Growing Your Practice
Through High-Net-Worth Investors

Why should you focus on HNW investors?

Focusing on high-net-worth and ultra-high-net-worth investors is an effective way for advisors to increase their business's assets under management and grow their firms. In fact, serving a small number of wealthier clients can be more efficient and profitable than addressing a broader market segment.

While competition for clients and assets generally increases the further upmarket advisors move, firms that understand the unique expectations of these investors—and create a client experience to meet those needs—will be positioned to succeed.

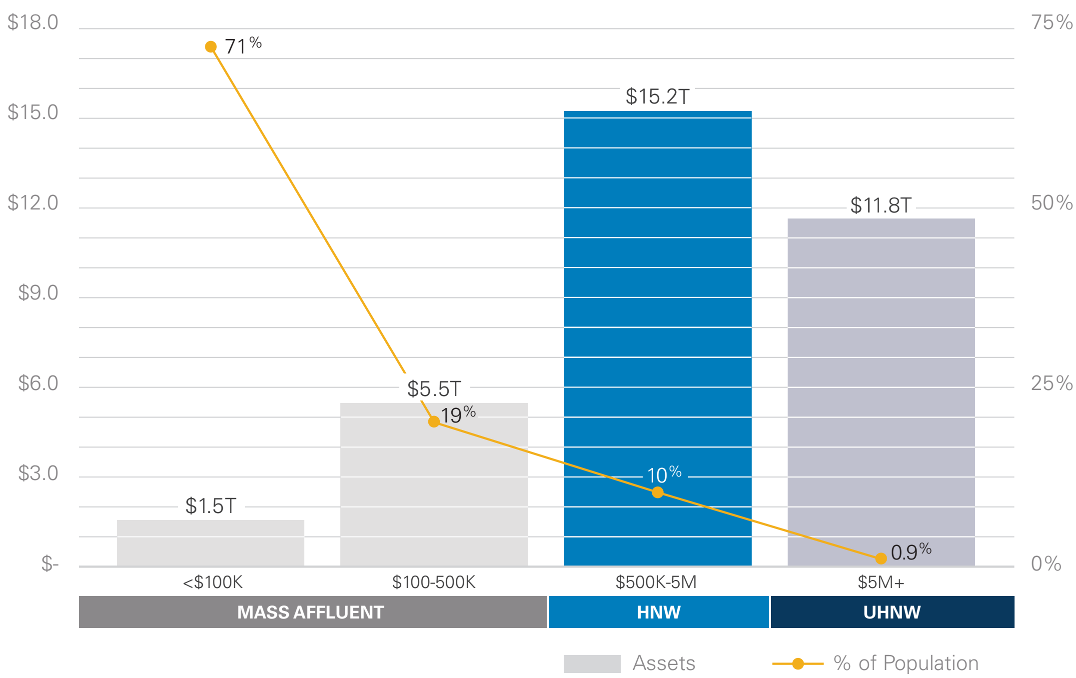
Many advisors consider high-net-worth investors the "sweet spot." These investors have substantial wealth, and seek the type of holistic planning support that savvy advisors can provide.

Pinpoint the opportunity

Investors can generally be divided into three groups: mass affluent, high net worth, and ultra-high net worth.[1] The mass affluent market consists of a greater number of investors, but fewer overall assets. As illustrated below, the high-net-worth segment consists of a significant number of assets and households, an ideal balance for many rising advisory firms. (Figure 1)

WHAT ARE YOUR OPPORTUNITIES?[1]

Figure 1.



