Serving the Ultra-High-Net-Worth Market

By Robert B. Seaberg, PhD

Financial advisors are attracted to the ultra-high-net-worth (UHNW) market like iron filings to a magnet. The allure of potentially significant revenue streams indeed may blind them to what it will take to deal successfully in and with this market. That judgment results from decades of experience working with UHNW clients and advisors seeking to work with them as well as helping to develop an industry-leading educational program on areas of critical importance to UHNW clients. So it is that the first step in building and maintaining a successful UHNW practice entails formulating a realistic understanding of the costs imposed by running such a practice. Those costs involve providing what UHNW individuals value most: exclusive treatment, a deep and singular level of trust, and unique insights. The cost of entry includes state-of-the-art technology; adequate support personnel; access to experts and centers of influence; and, due to the inordinate amount of time required to work with UHNW clients, it also includes serving a significantly limited number of total clients. But the total costs do not stop there.

Client Expectations and Exclusive Treatment

Because the overwhelming majority of UHNW persons are self-made as opposed to having inherited wealth, these clients display the characteristics of successful high achievers. That is, they are smart, optimistic, motivated, focused, persistent, passionate, and very demanding. They view success as due to personal responsibility, challenging tasks as opportunities, and engaging in those tasks as valuable and enjoyable. They have a strong tendency to associate with people like themselves, and they expect those with whom they work to be high achievers.

In the realm of exclusive treatment, which encompasses service, client experience, and connections, that means having a leading-edge technology platform that includes client relationship management, account aggregation reporting, all aspects of investing (access to all products and services), risk management, and advanced planning. It means offering a level of responsiveness that exceeds clients’ expectations, a fact that, in concert with the complexities of business and family lives, demands a major investment of time—and thus necessitates a very limited clientele. It means hiring and maintaining an advisory team that reflects ingrained, “serving heart.” Sharp built the reputation of his business by hiring for attitude, and he is known for saying, “Competence we can teach; attitude is ingrained,” (see e.g., Frank 2007; Johnson 2008; Murphy 2010).

Some advisory teams, realizing the importance of exclusive treatment, actually hire team members whose primary responsibility is to think of creative experiences for clients—opportunities to make them feel special and to make their family members feel special as well, in ways they hadn’t considered themselves. This is no simple endeavor when dealing with people who can experience just about anything they want. They expect special treatment; but innovative touches, both small and large, can surprise them. An UHNW advisory team I know hired a staff member from the hospitality industry whose sole responsibility was to spend each day thinking of ways to surprise clients beyond their expectations. Some of these surprises involved helping clients save time by doing a task for them—for example, lining up several venues for a 60th birthday party, so the client had only to choose one from the group, and then making all the arrangements for the party.

Connections and Client Passions

Connections can form a distinct and invaluable way to serve UHNW clients and to differentiate a practice. UHNW individuals are themselves well-connected. According to the Wealth-X/UBS World Ultra Wealth Report 2014, the immediate social complex of UHNW individuals includes seven other UHNW persons, at least one of whom is a billionaire. These complexes often share similar beliefs, interests, and hobbies. At the same time, by virtue of their wealth, UHNW persons are exposed to high achievers in a variety of different occupations and fields, especially in areas with which they may be particularly au courant, such as art or philanthropy. Being able to offer UHNW clients connections with these types of persons, whether through one’s firm or one’s own network, provides a unique value. Indeed, when directed to the adult, millennial children of UHNW clients, such connections can be one of the best ways to develop strong relationships with family members who are not primary clients. That is, exposing these children to unique and successful
entrepreneurs or experts in impact philanthropy provides suitable role models and may substantively enhance the development of the family’s human capital.

For connections to work best, an advisor must really know what interests most of his UHNW clients. In fact, many successful UHNW advisory teams will tell you their clientele share similar primary interests, which leads those teams to cultivate special relationships with experts in those areas. Those for whom art is a major client interest, for example, will cultivate relationships with acclaimed art advisors. If their clients share an interest in other collectibles, they will establish bonds with authorities in those areas, whether they deal with musical instruments, pens, maps, coins, or fine wines. Often prospects and clients themselves can be excellent referral sources, providing entée to particular advisors. As in dealing with other professionals, e.g., CPAs and attorneys, advisors need to vet a professional’s approach thoroughly and practice and develop a real relationship over time.

