Realizing the High-Net-Worth Opportunity

Supporting your wealthy clients as they face their greatest challenges can lead to more lasting and profitable relationships

By Hannah Shaw Grove

The most satisfied, loyal clients get high-touch, personalized service from advisors, and the most successful advisors have a detailed, accurate understanding of clients’ concerns and priorities and use that understanding to frame client-advisor interactions. This information-driven continuum increases familiarity and trust between client and advisor and breeds success.

My goal for this article is to provide fuel for the continuum with timely, research-based insights into the client profiling practices of leading advisors as well as what’s top-of-mind for the ultra-affluent market.

Six Hot Topics

The topics below form a good description of how the financial elite perceive the world and prioritize their actions and expenditures, but these areas often are the most underserved and ignored portions of this group’s personal and financial affairs. Making the effort to become conversant in these areas and, if necessary, to secure a network that will allow you to deliver related solutions to wealthy clients can lead to enormous possibilities for your business.

Asset Protection

Wealthy individuals feel that their money makes them a target, a concern that is generally proportional to the size of their fortunes. In a series of recent surveys, respondents with more than $20 million in investable assets expressed high levels of concern about issues that can be managed with asset-protection strategies (figure 1). As a result, the very wealthy have a great need for insights and resources to help protect themselves and their money from greedy and unsubstantiated claims.

Estate Planning

This same group of investors also expressed strong interest in making sure their assets can be used for the...
greatest benefit, all of which can be accomplished during a thoughtful and broad-based estate-planning initiative (figure 2). Many clients don’t realize that sophisticated estate-planning techniques can accommodate a diverse range of goals and may allow for both lifetime and posthumous advantages.

Personal Security
The affluent want to protect more than assets. For most, ensuring their own safety as well as the safety of their loved ones is even more important. Not surprisingly, our survey of a group with a median net worth of $41 million revealed a paranoid and pessimistic outlook (figure 3).

But just 12.7 percent of this group had bothered to conduct a security audit within the three years preceding the study and just 25.6 percent had an up-to-date crisis intervention plan. Your opportunity resides in helping them plan appropriately for the expenses associated with personal safety.

Tax Mitigation
Our research shows that minimizing tax obligations takes on greater importance once a certain threshold of wealth is exceeded, and it continues to escalate as assets increase. More than 92 percent of our survey respondents with a median net worth of $41 million said that tax minimization is more important than investment results to their overall financial agendas. It’s essential to acknowledge this mind set and, when appropriate, help your wealthy clients understand how certain investment strategies are structured to achieve both objectives.

Philanthropy
Although the super-rich spend vast sums on luxury items and lifestyle, they also have strong views on charitable giving. Roughly nine in 10 respondents said they believe their personal wealth carries a responsibility to give back to their communities and provide for the less-fortunate, and their actions do not fall short. In 2006, nearly all gave money—the median cash gift was $531,000—and a similarly large percentage said they were very or extremely likely to give more the following year (figure 4). Despite the high interest in philanthropy, tax management, and estate planning, just 38.1 percent of this group had established a planned gift. This means that most charitable gifts are made without much, if any, preparation, and it probably means that neither the donor nor the donee got the maximum possible benefit of the gift.

Hedge Funds
The exclusive nature and impressive performance of these investments have captivated wealthy investors. About three-quarters (76.4 percent) of our survey respondents with at least $20 million in investable assets ranked hedge funds as the financial product of greatest interest to them. In a different survey with single-family offices, we found that an equally high percentage (73 percent) already use hedge funds or funds of hedge funds in their investment portfolios and nearly three out of five of them plan to increase their allocations over the short-term (figure 5).

Lessons from Leaders
Our research findings indicate that the ultra-high-net-worth market’s priorities can be summarized as the following:

- Protect financial and nonfinancial assets from litigants, creditors, taxes, and other threats.
- Plan for distribution of assets to heirs and charitable organizations.
- Maximize wealth with sophisticated investment and tax strategies.

The solutions that will accomplish these objectives will vary by client, with each requiring discrete planning and implementation. No matter how thoughtful and air-tight that effort, a
client’s needs and concerns will change in response to personal circumstances and environmental factors. That’s why leading advisors dedicate themselves to knowing their best clients inside-out and continue to probe for new, meaningful information that can provide valuable insights.

**The Complete State of Affairs**

A close examination of the best practices of the top advisors in the United States revealed that having knowledge of clients that is both broad and deep is a critical part of a fruitful relationship and business development effort. In conjunction with 1,200 practitioners, we identified the following six interdependent sections that collectively represent a client’s complete state of affairs:

1. **Relationships** that are most important to the client and/or carry some financial or emotional obligation.

2. **Financials**, including the client’s current sources of income and any factors that may impact these sources in the short- or intermediate-term, as well as the structure, registration, and location of other financial assets.

3. **Advisors** who work with the client on a regular basis, including accountants, attorneys, and business managers, and understand the role and the influence each has in the client’s life.

4. **Process**, that is, the client’s preferred method and frequency of interaction, and the level of detail required to satisfy the client’s sophistication and curiosity.

5. **Interests**, or the activities and issues that occupy the client’s time and money, including hobbies, religious, political, medical, and philanthropic topics.

6. **Goals**, both the client’s personal and professional goals and intentions for family and loved ones.

Expanding your profiling activities to incorporate any areas that fall outside your current efforts will allow you to construct a balanced portrait of each client, gain a more intimate level of knowledge, and act in a more consultative capacity. Ideally, the specific priorities and preferences uncovered during profiling should frame your approach, your recommendations, and your discussions. For instance, a purely technical description of an investment may be less effective than a big-picture discussion of how it will help a client realize stated objectives. Over time, maintaining an open and ongoing dialogue with affluent clients can help you spot significant interdependencies and uncover new opportunities to expand and enhance your business.

**Making It Happen**

It’s understood that the investment advisory needs and demands of wealthy individuals and families go beyond those of the less affluent. As private wealth has grown over the past decade, most financial professionals and organizations have been honing their ability to capture and retain these types of clients.

Despite the dour economic environment, this is an excellent time for talented and proactive advisors to leverage core-relationship and interpersonal skills to lock in current clients and take business from weaker competitors. A large majority of very wealthy investors are reeling from current market conditions, feeling overlooked or underserved by their advisors, and ready to make a change. Use your experiential (and newfound empirical) knowledge to identify your most promising prospects, engage with them in the most effective fashion, develop a clear understanding of their objectives, and convert the disgruntled and discouraged into the satisfied and confident.

**Hannah Shaw Grove** is an author, columnist, and speaker on the mindset, behavior, concerns, preferences, and finances of the affluent market. She is the executive editor of Private Wealth, a bimonthly magazine for professionals with ultra-affluent clients, and the author of nine books on related subjects. Ms. Grove is a cum laude graduate of Harvard University. Contact her at hsgrove@pw-mag.com.