The Ultra-High-Net-Worth Investor by the Generations

By Cam Marston

Ultra-high-net-worth (UHNW) investors represent the top 1 percent of households by wealth, that exclusive segment so often praised and pilloried in the press.

Not to be confused with merely high-net-worth investors, each UHNW investor has a net worth of at least $25 million. The United States is home to 177,000 such households (Federal Reserve Board 2013) and has the world's largest concentration of this upper wealth tier (Wealth-X 2015).

As a group, UHNW investors have amassed their fortunes as entrepreneurs and business owners, senior corporate executives, and consultants. The wealth of this population is 76 percent self-made; only 13 percent have benefited solely from inheritances (Wealth-X and UBS 2014).

The face of the 1 percent is mostly white and non-Hispanic, and this population decreases only incrementally between generations. Nearly 96 percent of the mature UHNW population and 94.5 percent of UHNW baby boomers fit this profile (see table 1) (Federal Reserve Board 2013).

The UHNW world is a man's domain because men represent 87 percent of UHNW individuals. Women comprise 13 percent of the UHNW population, but there are more female UHNW individuals in the United States than there are UHNW individuals total in all of India.

In the United States, UHNW women have more individual net worth than UHNW men. On average, female UHNW individuals are worth $160 million and male UHNW males are worth $132 million.

Table 1: UHNW Breakdown by Race

	Matures	Boomer	Gen X	Total
White non-Hispanic	95.5	94.5	70.9	92.1
Black/African American	0.6	0.4	0	0.4
Hispanic	0	2.2	0	1.2
Other	3.9	2.9	29.1	6.3

Note: Other is a broad category that includes Asian. Source: Federal Reserve Board 2013 Survey of Consumer Finances

However, male UHNW individuals generate the jobs. The top 10 U.S. male entrepreneurs alone employ more than 865,000 people (Wealth-X and UBS 2014).

The following is a snapshot of the UHNW population in the United States:

- The United States is home to more billionaires than any other country in the world.
- New York City is the U.S. city that is home to the most UHNW individuals—12 percent of the total U.S. UHNW population.
- Charlotte, North Carolina (population 800,000), has more UHNW individuals than the country of Israel (population 8 million).
- California is the state with the largest UHNW population, with 13,445 UHNW individuals (Wealth-X 2015).
- 59 percent of UHNW are retired; 16 percent are semi-retired.
- 25 percent of UHNW are still working.
- 89 percent of UHNW use a financial advisor (Vanguard 2014).
- 9 percent of U.S. UHNW individuals are in the technology industry (Wealth-X and UBS 2014).

UHNW individuals have higher levels of education than those who are not UHNW, particularly among younger generations. For example, 99.2 percent of UHNW Gen Xers have a college degree (Federal Reserve Board 2013).

Communication and Trust

Naturally, attracting and retaining an UHNW client is any financial advisors' goal. But overlooking some basic relationship fundamentals can lose UHNW clients.

For example, communication is key to a successful UHNW advisor-client relationship and response time is crucial. According to one Vanguard report, not returning phone calls in a timely manner is the number-one reason UHNW investors switch advisors (Vanguard 2014).

Good communication is not limited to client and advisor. Sandeep Varma, president of ATS Advanced Trustee Strategies, which specializes in estate planning, always includes the family.

"Before we implement strategies, we have a family meeting that includes the children, without their spouses, and we have regular family meetings throughout the relationship," Varma said in an interview.

Trust is important as well. Varma said he believes that a team approach can help to build trust and credibility with a client. An advisor who claims to have all the answers can jeopardize that relationship.

"A 70-year-old client has a wealth of experience, both good and bad," Varma said. "They know that no one knows everything and they like knowing that you have a team of qualified professionals to rely on for correct and up-to-date information. Sometimes admitting you don't know the answers, but will confer with another professional to get the best solution for the client, builds trust and credibility. Younger clients, on the other hand, often expect the advisor to have all the answers all the time."

Being atop the wealth ladder, the UHNW investor is less risk-averse than those in lower income tiers. Among UHNW investors, investor independence is significant. On the whole, UHNW investors control 40 percent of their assets on their own, allow advisors to handle 22 percent, and consult with an advisor but make decisions themselves on the remaining 38 percent (Vanguard 2014).

An advisor can expand their share of the pie by getting a clear picture of a UHNW investor's entire portfolio because assets may be hidden or unavailable now but available in the future. A portfolio review can ensure proper asset allocation and reveal opportunities to add further value to investment decisions.

UHNW individuals have large social networks that on average include seven other UHNW individuals and usually one billionaire (Wealth-X and UBS 2014). Like most people, UHNW individuals have social networks that extend to online communities. Nearly 25 percent of the UHNW population accesses social media at least once per day, with 38 percent signing in to LinkedIn and 25 percent checking out YouTube (Vanguard 2014).

Does wealth buy happiness? The ultra-wealthy are more likely than everyone else to say happiness depends on winning the appreciation and respect of others. They're also more likely to cite the realization of personal potential as a key to happiness (Diener et al. 1985).