In sum, it is not enough for advisory teams to offer access to experts in areas such as risk management, personal and cyber security, or concierge medicine. The successful teams also must offer entée to areas of clients’ passions, and that entée must be to those kinds of experts who actually understand the critical nuances, such as the importance of innovation in modern and contemporary art. UHNW collectors, that is, don’t simply want to own works of art by certain artists, they want to own those works that have shown the greatest genius and have had the most influence. In other words, it is not just the art itself but understanding the peculiar value of the art that adds real stature to the collector. Art advisors who understand this are thus far more valuable than those who may not have as good an aesthetic sense.2

**Singular Trust**

Beyond such exclusive treatment, UHNW clients also presume a level of singular trust between themselves and their advisors. Indeed, when prospects meet first with potential advisory teams, they are not checking the knowledge levels of those advisors. They assume successful advisors have the requisite knowledge of markets and investments, geopolitics, and economic cycles. In part, they rely on the possession of certain credentials as offering prima facie evidence of that knowledge. Instead of testing their knowledge, then, they are beginning a process to determine if these advisors can be trusted to have their and their families’ best interests at heart. That is, they are examining emotional intelligence, also known as “EQ” of potential advisors.

Emotional intelligence is considered an essential component of leadership, and it also forms a critical aspect of successful advisors (see, e.g., Ovans 2015). Listening, observing, and open-ended questioning are the foundations of empathy, and empathy is the basis of trust. The best advisors act as if they are cultural anthropologists, searching out details about their best clients. They do this through unstructured interviews and by observing them at work, at home, and at play. They understand that successful questioning puts the person questioned in a position of greater power and engenders humility on the part of the advisor, which is essential in the growth of empathy and trust. This is not a simple endeavor for the advisor, because successful advisors hold and project high-power roles, and recent research has shown those in high-power roles tend to exhibit lower levels of empathy. Empathy, therefore, is and must be a deliberate choice, and humility and vulnerability help make it so. Research has shown that when people realize that empathy is not a personality trait but rather a skill, they engage in a greater effort to show empathy for people unlike themselves.3

**Unique Insights**

Finally, UHNW clients look for unique insights from their advisors, insights that go beyond the expected range of knowledge and cover all sorts of topics including markets, investments, family dynamics, tax planning, risk management, philanthropy, and more. Insights might come from sophisticated understanding of major trends shaping our world or from in-depth understanding of particular investments such as exchange-traded funds (ETFs), hedge funds, and private equity—not just what they are designed to do, but the real innards of the products and how they actually work under widely varying conditions.4 It might involve special acuity about correlation—for example, how a number of sector ETFs may be closely correlated to the S&P 500, thus unwittingly undermining attempts at diversification. Insights might come from being able to apply a deep understanding of human behavior and how we make decisions about constructing and maintaining portfolios and how we should react to certain market conditions. They might, for example, help us understand better how Isaac Newton could calculate the “madness of men,” commenting on why he had invested in the South Sea bubble. Or they might involve highly specialized knowledge of incorporating corporate benefits in financial planning or business-succession planning. To help achieve such insights, the best advisory teams become in effect learning syndicates, dedicating time individually and collectively to reading widely and discussing all manner of topics, from research in neuroscience to imagining the future; from demography to ethics; from the nature of recessions to strategic philanthropy.

Advisors who become what Charlie Munger, vice chairman of Berkshire Hathaway, calls “learning machines” are neither generalists nor experts but in effect a combination of both. They are what some call “T-shaped” learners—so-named because the horizontal bar stands for breadth of knowledge and interests and the vertical bar stands for in-depth understanding of one or several of those areas. An interdisciplinary approach encompasses “how different ideas, sectors, people, and markets connect;” and offers the best chance at both innovating and imagining the future.5 Perhaps the best way to approach T-shaped learning is to gain an accredited credential based in areas important to UHNW clients such as IMCA’s Certified Private Wealth Advisor™ (CPWA™) certification, then combine it with an investment expertise, e.g., the CFA® or CIMA® certification, or a specialty in tax, estate planning, or philanthropy. The
advantage of using teams is that the generalist-specialist approach may be spread among team members, achieving a richer dimension of learning than any single advisor might have. Furthermore, diverse, multi-generational teams may provide an especially rich opportunity for learning, allowing team members to experience additional different points of view and leading to collective wisdom, which is itself a multi-dimensional construct based on the integration of different perspectives.

