EDUCATIONAL ARTICLE

Cultivating Your High-Net-Worth Investor

High-net-worth individuals (HNWIs) have unique wealth management needs. Financial advisors who proactively understand the mindset of this affluent group will be in a better position to attract and retain them as loyal clients.

Understanding the wealth management needs of HNWIs — individuals with $1 million or more in liquid financial assets — can help financial advisors identify strategies that meet their investment goals. Therefore, advisors who become familiar with the mindset of HNWIs will be better able to provide services that are more effectively aligned with the investment goals of this affluent group.

A GROWTH MINDSET

When it comes to investment allocations in general, HNWIs in the United States exhibit a growth-oriented approach, one that is focused more on increasing assets rather than on safety and wealth preservation.[1] Generally, these investors also have a higher tolerance for risk, particularly among those in upper wealth segments (i.e., investors with $10 million or more in investable assets).[1]

This risk tolerance, in part, stems from steadily improving economic fundamentals and from increased trust levels in the wealth management industry, where the United States is ranked higher than most other developed markets.[1]

VIEWS ON ALTERNATIVE INVESTMENTS

In line with the growth-oriented investment approach in general, many HNWIs are turning to alternatives, which are typically higher risk investments, as they examine the different wealth management strategies available to them. A survey of high-net-worth and institutional investors found that a significant majority planned to increase their allocation to alternatives in the second half of 2015.[2]

KEY DEMOGRAPHIC INFORMATION

Average age

62

Median investable and retirement assets

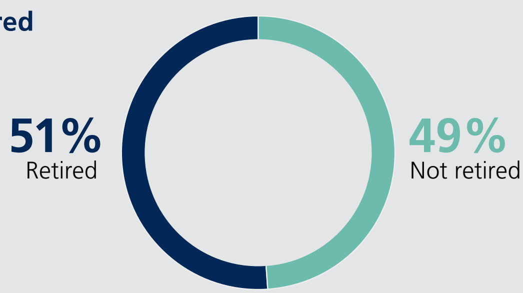
$2.5 Million

Gender

60% Male

40% Female

Retired



SOURCE: Insights on Advice: Exploring Wealth Potential Across the Spectrum of Investors,” *The 2014 Fidelity Millionaire Outlook Study*, Fidelity Investments, March 2015.

Another study, the *2015 World Wealth Report*, found that alternative investments accounted for 24.5 percent of high-net-worth assets in North America. The study, which analyzed data from more than 5,100 HNWIs in 23 countries, also found that alternatives represented 30.6 percent of all investments around the world.[3]

In terms of which alternatives HNWIs prefer, a survey by Morgan Stanley's wealth management unit found that real estate was the top alternative investment in 2014.[4] According to the survey of 1,004 U.S. investors, 77 percent of respondents with at least $1 million in assets owned real estate and 35 percent invested in real estate investment trusts (REITs).

Additionally, direct ownership of residential and commercial properties was the No. 1 alternative asset investors expected to buy in 2014 (33 percent) followed by REITs as the second most popular choice (23 percent). Other alternative investments millionaire investors owned according to the survey included collectibles (34 percent), precious metals (28 percent) and private equity (27 percent).[4]

Finally, a 2015 survey by U.S. Trust regarding the attitudes, behaviors and goals of HNWIs in the United States found that 48 percent of millionaire investors have modified or plan to modify existing portfolio allocations to fixed-income investments in anticipation of interest rate increases.[5] In addition, a sizable percentage of HNWIs are interested in adding nontraditional assets, which are not fixed-income investments, to their portfolios. Nontraditional investments being considered include private equity, tangible assets, such as land and real estate, and structured products, such as convertible bonds and securities.[5]

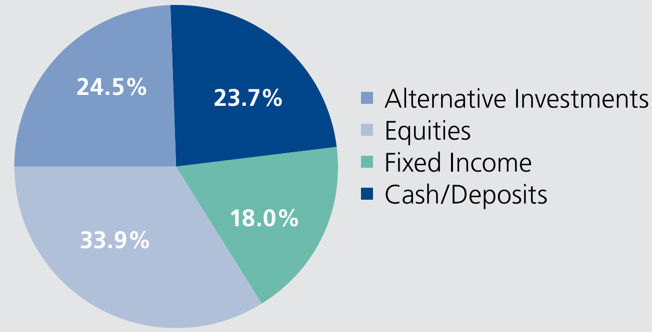
THE NEED FOR CUSTOMIZATION

Learning about the different traits and investment philosophies that make each generation of HNWIs unique will help financial advisors provide the best insight to the right demographic group. The following four steps will help advisors start thinking of ways to create the most effective service model for their more affluent investors.

