Wealth Management Trends for the Rich

By Sonia Talati | October 28, 2015 | Barron's – Penta Daily
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The Latest on Fees. During the Great Recession, we heard a lot of noise from investors insisting they wanted advisers who charged purely and transparently for conflict-free advice. At that time, many irate investors swore up and down they were dropping advisers hiding their fees in products or charging a fee based on assets under management. Turns out, all that agitation was a non-event. The Family Wealth Alliance, a resource for family offices and the wealth management industry, reveals in a study released to clients today that multifamily offices made 75% of their income in 2013 from asset-based fees, compared with 77% in 2010. All wealth management firms made 78% of their income from asset-based fees in 2013, compared with 80% in 2010. That's a fairly minor shift of the needle considering the extraordinary circumstances of the time in question.

According to Robert Casey, the Family Wealth Alliance's head of research, asset-based fees look good in a rising market, from the wealth management firm's perspective, but are "horrible" during a down market, because their income shrinks in line with the market collapse. That may be so. But we also think that investors are setting themselves up as well for another round of howling when the next major correction comes. We suggest you read our story on how the superrich are overpaying for financial advice.

There is no question that investors need to better understand what they are paying for – and to whom. The Family Wealth Alliance study revealed that 75% of clients serviced by the traditional wealth management firms understand the fees they are being charged. That compares with a paltry 44% of clients understanding what their multifamily office is charging them. That's a pretty disgraceful gap. Clearly, the multifamily offices need to do a better job putting their cards down on the table.

The Conflicting Pulls of Millennials. OppenheimerFunds and Campden Wealth gave us a sneak peek of their Millennial Values report coming out in a few weeks.
The OppenheimerFundsresearch reveals, perhaps not too surprisingly, 96% of millennials are either "interested" or "very interested" in philanthropy. That compares with 80% of retirees and 62% of the middle-aged who give back, according to Merrill Lynch's Retirement Study.

What is interesting here is how that do-good instinct will in the coming years play itself out for the wealth-management industry. Millennials are much more inclined to be involved in impact investing decisions for the family than any other generation, with a significant 59% of millennials actually holding the key decision-making position for the family in that corner of the portfolio. They want a bigger piece of the pie. Nearly half of millennials do not feel their family portfolios have enough value-based considerations built in to the decision making process and they want to bump up the family's impact investments.

That's an interesting observation since, according to the same OppenheimerFunds report, millennials are on the surface also more risk averse than previous generations. The Great Recession hit this generation hard, as they started out their adult life with scarce job opportunities and low starter salaries. When it comes to their portfolio, the millennials like to focus on "wealth preservation." Wealth managers will have their work cut out for them, trying to negotiate between these contradictory pulls. Perhaps impact investing is the means with which asset managers can teach the millennials how to live with risk.

Wealth Growth Estimate. The assets of high net-worth individuals, defined as those with $1 million or more in investable assets, is expected to grow 7.7% every year until 2018, to $70 trillion, according to Capgemini/RBC Wealth Management's World Wealth Report. That's slower than the average 9% rate of the last two years, but still steady and respectable. How did they arrive at that figure? The analysts are betting on an accelerated recovery in Europe, the Asia-Pacific engine chugging along at its current relatively mild pace, and continued growth in Latin America.