Many advisors consider high-net-worth investors the "sweet spot" (represented by the "blue" bar in Figure 1).These investors have substantial wealth, and seek the type of holistic planning support that savvy advisors can provide. While these clients tend to have complex needs and require more frequent contact, advisors who serve them can tap into tailored products and solutions that can enable them to deliver a compelling client experience. Competition for this segment is stiff, but the right approach can help you make inroads into this market. What's more, it's a large opportunity: The number of millionaire households alone is the highest ever, with over 9 million households with $1 million or more of net worth.[2]

Ages and stages

Knowing the typical background and outlook of the various investor groups can help you better understand how to optimize your firm's approach for capturing high-net-worth clients. Each segment is defined by unique traits and characteristics:

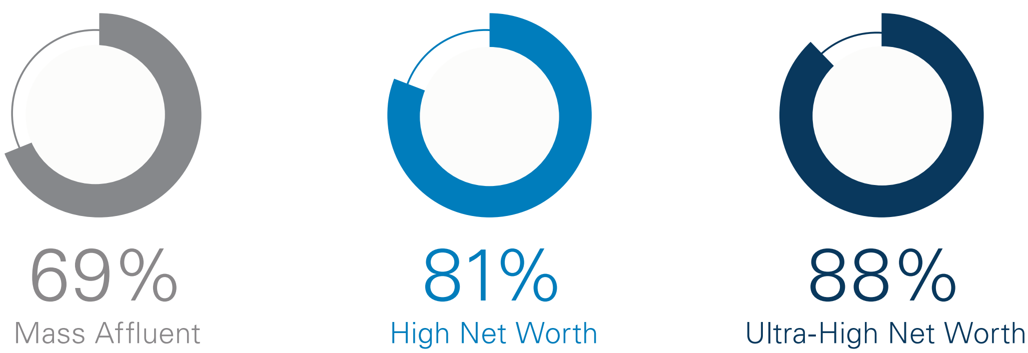
Mass affluent investors are 58 years old on average, and are likely to work in education, health care, technology, and management positions.[3] Half of them are currently in the workforce. Many manage their own finances, believing that advisors don't want to work with them. However, 69% use some sort of a professional advisor.[2] (Figure 2) These investors are fee-sensitive, which may lead them to use "robo-advisors" and low-cost providers.

High-net-worth investors are 62 years old on average, and come from similar professional fields as mass affluent investors.[3] More than two-thirds of them are retired. At least 81% of this group use a professional advisor.[2] More than any other group, high-net-worth investors want a written, comprehensive financial plan.

Ultra high-net-worth investors are 65 years old on average and mostly retired.[3] A majority—88%—use a professional advisor, and some investors may have multiple advisors.[2] Because of their greater wealth, they often have more complex financial situations demanding specialized knowledge or niche expertise.

WHO USES A FINANCIAL ADVISOR?[2]

Figure 2.



Investment Styles

By its nature, investing involves inherent risks, and some of the biggest differences between investor segments are highlighted by their risk tolerance. High-net-worth and ultra-high-net-worth investors are more comfortable with risk. In fact, more than 60% are willing to risk a loss in principal, in part because their larger portfolios enable them to withstand general market fluctuations.[3] They're also likely to have worked with a financial advisor who has educated them on the importance of investing in a diversified portfolio throughout their retirement years. Rather than worries about retirement, top concerns for this segment include an ability to create a financial legacy and fears that family or heirs will squander what they have spent a lifetime amassing. They're also focused on the tax efficiency of their portfolios.

High-net-worth and ultra-high-net-worth investors are more comfortable with risk. In fact, more than 60% are willing to risk a loss in principal.

The less money individuals have, the more concerned they are about losing that principal. Less than 50% of mass affluent individuals are comfortable risking a loss in principal.[3] They're concerned about their ability to retire and to maintain their current lifestyle when they're no longer earning a steady paycheck.

Across the board, all segments said they value diversity in their investments, but ultra-high-net-worth investors were most likely to place their money in equities, including stocks or mutual funds. Mass affluent and millionaire investors were most likely to choose checking or savings accounts as their primary investment mechanism, likely a consequence of the financial crisis. Of course, hesitating to be fully invested has its own consequence: Investors who stayed out of the U.S. market over the last six years missed out on a 21.7% annualized gain.[4]

Finally, different segments look for different attributes in their investments. Mass affluent investors are twice as likely as ultra-high-net-worth investors to value social responsibility in their investments.[2]

