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PORTFOLIO SOLUTIONS

Bridging the Generational Gap:

How to Attract Emerging High-Net-Worth Investors

THE EMERGING HIGH-NET-WORTH EPIDEMIC

Every advisor understands the draw of high-net-worth investors: more assets across fewer accounts allows more time to pursue new business opportunities and drive further growth.

But what about the future of the high-net-worth world? Emerging HNW investors are poised for growth themselves, and with their newly acquired assets can help firms move the needle, enhance current profitability, and set a foundation for future growth[1] — as long as advisors are ready to capitalize on those opportunities.

And the opportunities are there. Emerging HNW investors with investable assets ranging from $500,000 to $1,000,000 represent about 12 million United States households, which equates to almost 10% of all households. Need more convincing? Over one-third (36%) of emerging HNW investors do not have a financial advisor[2].

But what about the children of your current HNW clients? Studies indicate that over the next 30 years, $30 trillion will be passed from baby boomers to Gen X to millenials[3]: an exorbitant transfer of wealth that should keep your firm flush with HNW clients, provided you've already attracted and retained their parents. Right?

Wrong.

Trends show that sixty-six percent of children fire their parents' financial advisor after receiving an inheritance[4]. That's a massive hit to advisors who currently work with HNW baby boomers, and a massive opportunity for advisors who are interested in adding emerging HNW investors to their book of business.

Regardless of which side you fall on, it's important to understand what services and experiences emerging HNW investors want from financial professionals, what causes them to look for new asset management, and what you can do to attract — or keep — them.

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1 "Move the Needle: Targeting the Emerging High Net Worth …." 10 Jan. 2018, https://www.lifehealth.com/move-needle-targeting-emerging-high-net-worth/

2 "Move the Needle: Targeting the Emerging High Net Worth …." 10 Jan. 2018, https://www.lifehealth.com/move-needle-targeting-emerging-high-net-worth/

3 "The great wealth transfer is coming, putting advisers at risk." 13 Jul. 2015, https://www.investmentnews.com/article/20150713/FEATURE/150719999/the-great-wealth-transfer-is-coming-putting-advisers-at-risk

4 "The great wealth transfer is coming, putting advisers at risk." 13 Jul. 2015, https://www.investmentnews.com/article/20150713/FEATURE/150719999/the-great-wealth-transfer-is-coming-putting-advisers-at-risk

WHAT EMERGING HNW INVESTORS VALUE

While it's true that a number of emerging HNW investors don't have financial advisors, those that do tend to choose them for a few specific reasons:

They Inspire Confidence

First and foremost, emerging HNW investors want to feel confident in their financial futures. Aligning your services and messaging with this top priority is critical if you hope to add newly wealthy clients to your book of business[5].

Offering a financial planning service also helps build client confidence, because it inherently mandates that you begin with their goals as the foundation, and empowers you to directly connect progress toward those goals with your investment strategies.

They Prioritize Trust

The customer experience is just as vital to attracting and retaining emerging high-net-worth clients, who prioritize personal one-on-one relationships with their advisors above everything else. Quality of communication is also vital. And it all comes down to trust. Emerging HNW individuals want to know that their advisors are acting in the best interests of their goals and financial futures.

To deliver the confidence and build the trust emerging HNW investors are looking for, you need to make transparent communication a top priority. That means discussing fees up front, keeping them as involved as they want to be in the intricacies of their portfolio management — and even admitting what you don't know.

They Use Their Connections

Emerging HNW investors have complex needs that may be outside your expertise, so consider partnering with CPAs, trust attorneys, and/or estate planners to provide the holistic value they demand.

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5 "Move the Needle: Targeting the Emerging High Net Worth ...." 10 Jan. 2018, https://www.lifehealth.com/move-needle-targeting-emerging-high-net-worth/.

WHAT GETS IN THE WAY OF ADVISORS RETAINING THEIR CLIENTS' CHILDREN

If we know that personal, one-on-one relationships are of critical importance to emerging HNW investors, it shouldn't be a surprise that the lack of a relationship is a leading obstacle for advisors when it comes to retaining assets passed on to heirs.

Part of that falls on advisors themselves. Only 20% of financial advisors are targeting the younger family members of their clients, and an overwhelming percentage of advisors meet with their clients' children less than once a year (53.68%) or not at all (18.13%)[6].

So it's no surprise that only 13% of affluent investors indicated that they would choose to work with the same advisor their parents used[7]. Without even the flimsiest foundation for the trust emerging HNW investors value, it's easy to see why they might seek out an advisor of their own — likely closer to their own age — than trust their newly inherited assets to their parents' advisor.

And age is just a number — except when it comes to using technology to make connections with younger generations. Millennials grew up with technology at their fingertips; it's the only existence they've ever known. So they expect the same tech-savvy experience they've always had from their investment management experience, too. If financial advisors can't deliver, that's a problem.