1 HAVE A SINGLE POINT OF CONTACT

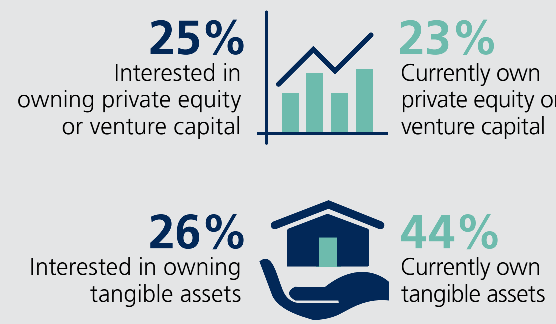
HNWIs typically prefer to interact with a single wealth management firm.[1] Less than 11 percent of U.S. HNWIs said they wanted to work with multiple firms, compared to more than 54 percent who said they value a single relationship.[1]

ASSETS FOR HNWIs IN NORTH AMERICA



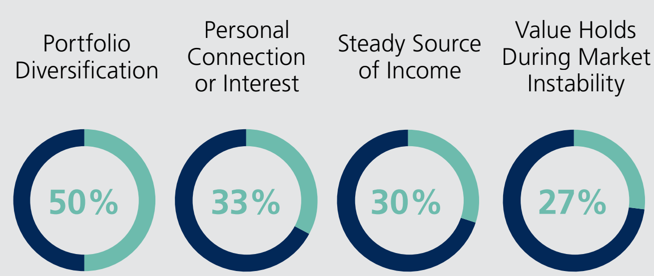
SOURCE: *2015 World Wealth Report*, Capgemini and RBC Wealth Management, 2015.

NONTRADITIONAL INVESTMENTS AND HNWIs



Examples of tangible assets cited in the survey include land, real estate, timber, oil and gas properties.

TOP FOUR REASONS FOR INVESTING IN TANGIBLE ASSETS



Responses were gathered from HNWIs who own or are interested in owning tangible assets. There is no assurance these investment objectives will be met.

SOURCE: *2015 U.S. Trust Insights on Wealth and Worth*, U.S. Trust, 2015.

2 LEVERAGE DIGITAL TECHNOLOGY

While direct contact is most important to HNWIs, the significance of digital services is becoming stronger, especially among millionaires who are younger than 40.[6] For example, among HNWIs younger than 40, 38.5 percent prefer digital contact, compared to just 15.2 percent of HNWIs aged 60 or older.[1] Another survey found that 70 percent of HNWIs access their account through digital channels at least once a month.[6] More alarmingly, one in four of younger HNWIs is currently dissatisfied with their advisor's ability to give them a customized– digital view of their wealth.[6]

3 CHECK FOR PORTFOLIO ALIGNMENT

HNWIs consider their investment needs to be straightforward — mostly focused on the management of cash, credit and investments.[1] However, younger HNWIs are more likely to classify their needs as complex.[1] They are also more interested in growing their wealth, rather than preserving it, particularly when compared with older investors.[1]

For all groups, diversification is critical. Notably, ultra HNWIs (those with $10 million or more in investable assets) are twice as likely as other affluent investors to hold alternatives and 1.7 times more likely to hold real estate investments.[7]

4 REASSURE AND EDUCATE

Overall, HNWIs say they have a positive outlook regarding their investments.[5] Yet many hold large cash positions, indicating they are more uncertain.[5] In a volatile investment environment, financial advisors can provide reassurance and counsel, as well as help investors set up the right portfolio for their financial needs, risk tolerance and investment style. In addition, a growing percentage of HNWIs are "self-directed" investors, meaning they want tools, guidance and support to make some of their own investment decisions.[8]

STEPS FOR BETTER CUSTOMIZATION

The four steps below can help financial advisors develop a more customized service model for their more affluent investors:

1. Have a single point of contact.
2. Leverage digital technology.
3. Check for portfolio alignment.
4. Reassure and educate.

IN BRIEF

Financial advisors need to understand how a HNWI's wealth management philosophy, service needs and attitudes toward financial risk come together to influence the individual's investment preference.

Attracting and cultivating a millionaire investor, however, is not a short-term endeavor. HNWIs require, and often demand, more personal touch points than the average investor and a higher degree of specialization. Consequently, financial advisors should be well-versed in the entire universe of alternative investment offerings available in today's traded and non-traded markets.

[1] *2014 U.S. Wealth Report,* Capgemini and RBC Wealth Management, 2014.
[2] "Altegris Survey Finds Investors Bullish on Alternatives," *Wealth Advisor,* June 24, 2015.
[3] *2015 World Wealth Report,* Capgemini and RBC Wealth Management, 2015.
[4] "Millionaire Investors Name Real Estate as Most Popular Alternative Asset Class by Wide Margin," Morgan Stanley, Feb. 6, 2014.
[5] *2015 U.S. Trust Insights on Wealth and Worth,* U.S. Trust, 2015.
[6] *The Futurewealth Report 2014*, Scorpio Partnership, 2014.
[7] "Considerations to Increase the Emerging Affluent's Wealth Potential," *The 2014 Fidelity Millionaire Outlook Study,* Fidelity Investments, March 2015.
[8] "Insights on Advice: Exploring Wealth Potential Across the Spectrum of Investors," *The 2014 Fidelity Millionaire Outlook Study,* Fidelity Investments, March 2015.

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