Financial Planning

Higher and Higher

Today, there are more than 9 million Americans with at least $1 million to invest. Do you have the skills to help them ride the tiger?

By By Suzanne McGee

October 2, 2007-

Having a client successfully migrate from the ranks of the merely mass affluent into the category of high net worth, or even ultra-high net worth, should be a cause for celebration. The boom in the client's wealth is a tribute to his or her hard work, vision, business and investment savvy—and indirectly, to the financial advisor whose guidance helped him or her reach this level.

But the sound of champagne corks a-popping should signal the advisor to do some hard thinking about what comes next, and how the advisor's role must evolve along with the client's fortune. "The investment and planning challenges become more complex, as do the array of products the client can consider," explains Kristine Porcaro, co-founder of Lexington Wealth Management, a financial planning firm with offices in Lexington, Mass. and New York. "It's often time for us to reach out to experts in a number of different areas who will work with us in serving this client. And at some point, the client's needs become so complex and time-consuming that he's better off being served by a firm that specializes in the ultra-high-net-worth client and can offer a family-office type structure. We need to have the confidence to know when the right thing for the client is to pass him or her on to the next firm."

There are now more than three million Americans with $1 million in financial assets (no real estate included), and some 40,000 ultra-high-net worth individuals who command more than $30 million in assets, according to the *2007 World Wealth Report*, an annual survey released by Capgemini and Merrill Lynch. According to the 2007 Phoenix Wealth Survey, which includes real estate other than a primary residence, the U.S. has 9.3 million millionaires. For financial advisors, capturing these wealthy individuals as clients or having an existing client move into this elite stratum is an enticing prospect. But as clients move upward along the wealth spectrum, their needs and demands change, and it's up to advisors to figure out how to change their business model to keep up.

The ultimate paradox of financial planning may be that the client's good fortune results in a series of massive headaches for the financial advisor. How can you devote the time and energy to meet a multimillionaire client's new needs without shortchanging those other clients—perhaps most of your clients—who haven't yet reached that lofty level? How do you go about identifying and conducting due diligence on new investment products, such as hedge funds, which the suddenly ultra-wealthy client now needs to consider? How can you—or should you—fend off the legions of competitors, from private bankers to advisors catering to the wealthiest of businesspeople who want to steal that client for their own firm?

"These are challenges that more and more planners are going to confront as the level of wealth in this country continues to grow," says Jim Dobbs, founder of Dobbs Wealth Management in Golden, Colo. Odds are, he says, most advisors will face some significant challenge of this kind to their business at least once in the next few years. "Clients don't know the right questions to ask about wealth management or financial planning when they sell their business or when their employer is acquired and they get a big payoff. So planners have to be prepared—and they can't just wing it and risk shortchanging the client."

Ideally, the financial advisor should try to plan ahead and anticipate what kinds of situations might catapult an existing client into an entirely different level of wealth. An initial public offering of a private company might make the senior executives very wealthy. But that wealth would likely take the form of stocks and options in the business itself, meaning that the advisor should be prepared to hedge the risks associated with concentrated wealth, perhaps using specialized option strategies. Is an inheritance likely in the next few years? Perhaps the advisor should familiarize herself with asset-protection trusts.

Porcaro's firm typically works with clients whose assets range from $2 million to $20 million. But she ensures that she remains alert to clients whose wealth may be about to jump beyond

those parameters. "We have been working with a client for a couple of years, and always knew that at some point he might sell his business," Porcaro says. She was able to help the client with the preplanning, establishing a basic financial plan, and introducing him to a mid-market mergers and acquisition specialist who helped find a buyer and execute the transaction. "We met with the client frequently until the deal closed, and then continued to meet with him. But we referred him to another advisor, suggesting that the advisor would be better able to help him with the various issues that arise at this higher wealth level," she says. "We helped him through that transition, and he was very appreciative—so much so that he has referred other clients to us since then."