U.S. UHNW individuals are the world's most generous and most frequent givers. The typical UHNW philanthropist donates $25 million in a lifetime (Wealth-X and Arton Capital 2014).

UHNW women are only a fraction of that population but around the world female philanthropists donate 26 percent more than their male counterparts (Wealth-X and UBS 2014).

UHNW by Generation

UHNW investors represent a fraction of the overall population and when broken down by generation, the numbers are minuscule (see table 2). The percentage of UHNW millennials is a tiny fraction of the whole despite the presence of high-profile members such as Mark Zuckerberg,

In spite of their wealth, UHNW individuals of all generations fear they will run out of money. According to a 2015 report by SEI and Scorpio Partnership, U.S. UHNW individuals expect, on average, that their portfolio investments will grow 15.8 percent in the coming year yet 59 percent say their biggest anxiety is running out of money or being unable to maintain their current lifestyles (SEI and Scorpio Partnership 2015).

Matures: Traditional and Thrifty

Although their numbers are dwindling, the mature generation still represents a substantial percentage of UHNW investors.

This generation's individuals were born before 1946 and grew up during the Great Depression and World War II. Their "waste not, want not" attitudes are a direct result of their experiences during these times. The financial instability of their early years produced a desire for financial security and comfort, and they achieved it through discipline and riding a wave of good economic times to amass wealth.

Matures lived in a more traditional era where men worked and women stayed home to raise children. Loyalty was given their employers and expected in return. A worker could expect to work at one company and retire with a pension.

Conservative, patriotic, and conformist, matures understand the nobility of sacrifice for the common good. A mature UHNW investor has a desire to feel needed and values simplicity.

"The older investors seem to be much more normal millionaire-next-door types," Varma said. "Often we find these clients spend less on a monthly basis than clients that have a much lower net worth. Many of the older ultra-high-net-worth clients live in the same house they've lived in for 30 or 40 years. A client recently told me that his wife, who almost never goes clothes shopping, went to a Goodwill store to buy clothes and was thrilled with the deals she found."

Due to the age of this generation, the need to build relationships with their heirs is paramount. By involving family members, you have a chance to acquire the younger generation as current or future clients and keep the money where it is. Often heirs leave their inheritances in place for about a year and then take the money to the first advisor who offers help (Vanguard 2014).

These older investors have a fear of running out of money despite having fewer years to spend it. They fear losing it to market risks or having to spend it all on long-term care or healthcare costs.

Table 2: UHNW Households

	Matures	Boomer	GenX	Total
Number of households within a generation classified as UHNW	59,291	96,468	21,061	176,821*

* Number of households represented.

Source: Federal Reserve Board 2013 Survey of Consumer Finances

Table 3: Total UHNW Household Assets by Generation (median, in $ millions)

	Matures	Boomer	Gen X	Total*
Total value of assets	33.4	36.7	42.7	36.7
Total value of financial assets	8.8	19.2	3.1	15.7
Total value of nonfinancial assets	24.8	20.7	39.2	24.3
Total value of directly held stocks	0.6	2.2	0	0.6
Total value of business(es) in which they have active or non-active interest	8	9	27.3	10

* Total is all UHNW people, regardless of generation.

Source: Federal Reserve Board 2013 Survey of Consumer Finances

Table 4: UHNW Percent Entrepreneurs by Generation

	Matures	Boomer	Gen X	Total*
Percent of UHNW individuals who are currently self-employed or in a business partnership	58.8	62.5	81.5	63,5

* Total is all UHNW generations.

Source: Federal Reserve Board 2013 Survey of Consumer Finances

Baby Boomers: Two Generations in One

At 76-million strong, boomers comprise an influential generation of people born between 1946 and 1964. Many consider them two generations in one. Most people think of boomers as the generation with the rebellious and influential youth culture of the 1960s, and that label would apply to the leading boomers, those born between 1948 and 1955. The larger contingent, however, is the trailing boomers, those born between 1956 and 1964.

The two have slightly different mindsets. Older boomers tend to be more idealistic and younger boomers more pragmatic. Younger boomers tend to be more skeptical, less confident with, and less loyal to their financial advisors. This means advisors need to give younger boomers more attention and determine how their needs are different.

Both older and younger boomers value personal freedom and self-expression over authority. They have little respect for those that speak at them; instead, boomers respect those who speak with them.

Due to the cultural turmoil of the 60s and 70s, older boomers have strong social awareness. They respect racial and cultural diversity, believe in safeguarding the environment, insist upon equality between the sexes, and see individual liberty as central to the American experience (Fidelity and Guaranty Life 2013).

Mostly, boomers refuse to consider themselves old. They are the group that insists upon defying and redefining old age. They want to be treated as vibrant adults with optimistic futures.

That future includes making sure they take care of their families. The great transfer from the mature generation to the boomers is still taking place, but an even larger wealth transfer from the boomers to their heirs has started and will continue over the next 30 to 40 years.