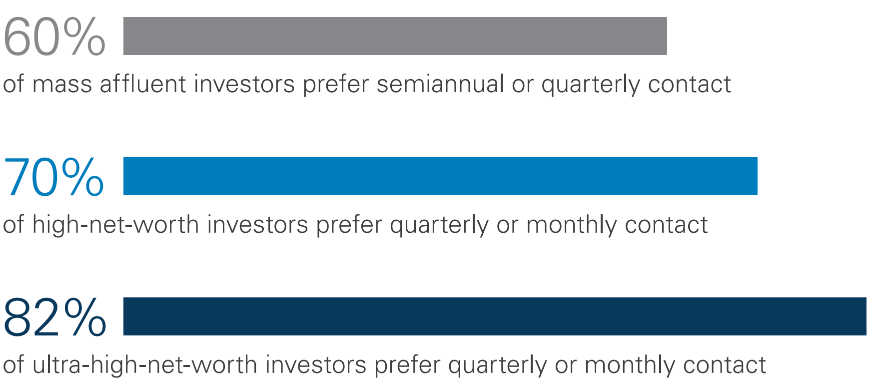
Keep your clients close

Investor engagement also varies by market segment. Those with less wealth have less desire to be actively involved in managing their investments and less likely to report that they enjoy investing. On the other side, more than 50% of high-net-worth households and more than 60% of ultra-high-net-worth households want to be actively involved in their investments.[2] This doesn't mean that they don't want help; on the contrary, they want an advisor who treats the advisor-client relationship as a true partnership.

High-net-worth clients expect advisors to be proactive in their communication, and that means initiating conversations. The more wealth clients have, the more frequently they expect an advisor to reach out. A full 60% of mass affluent investors prefer semiannual or quarterly contact, compared to 70% of high-net-worth investors and 82% of ultra-high-net-worth investors who prefer quarterly or monthly contact.[3] (Figure 3)

HOW OFTEN SHOULD YOU CONTACT CLIENTS?[3]

Figure 3.



Relationships, not just returns

All clients want their assets to perform. But, perhaps surprisingly, they don't necessarily leave their advisor(s) because of poor returns. Across all segments, communication issues—including not returning calls or emails, not being proactive, and not providing good ideas—are the primary motivation for changing advisors. Just 25% of clients would leave their advisor because of losses over five years, and over 60% would leave because the advisor wasn't returning calls promptly.[2]

> Just 25% of clients would leave their advisor because of losses over five years, and over 60% would leave because the advisor wasn't returning calls promptly.[2]

Clearly, clients are judging the quality and value of the relationship with their advisor partly on how quickly the advisor responds. Yet what qualifies as a quick or reasonable response varies depending on investor segment. Ultra-high-net-worth investors demand the most immediate response— 73% expect a response within 12 hours, compared to 63% of high-net-worth investors and 55% of mass affluent investors. Over one-third of ultra-high-net-worth clients have even more stringent requirements, expecting calls to be returned in two hours or less. At least 30% expect an email response in two hours or less. For all investors, response times over 24 hours are considered unreasonable.[2]

Generations X and Y

Most Gen-X and Y investors aren't affluent enough to fall into the high-net-worth client segment—yet. In fact, this generation is positioned to inherit $30 trillion in wealth, and already 20% of millionaire taxpayers are between the ages of 26-45.[5] Firms that want to build a successful long-term strategy also need to engage these future investors, who have markedly different experiences and priorities than their Baby Boomer parents. (Figure 4)

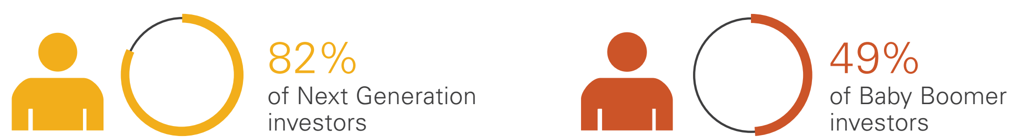
Next Generation investors:

- Are comfortable with technology and expect advisors to be able to communicate with them on the platform of their choice
- Value financial clarity and simplicity
- Care about the social and environmental impact of their investments more than older generations
- Likely haven't engaged a professional advisor
- Find robo-advisors and low-cost services appealing