The technology experience emerging HNW investors are expecting includes a fully branded client portal and a robust mobile app, but it doesn't stop there. Integrating financial planning with your portfolio management process helps create a seamless experience for your clients while also proving your value. And if you can show that connection visually, through dynamic reports and video statements, you'll further engage your clients in their financial futures.

Technology is also a valuable time-saver for advisors. Think about what takes up most of your day: is it reporting? Executing trades? At quarter-end, do you spend hours in the billing process? With technology in place to streamline those often-tedious back-office operations, you'll have more time to focus on building the relationships that matter to the emerging high-net-worth, including dedicating some time to meeting with the children of your wealthy clients.

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6 "The great wealth transfer is coming, putting advisers at risk." 13 Jul. 2015, https://www.investmentnews.com/article/20150713/FEATURE/150719999/the-great-wealth-transfer-is-coming-putting-advisers-at-risk.

7 "Inheritors Highly Likely To Fire Parents' Advisors." 9 May. 2019, https://fwreport.com/article.php?id=183571.

WHAT INVESTING LOOKS LIKE TO RETAIN EMERGING HIGH-NET-WORTH

Attracting up-and-coming high-net-worth investors is only the beginning. Once you've done that, you need to evaluate whether you're prepared to retain them with an investment management style that meets their needs.

You already know about trust, communication, transparency, and the importance of technology — but when it comes to managing emerging HNW investors' actual resources, what are they looking for?

For one thing, their focus goes beyond traditional investing. Alternative investments give emerging HNW investors the ability to support both social and environmentally charged causes. According to a Fidelity Charitable study, 77% of affluent millennials and 72% of affluent Gen X investors have made an impact investment, which is one that generates a return while offering social and/or environmental benefits[8].

Emerging HNW investors are highly focused on environmental initiatives, such as smart- and clean-energy tech companies, as well as companies that support social initiatives like gender diversity and affordable housing[9].

To deliver the investments these potential clients are looking for, consider your ESG (environmental, social, and corporate governance) offerings. Separately Managed Accounts, or SMAs, make it easier for advisors to include ESG investments in client portfolios because they're highly tailored to each investor. SMAs give investors the ability to own individual stocks and bonds in conjunction with other investment vehicles.

In addition to social and environmental issues, emerging HNW investors are also concerned about protecting their assets, along with rising healthcare costs and taxes[108]. So when designing their portfolios — and when having frank, open conversations with them about those portfolios — seek to protect them against market volatility using diversification.

And because taxes are an issue, you can seek to demonstrate further advisor value by adding tax alpha through tax-loss harvesting, which is the process of monitoring a portfolio to identify capital losses, which can offset capital gains in other parts of the portfolio, reducing the amount of taxes an investor has to pay.

But tailoring your service offerings to meet the needs of emerging HNW investors is largely useless if they don't know about it. Make sure your messaging reflects their challenges and needs, as well as the solutions you've put in place to meet them.

And meet them where they are, both digitally and in person. Targeting these investors on social media and keeping your website up-to-date are crucial first steps, but consider attending events related to the issues they care about, like environmental rallies and equality forums.

8 "Impact Investing: At a Tipping Point? - Fidelity Charitable." https://www.fidelitycharitable.org/content/dam/fc-public/docs/insights/impact-investing-at-a-tipping-point.pdf.

9 "How Millennials Are Changing The Future Of ... - Forbes." 2 Apr. 2019, https://www.forbes.com/sites/forbesfinancecouncil/2019/04/02/how-millennials-are-changing-the-future-of-investment/.

10 "Move the Needle: Targeting the Emerging High Net Worth ...." 10 Jan. 2018, https://www.lifehealth.com/move-needle-targeting-emerging-high-net-worth/.

PUTTING IT ALL TOGETHER

To attract and retain the emerging HNW investor — even if you already work with their parents — you can't do what you've always done.

Emerging HNW investors value trust, transparency, and communication in relationships with their advisors, and they expect a client experience that relies heavily on robust technology to keep them updated and informed. And when it comes to their portfolios, the focus is two-fold: environmental and social investing, as well as protecting their assets from market volatility and taxes.

If that all seems overwhelming, you aren't alone. Partnering with a technology and investment solution provider who can empower your firm to attract the emerging affluent while also saving you time on the back end turns those challenges into incredible opportunities for your business.

But technology isn't enough, and neither are investment strategies. To bring emerging high-net-worth investors to your book of business, you need both: plus a robust support system to keep everything running smoothly. With that complete advisor experience, you can offer the client experience these investors demand.

Find out how Orion Portfolio Solutions can help you retain inheritors and attract newly wealthy investors to your business. Talk to us today about our dedicated high-net-worth program.

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www.orionportfoliosolutions.com/contact-us/
info@orion.com
800.379.2513

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