PERSPECTIVES ON SERVING THE ULTRA-HIGH-NET-WORTH SPACE

An Interview with Jean L. P. Brunel and Charlotte B. Beyer

By Scott Welch, CIMA®

As the Investments & Wealth Monitor Editorial Board brainstormed about building an ultra-high-net-worth (UHNW) issue, we thought it would be interesting to get the perspectives of someone who is an advisor to UHNW families and someone who represents UHNW consumers of wealth management services and solutions.

We quickly identified Jean L. P. Brunel, CFA®, to represent the UHNW advisor and Charlotte B. Beyer to represent the UHNW family, because each is a true industry thought leader.

Brunel and his firm, Brunel Associates, offer wealth education and analysis. There he capitalizes on more than 35 years of experience that has focused on tax-aware investing, goals-based wealth management, and the role of alternative assets in balanced portfolios. Brunel was chief investment officer (CIO) of JP Morgan’s global private bank, CIO of Private Asset Management at US Bancorp and, most recently, CIO of GenSpring Family Offices. He has been the editor of the Journal of Wealth Management since its founding in 1998, and is the author of the books Integrated Wealth Management: The New Direction for Portfolio Managers and Goals-Based Wealth Management: An Integrated and Practical Approach to Changing the Structure of Wealth Advisory Practices, as well as many peer-reviewed articles. In 2015, he received the inaugural IMCA J. Richard Joyner Wealth Management Impact Award.

Twenty-five years ago, Beyer founded the Institute for Private Investors (IPI), where she has used her Wall Street experience to help improve the relationships between wealthy investors and their financial advisors. She served as chief executive officer (CEO) for 21 years until her retirement in 2012. She also collaborated with The Wharton School in 1999 to create the first private wealth management curriculum for UHNW families. Her book Wealth Management Unwrapped is modeled after her lectures inside that curriculum and includes the same lessons Beyer shares with her students, more than 800 investors with substantial assets from around the globe. Now, she devotes time to the Principle Quest Foundation, which she founded in 2012 to support innovative education and mentoring for girls and women (www.principlequest.org).

I asked Beyer and Brunel 10 questions about the UHNW space, and here is what they had to say.

Welch: F. Scott Fitzgerald famously wrote: “Let me tell you about the very rich. They are different from you and me.” Is that true or just a cliche? If you believe it is true, tell me how and what that translates into from the perspective of the UHNW in terms of what they expect from their advisor(s).

Beyer: I would agree with Ernest Hemingway, whose wry reaction to Fitzgerald was, “Yes, they have more money.” I would add, however, that our industry has, for decades now, trained the UHNW to feel entitled, to expect too much.

Often professionals are too timid in working with the very wealthy. They are too deferential, treating the client (or prospect) not as a partner but rather as the boss. Clients and advisors who enjoy the most successful relationships acknowledge the need for balance. One investor said it well: “[There is a] conflict between a family’s desire to fully customize services to its specific family unit versus a for-profit entity’s desire to seek homogeneity in the delivery of services to maximize profitability through scalability. It’s very hard to find a good balance.”

Brunel: I do not believe it is correct to generalize most of the time, and this is particularly true in the realm of the very rich. The fact is that we are talking of anywhere between a few thousand to a lot fewer than a million people worldwide if you extend the definition of UHNW to $10 million or more in assets. The sample is way too small for any generalization to be meaningful.

Realistically, the most significant, and material, difference between our clients and the rest of the world is that they frequently have...
more options. Many individuals must live from paycheck to paycheck, and often the selection of their career is dictated more by what they can do and find than by what they love.

By contrast, the ultra-affluent typically have the option of focusing on what they want to do, be it income-generating or not. Wealth is an enabler, but it does not do anything for anyone unless that anyone uses it wisely and works toward the achievement he or she seeks.

**Welch:** We often think of “wealth management” from an investment consultant’s perspective—that is, our primary value proposition focuses on the client’s investment portfolio. Is that an appropriate frame of reference when working with the UHNW? If not, what are the solutions and services that UHNW value the most?

**Brunel:** Most ultra-affluent families have their own focus and it would be an error again to generalize. As a rule one can argue that individuals in that world have three fundamental “wealth stakeholders”: personal, dynastic, and philanthropic.