BUILDING A TEAM

To help clients navigate their way to ultra-high-net-worth status, an advisor needs to be prepared to share the spotlight with others. While one firm may act as the quarterback, coordinating a range of specialist advisors and sitting in on all meetings, it's hard for any single planner to provide a range of advice and solutions that's comprehensive enough to meet the needs that emerge with great wealth. "There is a point when it doesn't make sense trying to become an expert on a specific dimension of estate planning, but it's more sensible to bring in an attorney who spends his or her life on these issues," says Lisa Kirchenbauer, founder of Kirchenbauer Financial Management & Consulting in Arlington, Va.

When Kirchenbauer opened her practice, she had few clients in the $1 million-plus range. Since then, she says, "as I have had people whose investable assets have surpassed that level, I have had to learn to coordinate what I do with other advisors, as well as get up to speed on specialized investment products." Kirchenbauer now routinely advises clients on the brink of becoming millionaires to find their own accountant, if they don't have one already. Then she'll talk to them about new kinds of investments—funds of hedge funds, say, or non-publicly traded real estate investment trusts. "I have had to learn about those and other complex vehicles myself, first," she says. "By now, I feel comfortable including some of these more sophisticated products in clients' portfolios."

To help her keep up with the constantly changing assortment of sophisticated investment products aimed squarely at the most affluent investors—from oil and gas partnerships and structured notes to hedge funds and private equity funds at home and abroad—Porcaro works with Fortigent, a Washington firm that provides in-depth research and handles due diligence on exactly these kinds of vehicles for family offices and other ultra-high-net-worth clients. None of Porcaro's clients fall into that category, but collectively Lexington's clients have some $250 million in assets—enough to make it both economically feasible and important for the firm to become a Fortigent client.

Understanding these more complex investments and gaining access to them may be the simplest part of the challenge of dealing with an "elephant" client, especially for advisors who don't have a wirehouse platform to help them. Tax issues become a big hurdle, especially since the more affluent the client, the more likely he or she is to have assets spread around the world.

"I had a client who had $4 million under management come to see me and confess that it was time he told me everything," says Jeff Thomas, a financial consultant with Raymond James in Dallas. "Sure enough, it seems that his mother, who wasn't a U.S. citizen, had her assets in a Cayman Islands trust—and his share was going to be $100 million." Now that the client had worked with Thomas for a few years, he had confidence and trust in the advisor. "I had to work with top tax lawyers to preplan what would happen when his mother died, to be sure that we had the assets in the right places and were aware of all the tax implications." Thomas shudders at the idea of what would have happened if his client had left his confession to the last minute. "It would have been a scramble to find the right people to help, and figure out the right thing to do."

Indeed, most advisors who are adept at dealing with wealthy clients agree that the key to success is having a network of attorneys, accountants and specialized advisors who can be brought in—usually at an extra fee which is charged to the client—whenever they are required. "Clients may not know when their needs step beyond the advisor's level of competence, but the advisor should know," says Dobbs. "My need to work with other advisors more closely has increased dramatically. I can structure a simple options collar for a client, for instance, but for anything more complex, I need an options specialist and so I go to a competitor who happens to be excellent at those exotic trades. I have to take the risk that he won't come in and steal that client in the process."

LOYALTY MATTERS

In fact, most advisors believe that the risk of having a client wooed away—even such a coveted one as an ultra-high-net worth individual—is much less than commonly feared. (Dobbs says it has happened only once in his career.) Instead, they argue that it's more likely that a client will defect if the advisor doesn't bring in specialists to help out with, say, creating a foundation or negotiating a prenuptial agreement. "Affluent families prize trust as much as they do competence, and they will be very loyal to advisors who serve them well," says Todd Millay, executive director of the Family Wealth Alliance at Wharton. "To win that loyalty over the decades, advisors have to reconceive their role: They aren't the sole solution provider, but the person whose job it is to get the answers and present them to the client in a way that makes sense." Most advisors will sit alongside the client at meetings with outside advisors, just as they would in meeting with investment managers and other service providers. And while these meetings may take up a lot of time, the payoff is clear, says Todd Rustman, president of GR Capital Management in Newport Beach, Calif. "I have the opportunity to learn more about complex products from listening to the experts—and I now feel I know enough at least to ask the right questions and identify perhaps 90% of the potential pitfalls in the most common scenarios."