Select the Right UHNW Clients
Creating a successful UHNW practice depends on one’s ability to select the right UHNW individuals to become clients. Just as the UHNW investor seeks the right advisory team, so too the advisory team needs to seek the best UHNW clients for the team. One criterion is the special interests of the UHNW individuals, such as philanthropy or art. The closer these special interests match the advisors’ interests, the better the potential for connections and the stronger a relationship is likely to be.

Advisors also need to distinguish between UHNW individuals who use inner as opposed to outer “scorecards,” as Warren Buffett has described them. It is similar to understanding who uses a gyroscope, to stay true to one’s ideals and values, versus who uses radar, to fixate on the people around them. Those using outer scorecards invariably look to external measures, such as various indexes, to rate performance, or to the professed returns of others like them. To them, success always entails beating some benchmark. It is hard to turn someone with an outer scorecard into a contrarian. And, given the egos of superior achievers, it is hard for those advisors not to be drawn to those external comparisons. Advisors need to focus instead on clients with inner scorecards, who look to the advisor to help them develop a unique family wealth index to measure outcomes (see Schroeder 2008; Lewis-Kraus 2013).

Gravitas
Creating a successful UHNW practice also depends on having a sense of presence or gravitas. Gravitas is a depth and dignified influence that beckons the type of UHNW investor more likely to rely on Buffett’s inner scorecard. It is a way of dealing with people and the world that bespeaks a comforting kind of authority. Such advisors are people upon whom one can rely. In that sense, they convey their own sense of status to the UHNW persons they advise. They become, in effect, one of the connections they seek to offer. It may seem illogical, but just as humility may bespeak a kind of power, an advisor with gravitas extends it to UHNW clients, and they in turn extend their status to the advisor.

Where can such advisors be found? No one place has a monopoly on successful advisors to UHNW individuals. They may be found in wirehouses and registered investment advisor boutiques, private banks and multi-family offices. They are a special breed, characterized by a T-shaped IQ, well-versed in the relational arts, possessed of deep dedication, a relentless commitment to hard work, and a serving heart. There are not many of them, and they cannot serve many clients—which signals opportunity. But, to invert one of Einstein’s profound observations, in the midst of opportunity lies difficulty.6

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Endnotes
2. See Stewart (2014). An early Picasso apparently is valued more than a later Picasso, because the earlier works portrayed Picasso’s invention of cubism. Andy Warhol’s 1960s works are valued more than those of the 1980s because the earlier works resulted from his reinvention of modern art using mechanical reproductions and photography.
3. See Cameron et al. (2015) on the tendency of those in high-power roles to exhibit less empathy; and especially Inzlicht et al. (2014). On vulnerability, see Brown (2012) and especially her 2010 TEDx Houston talk on “The Power of Vulnerability,” one of TED’s 10 most-viewed talks. Covey (2008) argues that trust is actually conditioned on our behavior—additional support for the fact that each of us controls our ability to be vulnerable, to empathize, and thus to engender trust.

4. For example, a recent analysis of the iShares Emerging Markets High Yield Bond ETF demonstrates the difference between stated and real risk. The ETF has a yield of more than 8 percent, yet its three largest positions yield much less than 8 percent. The fund is able to yield more than 8 percent due to its fourth-largest position—two Venezuelan bonds, one with a yield to maturity of ~33 percent and the other yielding ~61 percent to maturity. At these extraordinary rich yields, there must be some serious risk of repayment default. Thus, the risk of this ETF most probably far exceeds what it states. See “The Fixed Income Compendium August 2015,” PCS Research Services, Horizon Kinetics.
6. The original quote, from Albert Einstein, is this: “In the middle of difficulty lies opportunity.”

References