Further, their goals run the full gamut of needs, wants, wishes, and dreams, when dealing with what they seek to achieve, and nightmares, fears, worries, and concerns, when dealing with what they seek to avoid. Thus, when dealing with service providers, related to the management of their wealth, their principal focus must be driven by whether they are more interested in personal, dynastic, or philanthropic issues and whether they have more wealth than needed to achieve all goals. When they do not, they must either take financial risks to grow the wealth to achieve them or scale back either the goals themselves, the degree of urgency with which they want to achieve them, or the time frame over which they want to reach them.

This will lead certain families to focus on asset management, in a tax-aware or tax-oblivious manner, on generational planning and wealth transfers, on family education, or on many other dimensions of the challenge.

**Beyer:** I liken this bias to the chief executive officer (CEO) of a company firing all employees except those in the IT department because the CEO is so enamored of technology and loves hearing about IT innovations.

It is self-destructive to ignore the company’s other departments. As I suggest in *Wealth Management Unwrapped*, the CEO of My Wealth, Inc. knows that there are seven other departments: family governance and education, personal/business administration and budgeting, risk management/insurance, tax planning and administration, wealth transfer, trust administration, and philanthropy (see figure 1).

**Welch:** Stipulating that investment advice has at least some value to the UHNW, what (if any) are the primary differences between the needs and objectives of the UHNW versus the merely wealthy?

**Brunel:** Philosophically, the most important potential difference between the ultra-affluent and the merely wealthy is that the

![Figure 1: Wealth Management Bagua](https://example.com/figure1)

**Figure 1: Wealth Management Bagua**

![Figure 2: Playing Chess on Four Boards at Once](https://example.com/figure2)

**Figure 2: Playing Chess on Four Boards at Once**

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classical asset/liability conceptual framework is increasingly hard to use in the ultra-affluent world.

A merely wealthy individual may truly have one practical goal that dominates the landscape: spending a comfortable retirement and leaving whatever is left over to future generations, charities, or both. In that context, reaching some minimum required target “retirement capital” can be analyzed as a classical bullet liability, which can then serve as the basis to formulate the applicable strategic asset allocation.

The ultra-affluent can afford a considerably wider range of goals, as discussed in the earlier question, with each of these goals having a different time horizon and urgency level. The combination of the two helps determine what reasonable “funding cost” should be used for each of the goals to determine an appropriate level of assets needed to achieve the goal, over the desired time horizon and with the desired level of urgency (required probability of success), and the funding cost will be associated with a resulting strategic asset allocation appropriate to that goal.

Thus, the risk profile of the individual will not be formulated from the top down, but by aggregating and appropriately weighting the risk profile associated with each goal.

Welch: Many investors’ risk aversion and/or investment philosophy changed dramatically after the events of 2008. Did that happen in the UHNW space as well and, if yes, how so?

Brunel: All investors are in some way subject to the vagaries described by behavioral finance. Thus, it would be ridiculous to argue that this or that segment of the universe did not.

Yet, one can observe that those individuals who had spent the time to develop reasonable goals-based asset allocations did not suffer as much as those who did not. Several reasons explain this.

The most important is that a definition of success is created for each goal, such that, for short-term goals that had to be achieved with a high degree of predictability, for instance, the crisis not only did not hurt, but it helped: lower-volatility assets (i.e., cash and short-duration investment-grade bonds) actually did not lose value and, in many cases, appreciated in value during the crisis. Thus, the expense-defeasing goal was achieved and more capital was leftover than anticipated; the crisis was therefore not an unmitigated catastrophe.

Second, in the process of determining the appropriate funding cost, individuals had discussed potential return variability in practical rather than theoretical terms. Thus, they were aware that markets could experience serious downdrafts and were not as surprised as others when it happened.

A final reason, which does not have much to do with the goals-based process, is that many multi-generational ultra-affluent families had experience of choppy markets, either by having personally lived through them or by having been told about it.

Beyer: Deep psychological scars remain for consumers of virtually all financial services. The loss of trust seems almost permanent, and yet, UHNW had more coping options.

Many moved into direct investing, both direct lending and private equity, feeling they had more control, which felt better than relying on Wall Street. Today’s headlines still report on multi-million-dollar fines for various misdeeds committed years ago—an almost daily reminder of the crisis and its collateral damage.

“Too much wealth in early adulthood is not universally viewed as a healthy or ideal way to ensure a family’s success. Advisors need to first grasp how the family defines legacy ...”

Welch: Almost by definition, when dealing with the UHNW, you are dealing with multi-generational or dynastic wealth. What does that mean with respect to the solutions they expect from their advisors?