Boomers' attitudes toward advisors are more like those of their parents and less like those of their children. Like their parents, boomers tend to have strong existing relationships with their financial advisors. They are relatively comfortable with the advisor-led model, unlike their Gen X and Gen Y heirs (Accenture 2015).

Nearly 50 percent of ultra-high-net-worth investors are extremely or very likely to retain their parents' advisors. Therefore, it's important that advisors adjust to the next generation's attitudes (Leonhart 2014).

The most generous of the generations worldwide, baby boomers represent more than 53 percent of the UHNW philanthropist population (Wealth-X and Arton Capital 2014).

Gen Xers: Self-Reliant, Tech-Savvy

Generation X was born between 1965 and 1979 and numbers roughly 61 million people in the United States. Among the UHNW population, Gen Xers represent approximately 21,061 households (Federal Reserve Board 2013).

Growing up with less economic and family security than the boomers, many Gen Xers were raised in households where parents both worked or were divorced. They were the original latchkey kids—self-sufficient and prepared to make things work on their own, despite the slacker label given to them in their youth. The underlying persona of the Gen Xer is not a lack of motivation but a lack of trust.

The optimism demonstrated by baby boomers in the 1960s gave way to the scandal, inflation, world crises, and recession in the 70s and 80s. As a result, Gen Xers cultivated a deep sense of skepticism, cynicism, and pessimism. The advent of the personal computer and the Internet during their formative years made Gen X the first tech-savvy generation. Technology also fed their need for self-reliance and self-education.

This fierce self-reliance and technological savvy has resulted in an entrepreneurial generation. Although they account for fewer UHNW households than matures or boomers, Gen Xers have the most total assets—$42.7 million (see table 3). That's because 81 percent of this population is either self-employed or in a business partnership, so their assets may reflect the paper value of businesses (see table 4) (Federal Reserve Board 2013).

In fact, our research at Generational Insights (https://generationalinsights.com) has found that of the Fortune 500's top U.S.-

based companies classified as "unicorns" (start-up companies that have soared to a $1-billion valuation or higher based on fundraising), 58 percent are led by Gen Xers.

UHNW Gen Xers like to spend money, too. They are the most likely of all age groups to expect the greatest increases in spending in the coming year (SEI and Scorpio Partnership 2015).

"This generation is often much bigger spenders," Varma said. "They buy bigger, more expensive houses and cars and upgrade them more often."

Still, the younger affluent tend to be more socially responsible and often seek out less-traditional ways to use their wealth to help others (Vanguard 2014).

Gen X has different attitudes toward investing than their boomer or mature parents. They expect transparency and control and readily share information with peers through a variety of social media forums. They also are not tied to traditional sources of investment advice or service (Accenture 2015).

They are less fearful of losing money than their older counterparts, but the way they earned it can affect their comfort level.

"Someone who is in their 30s who inherited wealth is more afraid of losing it than someone in their 70s who built it," Varma said. "This is because someone who built their wealth knows how to make it again."

Gen Y/Millennials: Entitled and Coveted

The millennial generation was born between 1980 and 2000. They claim some high-profile members, but their presence among the UHNW is tiny due to their youth. But give them time.

Millennials, also known as Generation Y, have been called "echo boomers" because they are primarily the offspring of baby boomers. At 85-million strong, they outnumber their parents' generation and are set to receive the bulk of the boomer wealth transfer. This is clearly a population on the rise.

Ease with technology, a sense of optimism, and a sense of entitlement are all hallmarks for this generation. They grew up in a time of broad economic and technological expansion but have been chastened by the Great Recession. They entered the real world at a time when jobs were hard to find.

Millennials also have a sense of social and environmental responsibility. They are attuned to peers and trendsetters and make avid use of social media. This connectedness means that they tend to operate with a herd mentality, following the advice and actions of their peers, with much less personal due diligence than Gen X. As a result, finding success with a small but influential group of millennial clients will have a ripple effect with their peers and throughout their circle of influence.

By involving this generation in their parents' financial affairs early, a financial advisor has a chance to acquire this coveted demographic as current or future clients.

Conclusion

The transfer of wealth from the boomers to the millennials has begun. Advisors whose UHNW clients are primarily boomers will need to adjust to the communication and social styles of the millennials if they want to retain the boomer's children as clients. And, as our research reveals, advisors are wise to offer to help the millennials with their assets once they've received them.

Perhaps the most surprising thing about each of the generations' UHNW investors is how typical they are of their generational profiles. Overall, ultra-high-net-worth investors differ from their generational peers in only one significant way and it is the most obvious one—they have a much greater net worth than the others in their generation. Wealth has not changed the basic generational attitudes that were formed in their youth. However, the advisor who treats them just like their other clients who own fewer assets will find little success. With affluence comes options, and the UHNW investor can pick and choose with which advisor—or team of advisors—to place their money. Advisors also need to remember how well-networked the UHNW investor is. This creates opportunity for the advisor who develops deep relationships with clients and who may be referred to an investor's peers.

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