America's New Ultra-Wealthy
Not the Same Old Rich

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If you've been advising wealthy clients for more than a few decades, you may have noticed it yourself. Your "old" wealth is more comfortable with their money. They grew up with money or acquired it by rising to the top of the corporate ladder—it didn't come seemingly overnight. But today's "new" money is often entrepreneurial and may have arrived in a single "liquidity event," such as an IPO or sale of a business. These wealthy are less adept at coping with wealth—they don't have the networks or the knowledge that comes with years of wealth experience.

In fact, recent studies of Ultra High Net Worth (UHNW) individuals and families bear out this wealth shift—today's superrich grew up middle or lower class. Though they now have investable assets of $5 million and up, they still consider themselves "middle class at heart," according to "Worth-Harrison Taylor Study of The Status of Wealth in America," published in 2005. Based on in-depth conversations with a representative sample of America's top ½ % of wealth, the study finds that only 8% of today's wealthy had wealthy parents and most grew up in typical "Happy Days" suburbs.

The implications for your practice are numerous. In order to acquire the new wealthy as clients, build relationships with them and manage their assets, you need to understand the differences in the ways these individuals select their advisors, allocate their assets and plan for the future.

Three Stages of Wealth

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Table: Stages of Wealth Evolution

Wealth maturation stage (% of total)	Emergent (38%)	Maturing (43%)	Senior (19%)
Length of time wealthy	Less than 5 years	6-14 years	15+ years
Mean value of total assets	$8.9 million	$27.5 million	$74.5 million
Average age	48	56	61

Source: The Harrison Group, The Worth-Harrison Taylor Study of The Status of Wealth in America, © 2005. Used with permission.

It takes different techniques to become an advisor to each of these segments and a different psychological mind set to meet their needs. The approach of the three segments to wealth management is different as well. This article covers some of the highlights of what you need to know to:

• develop new clients among those at different stages of the wealth cycle

• advise these client segments about non-financial issues

• understand their financial and non-financial goals and help them manage wealth in a way that is comfortable for them.

Implications for Building New Business

For advisors looking to build new business, the "Emergent" group is probably the most desirable target segment. Since this group has not yet formed deep attachments with other wealth advisors, they may well be looking for someone who can provide advice. The advice these new wealthy seek may not only be about their investments, however; they are also looking for knowledgeable advisors who can help them understand and make lifestyle choices.

Networking is the best way to turn up the "Emergent" wealthy. Since entrepreneurs are well represented in this group, their business advisors—accountants, attorneys, business valuation specialists, commercial real estate and insurance brokers—are good sources of referrals.

Individuals who have matured into the later stages of wealth have had the time to develop networks with other wealthy people. These networks often refer members to their own advisors, so your best approach to meeting these individuals is to seek referrals from your satisfied clients. Other ways of meeting and developing relationships with "Maturing" and "Senior" wealth include serving on charitable boards with them and through immersion in the types of activities they are likely to be interested in, such as antique shows and auctions, equestrian events, or alumni-related activities. You will not gain their confidence unless you are "one of them" so your interest in these activities must be real and fully committed.

Building Relationships with Those at Different Stages of the Wealth Cycle

Because they are often entrepreneurial, "Emergents" tend to be independent and self-directed. They may be defensive about their newly achieved wealth and suspicious of those who approach them about managing it. (This is not mere paranoia. Many shady deals are offered to those who have suddenly become wealthy, especially those in the public eye, such as sports figures, lottery winners, or business owners who have had an IPO.)

The key to developing trust is to speak the same language and understand the individuals' concerns. Avoid using words like "wealthy" or "rich." This is not how the new wealthy see themselves and you need to let their language guide yours. Remember that those unaccustomed to being wealthy continue to think of themselves as the middle class people they always have been.

Part of your value for these individuals is to introduce them to the ideas and people that will form their new networks. While you hope to be a primary advisor, bear in mind that the ultra-high net worth—whatever stage of the maturation cycle—feel the need to have different specialists for their various needs. For example, since many "Emergents" still have operating responsibility for their businesses, they will have business advisors and lending relationships with banks. At the same time, they may look to you for introductions to high end realtors, luxury goods dealers, and property and casualty insurance brokers who specialize in the unique issues facing families with multiple homes, cars, boats, artwork, jewelry (especially watches), and other new purchases. According to the Worth-Harrison data, for example, 18% of the emergent wealthy own a boat, while that number jumps to 26% for "maturing" and 32% for "senior" stages of wealth. Clearly, having an interest in boating or knowing qualified boat brokers is a useful skill in working with this group.

The established wealthy have less need of your contacts, since they have developed networks of their own. Nevertheless, it is useful to cultivate interests and connections that match theirs—fine wines, collecting, travel, and charitable causes. Now that they have become comfortable with being wealthy, these maturing and senior segments value new experiences and learning. Organize events for clients (and their referrals) that offer something "behind the scenes": an event at a museum featuring a curator talking about a collection; a cooking class in the kitchen of a fine restaurant, a conversation with a historian, artist or inventor. Keep in touch about matters of interest—clip a magazine story about a Caribbean island they often visit or a web site for an upcoming classic car auction. Keep a record of all key information about the heads of household and their families and regularly stay in touch about matters that don't necessarily relate to investments.

Differences in Money Management Concerns

One of the biggest differences among the three maturity cycles is in their investing behavior. Where the traditional wealthy may have sophisticated portfolios with esoteric alternative asset classes, “Emergents” are still building wealth and are relatively inexperienced as investors. They may be managing their own portfolios, and are still likely to be heavily concentrated in illiquid interests in their own businesses.

Because “Emergents” tend to be younger and less sophisticated investors, it is best to focus on the basics: long-range planning, tax minimization, insurance, and asset allocation.

Another recent study, by the Spectrem Group, confirms that UHNW individuals under age 50 have significantly different goals than those who are older.

Importance of Specific Financial Goals by Age

Financial goal	Under age 50	All UHNW
Build portfolio	88	72
Finance children’s/grandchildren’s education	82	57
Protect my family against premature death or disability	74	45

Source: Spectrem Group, “2005 Ultra High Net Worth”,© 2005, Used with permission.

Do not confuse “risk capacity” (the financial capacity to take risk) with “risk readiness” (the emotional ability to tolerate risk). Normally, those in the early stages of wealth tend to be more risk-averse, but are willing to increase the overall risk level in their portfolios as their experience and assets grow. They are not looking for the newest or latest investment ideas but are rather seeking to grow in measured increments. Never discuss investment vehicles to these emergent wealthy in isolation. Rather, present new ideas in relation to their overall portfolio goals.

By the “Maturing” stage, the ultra-wealthy have usually liquidated much of their interest in their own businesses and have begun to diversify their portfolios. As the individuals become more confident in their wealth and judgment, they often become more aggressive investors. At this stage, the UHNW may be actively seeking private equity, real estate trusts and other alternative asset classes. People at this stage are also beginning to think about intergenerational wealth transfer and estate planning.

The “Seniors” are the classic ultra-wealthy, concerned with distributing their wealth to future generations and to their cherished causes. A central concern is the legacy they will leave behind and you can help by advising them on such issues as establishing a family foundation and/or endowment, investment policy statements for their various trusts, and establishing guidelines for gifts and bequests.

The Rich are Different

It was F. Scott Fitzgerald who noted that “the rich are different from you and me.” But he might have said “the rich are different from one another.” Understanding the differences at various points in their wealth development can help make you a better advisor to your UHNW clients, in terms of how you become their advisor, what their expectations are of you and how you can best help them meet their changing objectives over their lives and into the lives of their descendants.