Beyer: Increasingly, I hear families following the lead of Warren Buffett, rejecting the whole idea of dynastic wealth. One participant at the Wharton Private Wealth Management program proclaimed he expected every generation after him to be G-1.

Another family in attendance told of how the proceeds from the sale of the business created by their father and uncle were inside a foundation. They were far more excited that their mandate was to spend it down in their lifetime.

Too much wealth in early adulthood is not universally viewed as a healthy or ideal way to ensure a family’s success. Advisors need to first grasp how the family defines legacy—because it does differ dramatically from one family to another.

Brunel: The answer to that question is found by combining the answers to questions 2 and 3. This is one of the areas where it is most important for the advisor to have the ability to operate across the well-known silos in the industry (whether they involve investment, tax planning, gifts and wealth transfers, and ultimately future generation education).

Families use quite significantly different approaches when dealing with their various issues (focus on taxes, focus on philanthropy,
maximize early transfers, minimize early transfers, risk-seeking versus risk-averse, and many others). Thus, the advisor needs to be aware of all the various interactions that may occur (investments, income taxes, estate and gift issues, philanthropy, insurance, risk management, and others), though he or she is not required to be a specialist in all areas. Understanding these interactions and the way in which whatever the advisor’s area of specialty is will allow him or her to contribute to the client’s effective finding and implementing of the most appropriate solution.

Note that a goals-based wealth management framework is uniquely suited to dealing with the issue, because it is designed to operate across as many “accounts” as there are goals and/or structures; it should be able to combine taxable and tax-exempt components, and to use both cash-flow as well as “label”-driven processes, to recognize the difference between goals that have specific cash-flow streams attached to them (even if a stream is solely comprised of some future bullet payment) and those which are of a more “generic” nature such as “protect my capital” (in real or nominal terms) or “grow my capital.”

**Welch:** What is the most appropriate way to charge for services and solutions rendered—in your experience what approach(es) worked well and what approach(es) did not?

**Brunel:** This is a difficult question because there may be more than one way to skin that cat effectively. Ostensibly, time-based fees have the benefit of being ultimately tailored to the needs of the clients, with these needs assessed in function of the skills and time needed to address them. Yet, too narrowly defined time fees (such as by the hour) can leave a bad taste in the client’s mouth with the feeling that the meter is on each time he or she talks to the advisor.

Asset-based fees can make sense when the advisor’s duty is chiefly focused on the management of the assets; yet, even there, there are issues to the extent that the challenge is rarely a function of raw asset numbers. In the end, I suspect that the answer rests not so much on the method but on the way the fee is assessed and explained.

Indeed, a solid conversation linking the work with the fee, however it is eventually computed, can go a long way toward making sure that there is total perceived alignment between the interests of the various parties. Most of the families do want advisors to make enough to be able to stay in business and prosper; what they typically do not want is to feel they are fleeced or that there is a conflict of interest between them and their managers.

**Beyer:** Sophisticated UHNW families prefer a project, retainer, or complexity-fee arrangement over a straight assets-under-management model. This can be renegotiated every few years, and while not as predictable for the firm’s budgeting, this approach is more realistic if a firm expects to match resources to clients profitably.

**Welch:** A couple of questions regarding “selling into” the UHNW space. Question 1: The UHNW very often highly value their privacy and are very reluctant to engage with people they believe are trying to sell them something. Given that understandable reticence, how do you recommend advisors approach the UHNW to establish a relationship?

**Beyer:** The most successful interactions I’ve seen are those where the professional is not attached to the outcome (read sales target). Instead, the advisor shows genuine interest in discovering more about the family’s situation and decision-making process.

When an advisor’s questions intrigue a family instead of putting them on the witness stand, the result will be a sale, but not necessarily the product du jour. One advisor described it this way, “I know they will buy from me someday (just not necessarily today) because now they trust me and know I will come back when I have something truly relevant.”

**Brunel:** I do not believe there is much alternative to any conversation starting as a result of an introduction from someone who is trusted by the potential client.

The only other solution may be through what I might call the establishment of a position of intellectual leadership, such that the potential client seeks the advisor.

In either case, the point is that there is no direct, cold-call-type approach to the potential client.

**Welch:** Question 2: When working with the UHNW, advisors are often interacting with the family representatives of single- or multi-family offices. Any recommendations on how to initiate and maintain those relationships?

