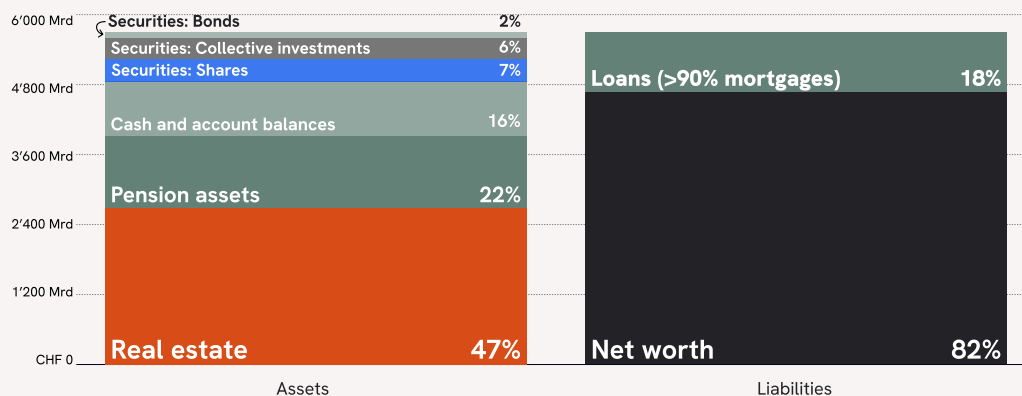


Economico Flash ⚡ #14

Investment strategy: Seeing the big picture



Chart of the week: Balance sheet composition of Swiss households



Source: Swiss National Bank, Balance sheet of Swiss households as at 31.12.2023

In the next Flash articles, we will consider the topic of asset structuring and the definition of a suitable investment strategy.

First of all, I would like to invite you to the relevant level of consideration for this question. For you as a private individual - as for any other economic entity - the balance sheet perspective is decisive. Your personal balance sheet is the relevant playing field for tackling the issue of asset structuring.

On the assets side of the balance sheet, Swiss households had total assets of CHF 5,703 billion at the end of 2023. On the liabilities side, debts (with mortgages accounting for more than 90 percent) amounted to CHF 1,015 billion, meaning that the net assets or equity of Swiss households amounted to a proud total of CHF 4,688 billion. With a population of 8,962,300 at the end of 2023 according to the Federal Statistical Office, this results in an average (not to be confused with the median!) per capita net wealth of CHF 523,000.

Almost 50% of the average Swiss person's assets are tied up in real estate, a good fifth are pension assets from the 2nd and 3rd pillars, another 16% are cash and current account balances, and the rest are securities holdings. The color coding of the balance sheet items distinguishes between fixed or variable interest-bearing assets and liabilities (green, retirement assets from the pension fund are also allocated here), real estate (orange) and shares (blue). A corresponding allocation is not possible for fund holdings (gray).

Even at this altitude, two exciting theses can be formulated for the wealth structuring of the average Swiss man and woman:

1. Avoid leverage effects: Swiss households have sufficient liquid assets and bonds to pay off their outstanding mortgage debt. At an individual level, there are hardly any good reasons - apart from liquidity aspects - to hoard cash and bonds on the assets side and at the same time roll over a mortgage on your own home on the liabilities side: in particular, the difference in interest rates between the assets and liabilities side generally leads to a loss. Of course, the bank is happy, as it can collect two sets of expenses.
2. Low equity ratio: At CHF 388 billion and thus less than 7 percent of assets, the equity ratio of Swiss households is rather low - especially when you consider that in Switzerland, a country of SMEs, this ratio also includes all the investments in unlisted companies. Even if the fund portfolios and the 3a assets are taken into account and perhaps one or two percent of equities are added, this equity ratio is very low compared to other investors.

Takeaways

- We recommend the balance sheet perspective for asset structuring
- Tip 1: Avoid (unnecessary) balance sheet leverage.
- Tip 2: A little more equities is fine