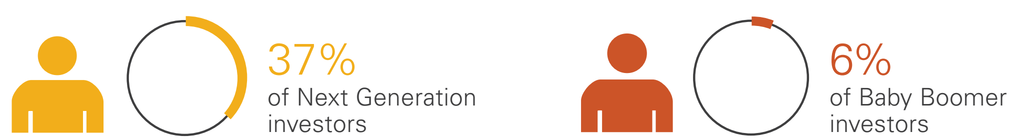
WHO GIVES MORE?[6]

Figure 4.

High-net-worth investors who volunteer or serve on charity boards:



High-net-worth investors who donate $30K+ per year to charities:



What you can do:

Position your firm

High-net-worth and ultra-high-net-worth clients expect more when it comes to your relationship and the value you represent. Positioning yourself as a comprehensive planner and wealth manager—and articulating the value you add—is critical. As other components of the wealth management offering become commoditized, the experience you provide will be your strongest differentiator. While clients previously maintained a variety of relationships, today they're looking for simplicity and ease. Becoming a hub and leveraging strategic partnerships to create infrastructure and scale is one way to deliver the services and the simplicity high-net-worth clients seek.

What you can do:

Broaden your service offering

Positioning your firm as one that delivers comprehensive wealth management services and building the capabilities to offer those services go hand in hand. Advisors seeking high-net-worth clients need to move beyond portfolio management to support a range of other needs. As wealth increases, services accumulate. Services can be categorized into three levels:

First-tier services include simple investment and planning help and advice, in areas such as cash flow, budgeting, and financial and retirement planning.

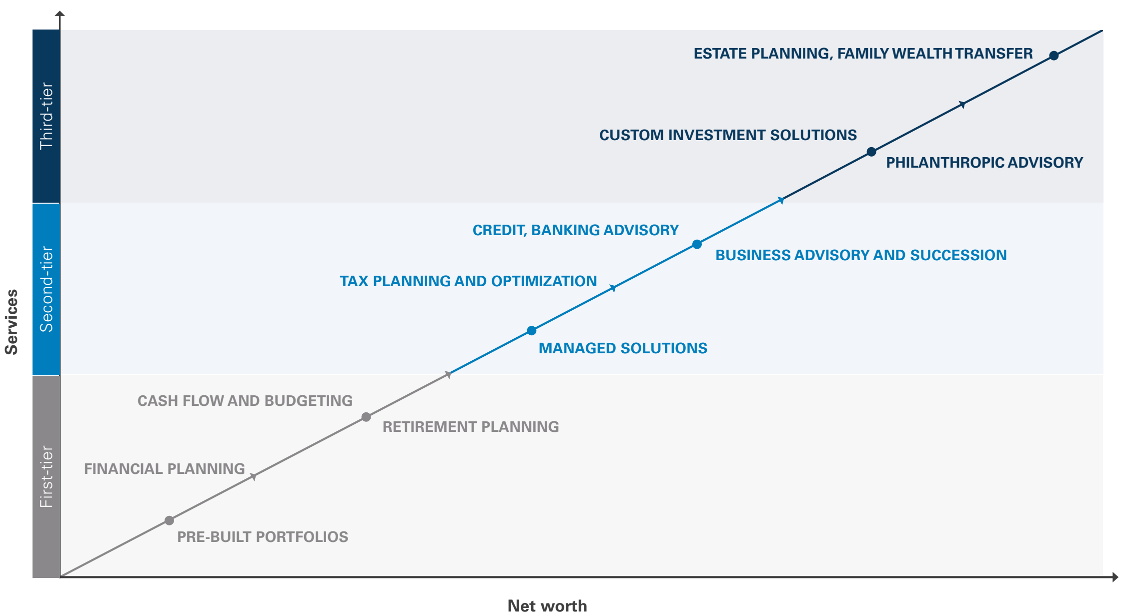
Second-tier services are more customized and integrated and include more complex offers, such as credit, lending, tax, and business advisory issues.

