

# Why Advisors are Failing Middle-Class Millionaires

By Debra Taylor, CPA/PFS, Esq.

*Affluent investors are worried—worried about losing their wealth, maintaining their lifestyle, and providing for their families. Yet advisors do little to address their concerns. These six steps can help you learn more about your clients' needs, earn their loyalty again, and expand your base.*

The ideal client—typically an investor with \$500,000 to \$5 million of liquid assets—is misunderstood and underserved by most advisors, says Russ Alan Prince, an industry expert on marketing to the affluent.

Prince surveyed more than 1,400 millionaire investors and 512 financial advisors to determine how millionaire investors choose advisors and what makes them loyal. Although a bit daunting and sensationalist, the book [Cultivating the Middle Class Millionaire: Why Financial Advisors Are Failing Their Wealthy Clients and What They Can Do About It](#), coauthored by Prince and David A. Geraciotti, editor of Registered Rep, provides valuable guidance on how to attract and retain high-net-worth clients and grow your practice. (The book is out of print, so you may have to do some searching to purchase a used copy, or try your local library.)

The authors teamed up with The New Yorker magazine to study 1,417 middle-class millionaires, asking a wide range of questions on everything from their biggest financial concerns to their interest in various financial vehicles. In addition, the authors surveyed more than 500 financial advisors for their attitudes and perceptions about their wealthy clients. The result is a study filled with empirical analysis and anecdotal evidence as to what our clients want from us and what we are providing to them.

Below are the six main lessons learned from this book:

## **1. Know your client**

Although it is rumored that the rich are different from everyone else, they do share some of the same concerns. First and foremost, nearly nine out of 10 (88.6%) middle-class millionaires are very concerned about losing their wealth. Those who consider themselves upper middle class are more concerned than those who only see themselves as middle class—no doubt because they have more at stake.

Paying taxes is another paramount concern—and one of the main reasons they seek financial advice. They also harbor a variety of more sophisticated financial concerns, such as ensuring that their heirs are provided for and that charitable gifts are made.

However, only 15.4% of the financial advisors believed that clients were concerned about losing their wealth. This is the first of many examples that illustrate how the majority of advisors do not truly understand their affluent clients.

Ask yourself:

- Do I really know what keeps my clients up at night?
- What is the important thing about money to my clients?

## **2. Employ the "whole client model"**

The authors recommend the "whole-client model" as the cornerstone of a prosperous wealth management practice. The whole-client model generates a [holistic profile](#) of each client because the advisor includes questions about the client's fears and apprehensions, hopes and dreams. During this process, an advisor can discover a client's additional concerns, such as tax management strategies or the need to provide for heirs.

Typically, advisors' biggest weakness is their inability to consistently develop a comprehensive profile of each client. Advisors often impose their own agenda on their clients. The whole-client model offers a complete profiling approach that follows a seven-sector framework, focusing on:

- Client factors such as the age, net worth, gender, income, and high-net-worth personality
- Goals and concerns
- Relationships
- Financial background
- Advisors
- Process
- Interest

I have found that having prospects complete a client organizer covering some basics in these areas is very helpful, and I request that every prospect complete the organizer in advance of our first appointment.

One of the most helpful pointers in this chapter was the focus on process. The authors encourage us to ask the following questions:

- How many contacts are optimal for the client? Investment-oriented contacts? Non-investment oriented contacts?
- Which security measures is the client using to protect his or her personal financial information?
- Who else needs to be involved in the planning process for the client?
- How many face-to-face meetings does the client want over the course of the year?
- Would the client want to talk to me when his or her portfolio is down?
- Does the client want e-mail contact?
- How often does the client want an overall review of his or her financial situation, such as progress toward stated goals?

The whole-client model is a very consultative process. Like a good doctor, a good wealth manager meets a client without imposing a preset agenda or presupposing which financial products or services are appropriate for that client. Unless you can continually deliver stellar investment performance, management of the whole client is the primary way to create loyal clients over the long term, says Prince.

Ask yourself:

- What is your intake process?
- Do your clients complete a financial organizer?
- Do you ever speak with your clients about items outside of their investments?
- When was the last time you met with a wealthy client without a pre-set agenda?

### **3. Become a wealth manager**

According to the authors, [wealth managers](#) earn the highest gross production, at \$980,000 per financial advisor. They generate, on average, greater incomes than investment-oriented financial advisors or product specialists irrespective of changes in the stock market.