**Brunel:** The answer differs considerably whether one is thinking of a single- or a multi-family family office. Whenever dealing with a single-family office, whether the contact person is a family member or a hired professional, I think we are back in the prior situation of having to rely on some form of introduction. The guard that people within a single-family family office must maintain makes it virtually impossible to get the kind of necessary conversation going. Sound-bite conversations, in which one would typically engage when having an initial, non-introduced contact, are totally mismatched with the detailed understanding that one must be able to demonstrate.

More to the point, the initial sessions must be centered on the advisor listening to the client; people who are very good at selling themselves are rarely equally good at being a quiet and attentive listener.

Multi-family family offices are a different kettle of fish. There, any sale is really more of an “engineer to engineer” situation, because...
most successful MFOs tend to have different skill sets in the management and advisory elements of their firms.

**Beyer:** The most common mistake I see is the advisor undermines the family office executive by trying to bypass the family office. Just as bad is viewing the executive as a low-level gatekeeper. Often the family office executive is the most trusted advisor. Better to ask about how decisions are made, recognizing that each family office is unique.

**Welch:** Do you see any differences between working with male versus female UHNW clients? If yes, please explain.

**Beyer:** Ignore the women in the room—daughters, wives, sisters—at your peril. I've heard countless stories from women about how male advisors don't look them in the eyes, speak only to the men at the table. Generalizing about the differences is silly; however, most of us accept the treatise of the book *Men are from Mars, Women are from Venus.*

In my experience men can be too quick to bestow “guru” status to a firm or individual. Many advisors claim they follow the endowment model made famous by David Swenson at Yale. But recall David is the first person to warn investors, “You can’t do what I do.”

Confident women often will ask more questions because they want to learn enough to partner with you and not feel either stupid or uninformed. It's funny that many readers of my book assume it is a book written for women by a woman. In my book I tell the anecdotes of wealth creators, men and women, and in most cases they are the wife of an otherwise successful industry CEO; the advisor I was accompanying them both for more than 15 years, and I continue to learn from them every day.

**Brunel:** My experience is too limited to comment with any degree of conviction. I have never felt that sex was a primary determinant. Rather, it has been important to shy away from stereotypes and respect the fact that certain individuals will be more sensitive or intuitive than others. Sex does not always provide a good predictor of this.

The only other pitfall I have seen and that must be avoided is to fail to know who owns the money. Thus, I was once in an environment where the wealth creator was the wife of an otherwise highly successful industry CEO; the advisor I was accompanying almost lost the opportunity when he kept talking to the man, rather than balancing the conversation between the two spouses.

The wife's face lit up when I redirected the conversation with an open acknowledgement that it was her money after all—this was all the more important because, in the case in point, she had created—rather than inherited (another stereotype)—the wealth in a profession where creativity and originality are more important than brashness.

**Welch:** Thank you for your time and for your enlightening responses and perspectives. Please take this opportunity to summarize the issues you believe are most important when working with the UHNW, or to discuss any important issues that we have not yet talked about.

**Brunel:** The questionnaire was quite complete. In my view, the fundamental issue remains for the advisor to be totally committed to be an interpreter whose mission is to help the client achieve his or her goals. Being an interpreter means understanding the issues in the client's own language and making sure that any communication that requires technicalities is handled in plain language rather than jargon.

Being focused on helping the client achieve his or her needs revolves around the ability to ferret out what those needs are—digging deeper into dreams when necessary; to identify the sources of technical knowledge that will be needed to address the issues at hand; to design a solution that takes all issues into consideration; to build a delivery team—which, in single-proprietor firms, involves bringing outside resources to be as needed—that can demonstrate that all the skills are in place; to seek all possible sources of feedback to ensure that no situation develops where the client is unhappy without the advisor knowing; and to remain sufficiently humble to seek to help the individual rather than to demonstrate how smart one is.

**Beyer:** Investors at all wealth levels need to step into the shoes of CEO of My Wealth, Inc. This does not mean reading volumes of technical investment textbooks, but rather being a responsible CEO. A CEO accepts that no one is a better expert on the needs of that company, My Wealth, Inc. A CEO demands meaningful reports and partners with vendors.

Partners treat each other with respect and are not trapped in a boss/subordinate dynamic; partners are candid with one another; and most importantly, partners each gain a tangible reward from working together.

**Welch:** Closing Note: My thanks to both Charlotte and Jean for sharing their time, experience, and expertise with the readers of Investments & Wealth Monitor. I have been privileged to know them both for more than 15 years, and I continue to learn from them every day.

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