BUILDING A SKILL SET

Those advisors who continue to work closely with clients whose wealth has ballooned agree that education is another key to success. "If your clients' net worths are growing, you have to get the skills they need," says Richard Joyner, president of private wealth management at Tolleson Wealth Management in Dallas. Joyner is one of several planners who have played a role in overseeing the creation of yet another designation in the wealth management arena: Chartered Private Wealth Advisor (CPWA). The goal of CPWA's founders, the Investment Management Consultants Association (IMCA), was to come up with an educational program that prepared advisors to serve their most affluent clients and help push the advisors from competence to proficiency. "Okay, it's four more letters after an advisor's name in an industry that's already swimming with designations, but we believe it's one that will help the advisor communicate to clients that he has received a level of formal preparation to deal with these more complex problems," says Dobbs, who worked with IMCA as a consultant on the project. "The reality is that there is a learning curve. People are going to mess up along the way, so it's better if they make those mistakes in a classroom setting than with clients' accounts."

The CPWA will be offered in partnership with the University of Chicago's Graduate School of Business, and the first self-study session began in September. An in-person class is planned for next spring, says Joyner, who currently chairs IMCA's wealth management committee. The case-study-based curriculum will cover issues ranging from the basics of investment and philanthropic planning to the more esoteric issues that advisors may find hard to anticipate, such as behavioral or psychological changes. "We provide a case study that revolves around transferring a family business to the second or third generation of a dysfunctional family," explains Dobbs. "Hopefully, that will prepare people for the real-life problem of how to distribute a $50 million legacy among three children, one of whom is a dropout and another of whom is addicted to drugs." What the program doesn't cover is how to cater to the highly specific needs of the ultra-wealthy, such as how to lease a private jet, hire a pilot and structure aircraft maintenance and insurance plans.

WHEN TO LET GO

But even for the best-prepared and best-educated advisor, a time may come when they need to consider whether continuing to work with their ultra-affluent client is in the best interests of both parties. "You get to the point where you have to assess your business and ask yourself, is this the way you want to go—to serve fewer of these more affluent clients?" says Kirchenbauer. "And then the question is, does the firm have the right resources to handle these clients, or can you acquire them?" If advisors feel uncomfortable reshaping their business, or that they're in over their heads and might be unable to build up the right level of expertise, Kirchenbauer suggests that it's time to accept the idea that their firm's "sweet spot" may simply not include the most affluent Americans. "That's not a bad thing," she observes. "It's recognizing that you are doing the right thing for all your clients."

Just as the decision to hand over a wealthy client to another planner shouldn't be made lightly, so too the process shouldn't be undertaken suddenly. Porcaro has forged relationships with a number of local firms that cater to the next level of affluence—from $10 million upward—such as Ballentine Finn. "We'll sit down with the client and explain that we would like to introduce them to another advisor who may be better equipped to meet their needs from this point onward," she explains. "Then we'll bring that new advisor in to meet with the client, so the client can explain his or her goals."

It's up to the original advisor to make sure there's a fit with the new firm and to ensure that

the transition is seamless. "It's the ultimate challenge, but if you handle it right, it will pay rich dividends," says Porcaro, pointing to the referrals she has already received from a client she passed on to another advisory firm. "The client trusts you to do the right thing—even when it may be difficult or sad for you to accept that this means the loss of the account. But if you can't be honest with yourself and with clients about this fundamental issue, then maybe you shouldn't be in this business at all."

Suzanne McGee contributes frequently to Financial Planning*.*

(c) 2007 Financial Planning and SourceMedia, Inc. All Rights Reserved.

http://www.Financial-Planning.com http://www.sourcemedia.com

© Financial-Planning.com 2004. All rights reserved. Republication or redistribution of Financial-Planning.com content, including by caching, framing or similar means, is expressly prohibited without the prior written consent of Financial-Planning.com.

For more information about reprints of articles appearing on Financial-Planning.com contact Godfrey R. Livermore at **(212) 803-8351** .