And affluent investors want to work with higher-level advisors. Seventy-seven percent of the middle-class millionaires surveyed said they would rather work with wealth managers. Only 19% preferred working with financial advisors or financial planners. But just adding a title will not do the trick. You need to provide the services that a wealth manager should, and fewer than 10% of financial advisors can legitimately call themselves wealth managers, say the authors. Unfortunately, few have made the transition, and it appears that only a minority of financial advisors will indeed become wealth managers.

Ask yourself:

- Are you a financial advisor or a wealth manager?
- Could you design your client service model around providing holistic services, just as a wealth manager would?

#### 4. Assemble the wealth management team

Of course, gathering information and labeling ourselves wealth managers is only one step in a very complex process. We need to assemble a competent and comprehensive wealth management team so that we can properly service our clients once we do discover their goals.

The authors acknowledge that most financial advisors have no experience in the solutions required by very affluent clients; hence the need for a network of [specialists](#). Fortunately, middle-class millionaires do not expect us to be experts in everything. Indeed, two-thirds of loyal affluent clients note that their primary financial advisor has a wealth management team available. Managing a team takes work, however. Establishing and maintaining a network of specialists is not an easy task. The advisor must choose and locate the specialists, then build and manage the team.

Ask yourself:

- What are the most prevalent and important financial issues your current clientele faces?
- How should I assemble a team of experts to address those issues?

#### 5. Every client is unique

When it comes to investment management, 72.7% of middle-class millionaires said that working with a high-quality investment advisor was a major concern. This was true for all the millionaires surveyed—no matter how much they held in investable assets.

- As a result of this concern, advisors need to ask themselves the following questions:
- How many of your clients are living close to the edge (or think they are)?
- How many of your clients are plagued by financial fragility or fears of financial fragility?
- What is their view on your role as their financial advisor?
- How do you compare in importance to their other advisors?

Every client is unique. In our drive toward systemization and efficient office processes, we should never lose sight that our clients each have different needs and concerns, even if they appear the same on the outside. We should listen to our clients and determine which products and services are most appropriate for their needs.

When trying to understand our clients' needs, we should keep in mind that affluent clients could be interested in a host of issues, such as sophisticated charitable giving opportunities (private foundations and trusts) as well as asset protection planning (particularly for professionals such as doctors).

Another concern for clients is estate planning. Indeed, the authors note that almost 80% of clients are very concerned about how their heirs will be provided for. At the same time, more than half of these clients' [estate plans](#) are stale—that is, between three and five years old. Yet about four out of

five financial advisors say that their affluent clients are all taken care of when it comes to estate planning. Again, advisors should become [proactive](#) in addressing clients' concerns, and not make assumptions regarding their needs.

Ask yourself:

- What financial products would best fit your clients' needs and wants?
- What gaps would these financial products fill?
- What planning services are you well versed in?
- Which planning services make sense for your clients and do your clients need?

## **6. Focus on professional referrals**

The need to focus on professional referrals could be the single greatest lesson to take away from this book. Most financial advisors are taught to ask clients for referrals or leverage their social connections. Positioning yourself as a wealth manager is the best way to generate a steady stream of affluent client referrals and create a pipeline of referrals from centers of influence such as [attorneys and accountants](#).

In fact, the study found that high-net-worth clients prefer to find their primary financial advisors by referral. Clients specifically prefer referrals from other advisors such as accountants and attorneys (54%) as opposed to referrals from friends (30%).

Yet client referrals are the number-one prospecting strategy of most advisors, followed by seminars and conferences. Apparently advisors aren't giving [professional referrals](#) the attention they deserve, despite the fact that accountant and attorney referrals are critical to building a significant practice with middle-class millionaires. Indeed, when advisors were asked for the source of their best new affluent client in the last 12 months, 64% cited a referral from an accountant or attorney; only 29.5% cited a referral from a current client.

Ask yourself:

- In thinking about your practice, how have you cultivated referrals from other professionals?
- What can you do to improve referrals from these professionals?

### **Cultivate a client-focused mentality**

Given the increasing competition in the marketplace and the current turbulence in the market, every financial advisor needs to be completely client-centered when it comes to client communications and service. These six lessons will help you refocus your energies and serve as a reminder that when you know your clients, your relationships and your business will grow.

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