canada	118
EMEA	85
LAC	55
US	712
Global	1207

Background to Alternative Asset Classes

Entrepreneurs are a special group, given their ability to assimilate the information available to the general population differently to generate opportunity and create new things. This group continues to be a generally understudied population at scale.

There is some evidence that alternative asset classes may improve investment returns as part of a portfolio. While loose and broad, the definition of alternative asset classes may exclude stocks, bonds and cash.

For the purposes of the Global Entrepreneur Indicator, alternative asset classes were defined as either tangible or intangible goods that have a proven economic value but are not typically included in standard investment portfolios. Investors may look to alternative asset classes to diversify their portfolios. Due to their nature, it can be difficult to arrive at an objective valuation of alternative asset classes.

Bonds, stock and cash are generally excluded from the definition of alternative asset classes, as they represent, in most cases, the fundamental constituents of portfolios.

About Alternative Asset Classes

Given its broad definition, the Global Entrepreneur Indicator carves out the alternative asset classes and/or components of alternative asset classes that are most easily measurable for their return and are subjectively perceived to be more accessible, attractive and/or applicable to entrepreneurs. They have then been ordered by the alternative asset class' ability to be consistently and clearly valued and measured.

For example, Private Equity has been excluded for the purposes of the research, as these investments are usually relatively large, available to qualified investors only and may not be applicable to the majority of entrepreneurs. Another example is philanthropy, which may not be clearly valued or measured. In the case of education, it has been excluded because the risk is not easy to assess. Even though education is perceived by some as an investment with a high return—higher even than bonds or gold—it is difficult to quantify when considered against 'conventional' assets such as bonds or equity for which return is justified by risk (Judd, 2000).

Hedge Funds

Hedge Funds became popular as an investment vehicle in the late 1990s as an alternative to stocks, which were then characterized by high prices and low returns (Edwards & Liew, 1999). According to HFR



(2010) hedge-funds have recovered in the first quarter of 2010 from the low values reached in early 2009. Globally, hedge funds now manage USD \$1.67 trillion of assets. During the first quarter of 2010, hedge funds have recorded an average return of 2.56%. Relative-value funds have recorded higher values, returning on average 3.58% in the first quarter of this year (Jones, 2010; HFR, 2010).

Natural Resources/Commodities

The Bloomberg Global Poll of investors, traders and analysts conducted on 19 January 2010, revealed that after stocks, commodities were considered as the most promising asset class (Dorning & Dodge, 2010). Commodities may be perceived by some to be an attractive investment as, being strongly linked to supply and demand, this alternative asset class has the advantage of potentially protecting portfolios from inflation (Bloemker, 2010). Examples of investible commodities are:

- Gas
- Oil
- Corn
- Cotton
- Copper
- Soybean
- Precious metals (Platinum, Gold, Silver)

According to the Halifax Assetwatch press release published 6 March, 2010, precious metals overall increased in value by 242% in the decade December 1999 to December 2009. Respectively, gold registered an annual average increase in price of 14.2%, platinum of 12.7% and silver of 12.6% (Halifax Assetwatch, 2010).

Managed Future Accounts

Managed future accounts are investment vehicles managed by Commodity Trading Advisors (CTAs) (Investopedia, 2010a). CTAs trade a portfolio of futures, forwards or options in global currency, interest rate, metal, energy and agricultural markets (Morgan Stanley Smith Barney, 2009). Although the strategies that CTAs employ on their portfolios can vary greatly, these managers all trade highly liquid and regulated financial products (Barclay Hedge, 2010).

Investors may perceive managed futures as an attractive way to diversify their portfolio due to their potential non-correlation to stocks and bonds (Barclay Hedge, 2010). Successful managers generally use modern portfolio theory to pick assets that will maximize returns against the level of risk they have chosen to take (Investopedia 2010b). Since their introduction in 1980, according to the CASAM CISDM CTA Equal Weighted Index, managed futures had a compound average return of 14.52%, almost double the return of U.S. stocks over the same period (based on the S&P 500 total return index).

Real Estate

Investment in real estate can be directed to the purchase of any of the following categories of estates and may be perceived by investors as a hedge against inflation (Skidmore, 2010):

- Commercial real estate
- Residential real estate

In the UK, returns on residential and commercial properties respectively recorded an average 11.1% and 5.8% return between December 1999 and December 2009. However, in 2009 alone residential properties recorded a return of 8.7%, and commercial properties recorded a return of -1.4% (Halifax, 2010).

Even though real estate is often considered an alternative asset class, it is sometimes considered an 'additional' asset class to stock, bonds and cash. One reason is that before the emergence of stocks and bonds, real estate was the preferred asset class. Upon the invention of stock and bonds, these were

considered alternative asset classes to real estate. Additionally, real estate is often considered as a fundamental and indispensable component of a well-diversified portfolio (Anson, 2006).

Microfinance

Socially Responsible Investments (“SRIs”) are investments aimed to generate financial return and social, environmental and ethical improvements. Of all SRIs, microfinance is currently the sector that attracts the largest number of investors.

Microfinance is a term that describes the provision of financial services to poor parts of the population that otherwise would not have access to banking services. Micro-loans are aimed at poor individuals who are able to engage in a productive entrepreneurial activity. Examples of micro-borrowers are street vendors, small farmers and fishermen.

According to a study conducted by The MIX on a sample of around 704 microfinance institutions, for the year 2007, the leading 176 MFIs recorded a RoE of 17.2% (The MIX, 2006). Investments in microfinance are expected to rise to around USD 20bn by 2015 (Deutsche Bank Research, 2007).

Wine

Wine investment has registered steady growth since the early 1990s, with an average annual growth rate of 17.64%. Compared to other alternative asset classes, wine investment has some perceived advantages: wine is easy to store, is likely to increase in quality with time, is not subject to fashions and may be shown to increase value with rarity. Increasing global demand and the existence of professional investment advice services appear to be making wine an interesting investment opportunity (Golding, 2009).

Collectibles and Luxury Items

Categories of goods that can be included in the collectibles and luxury items alternative asset class are:

- Art (produced by famous artists and emerging artists)
- Photography
- Stamps and coins
- Antiques
- Classic cars and motorbikes
- Vintage watches
- Yachts
- Designer fashion
- Sport and music memorabilia and autographs
- Toys

Let’s take the example of art. Even if the return is almost impossible to measure accurately, it appears an increasing number of investors perceive art as an interesting alternative investment opportunity. Bernard Duffy, manager of the “Emotional Assets” fund, which invests in art and other collectibles, thinks investors can make a 15% profit per year (Papworth & Collinson, 2009). However, art may be perceived as a long-term investment that is likely difficult to value, and may be unlikely to guarantee immediate liquidity. On the other hand, art may also be considered by some as a hedge against inflation.

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