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> THE GLOBAL BULL MARKET IN NARCISSISM IS BEING FUELLED BY SOCIAL MEDIA

Victims of vanity

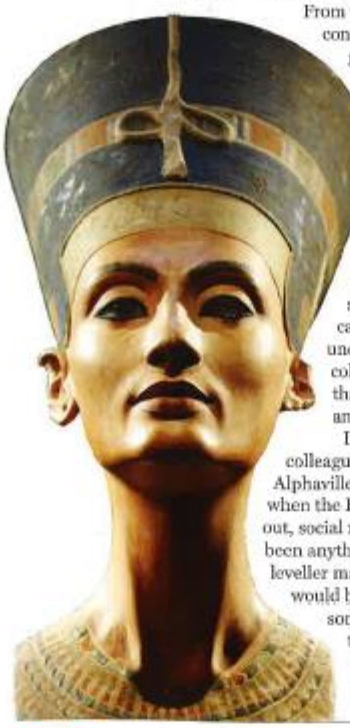
Do you have a manbag, a Botox habit, a bust of Queen Nefertiti or a Twitter account? If you can say yes to any of these, you may be facing a risk management problem. If you can say yes to all four, you should almost certainly be fronting a reality TV programme. But either way, you are likely to be more exposed than you realise to a newly identified asset class, "vanity capital".

Let me explain. Or, rather, let Ajay Singh Kapur, the analyst at Bank of America Merrill Lynch who came up with the idea in a report last month: "In a room at the Neues Museum in Berlin stands a bust of Queen Nefertiti, solitary and proud — a paragon of beauty from 1340BC. Indeed, her name means 'the beautiful one has come' and it is our favourite work of art in the world, almost perfectly preserved. It is also a perfect example of the timelessness of vanity capital over the ages."

Now, just in case a likeness of Mrs Pharoah Akhenaten was not one of the possessions you admitted to owning a couple of paragraphs earlier, perhaps I should allow Kapur to explain the others on the list. "Vanity capital is the pursuit of, and the accumulation of, attributes and accessories to augment self-confidence by enhancing one's appearance and prestige," he goes on to say. According to his estimates, the amount of capital being allocated by wealthy individuals to such aesthetic assets is rising rapidly, driven by demographic and behavioural change.

Older, richer consumers are spending more on vanity products — "be it Botox, luxury personal care, cosmetics or luxury baubles", says Kapur. And bolder, richer consumers are turning themselves into vanity projects. "Manbags are actually a thing now," he states. "It is self-actualisation through self-improvement and self-focus." Well, it's self-something, certainly.

But while it is easy to question the words, it is harder to ignore the numbers. "[Globally], vanity capital is approximately $3.7tn — about the size of the German economy, the fourth largest in the world," the BAML report calculates. If it follows current projections, though, it will reach $4.5tn by 2018, as vanity spending is already growing faster than non-vanity spending in all major markets bar western Europe and Japan.



The timelessness of vanity capital: the Neues Museum's bust of Queen Nefertiti

From this, BAML concludes "there is a global bull market in narcissism" — and it is being fuelled by the narcissists' information source of choice: social media. In the BAML report, Mr Kapur suggests vanity capital is effectively underpinned by a collective social media that make "narcissism and envy ubiquitous".

In fact, as my colleagues on the FT Alphaville blog lamented when the BAML report came out, social media seem to have been anything but the social leveller many thought they would be. "Wasn't there some hope... that the more we knew about the person next to us, the less we'd have to signal our worth? Most disappointingly, it seems to have gone the other way."

So where is the danger in this for well-to-do families? Iain Tait, a partner at wealth manager London & Capital, warns increased allocations to vanity capital will potentially lead to more risk-taking in other parts of a portfolio. "In a world where the risk-free rate has moved to 0 per cent, you have the consumption pattern of high-net-worth families running at what we call the 3-5 per cent inflation rate, based on the Forbes Cost of Living Extremely Well Index," he notes. "Investors are often chasing returns that do not align to their risk profile."

Vanity capital holdings — from busts to Botox — must therefore be offset by investments across several other asset classes, advises JPMorgan Private Bank. "A well-diversified portfolio of investments can provide the foundation to complement even the most non-conventional thinking," says Tracy Maeter, head of investments.

Perhaps the most effective way to prevent costly vanity projects depleting family fortunes is to encourage more modesty in the younger generation. Andrew Nolan, managing director of wealth manager Stonehage Fleming, admits this can be difficult for people in his profession to do. "It is one of the most difficult jobs of an adviser to sense when personal ego is beginning to distort business judgment," he says.

Often, vanity can only be punctured by a few home truths. "This means... instilling in all family members a culture of 'trusteeship' which places contribution above consumption," says Nolan.

Best to put down the manbag before attempting that, though.

WHAT MATTHEW IS THINKING...

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