Third-tier services include estate planning and wealth transfer, custom portfolios, and philanthropic advisor services. Solutions at this level are the most likely to be hypercustomized.

High-net-worth households primarily receive the services available in the second and third tiers. By focusing on delivering a high-quality offer in these areas, you may better appeal to these investors. (Figure 5)

WHAT ARE YOUR OPPORTUNITIES?

Figure 5.



What you can do:

Optimize your brand

In today's marketplace, your online presence is more important than ever. To attract and retain high-net worth clients, your website needs to signal to these investors that your firm is current and relevant. Web content should demonstrate that you understand the markets, your audience, and today's communications channels and technologies.

That means your website should use fresh imagery, include up-to-date information, employ attractive design, and work as well on a mobile device as it does on a desktop computer. Investors use their phones for conducting research and making transactions, so these activities need to be simple and easy to perform on any device. Additionally, your website shouldn't be your only online footprint. Consider broadening your reach by participating in social media channels such LinkedIn, Facebook, and YouTube.

What you can do:

Complete Wealth Management

Another way to appeal to high-net-worth clients is through AssetMark's Complete Wealth Management, a holistic offering that provides you with investment solutions and wealth management capabilities to meet the needs of this important demographic. AssetMark works with investment solution providers that offer custom portfolios tailored for the specific needs of high-net-worth clients. AssetMark also offers specific wealth management capabilities—including a donor-advised fund, securities- backed lending, and trust services—that are tailored to needs of this segment. Together, these solutions allow you to create custom portfolios to meet individual client needs, and tailor their plan to fit more closely with their unique needs. With AssetMark as your partner, you can deliver a best-in-class wealth management offer.

Looking ahead

High-net-worth investors offer a significant opportunity for firms willing to take steps to meet this segment's needs. Although fewer in number, this group represents greater wealth and a greater potential for growing your firm's AUM. Increased service, more attention, and quicker response are all factors that will affect the perceived value of your service. Similarly, positioning your firm to deliver comprehensive wealth management and a broad range of services and solutions are crucial to competing in this space. By expanding your business to serve more affluent clients, while keeping your eye on the future, you can set up your firm for lasting success.

Strategies

1. Clearly state the response times clients can expect. To make sure you're delivering, develop a process for managing emails, calls and overflow, so nothing slips through the cracks. Not all issues can be resolved immediately—nor do they have to be. By staying in communication, you let clients know that you've heard their concern.
2. Leverage today's communication; nearly 20% of investors are willing to meet with their advisor online.[2] Using FaceTime, Skype, chat and other programs enables you to connect with clients on their terms.
3. Contacting clients on a monthly basis doesn't have to be overwhelming. Examine your newsletters, social media, marketing outreach, event invitations, emails and touch-base calls from advisors and staff. Spacing these engagements appropriately can help provide the frequency you need and the quality of contact high-net-worth investors need.
4. Be transparent about portfolio construction, particularly with high-net-worth clients. Articulate how the recommended approach can help them meet their goals, such as tax efficiency and legacy building.

Whether you're growing your business in the high-net-worth space, or just starting to target this segment, get more information today by contacting your AssetMark consultant. 844-540-0972

1. Cerulli Associates, Advisor Metrics 2015: Capitalizing on Transitions and Consolidation, 2015.
2. Spectrem Group, Affluent Market Insights, 2014.
3. Vanguard and Spectrem Group, Today's Affluent Investors: Insights and Opportunities, 2013.
4. U.S. equity market return from March 2009 (market low) to February 2015.
5. Accenture, The Greater Wealth Transfer: Capitalizing on the Intergenerational Shift in Wealth, 2012.
6. Fidelity, 2013 Fidelity Millionaire Outlook Executive Summary: Gen X/Y Millionaires Not Sitting Idle, 2013.

AssetMark, Inc.

1655 Grant Street
10th Floor
Concord, CA 94520-2445
800-664-5345

20683 | C32278 | 06/2017 | EXP 11/30/18