

Vanguard®



Spectrem Group research overview

# Today's affluent investors: insights and opportunities



Insights

# Research overview

Debt ceiling. Sequestration. Grand bargain. Terms like these aren't normally a main feature of the national dialogue. But today, they blaze the cover of nearly every financial newspaper and website in the country.

Economic and political uncertainty has shaken investor confidence in 2013. The results have fostered a government shutdown, ignited a public battle over the government's borrowing power, and placed the security of the U.S. financial system in jeopardy.

Despite these issues, U.S. equity markets have displayed a remarkable level of resilience. At the time of this publication, the S&P 500 was up more than 20% for the year.

As an advisor to consumers and families, it is critical for you to understand their mindset during these unique times. Vanguard has partnered with the **Spectrem Group**, a market-research firm specializing in the affluent investor and retirement markets, to create this publication.



**SpectremGroup**  
*Voice of the Investor*

# This report explores:

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## Wealth segments

### **Mass affluent:**

\$100,000 to \$1 million in net worth<sup>1</sup>

### **Millionaires:**

\$1 million to \$5 million in net worth<sup>1</sup>

### **Ultra-high-net-worth (UHNW):**

\$5 million to \$25 million in net worth<sup>1</sup>

<sup>1</sup> Does not include primary residence.

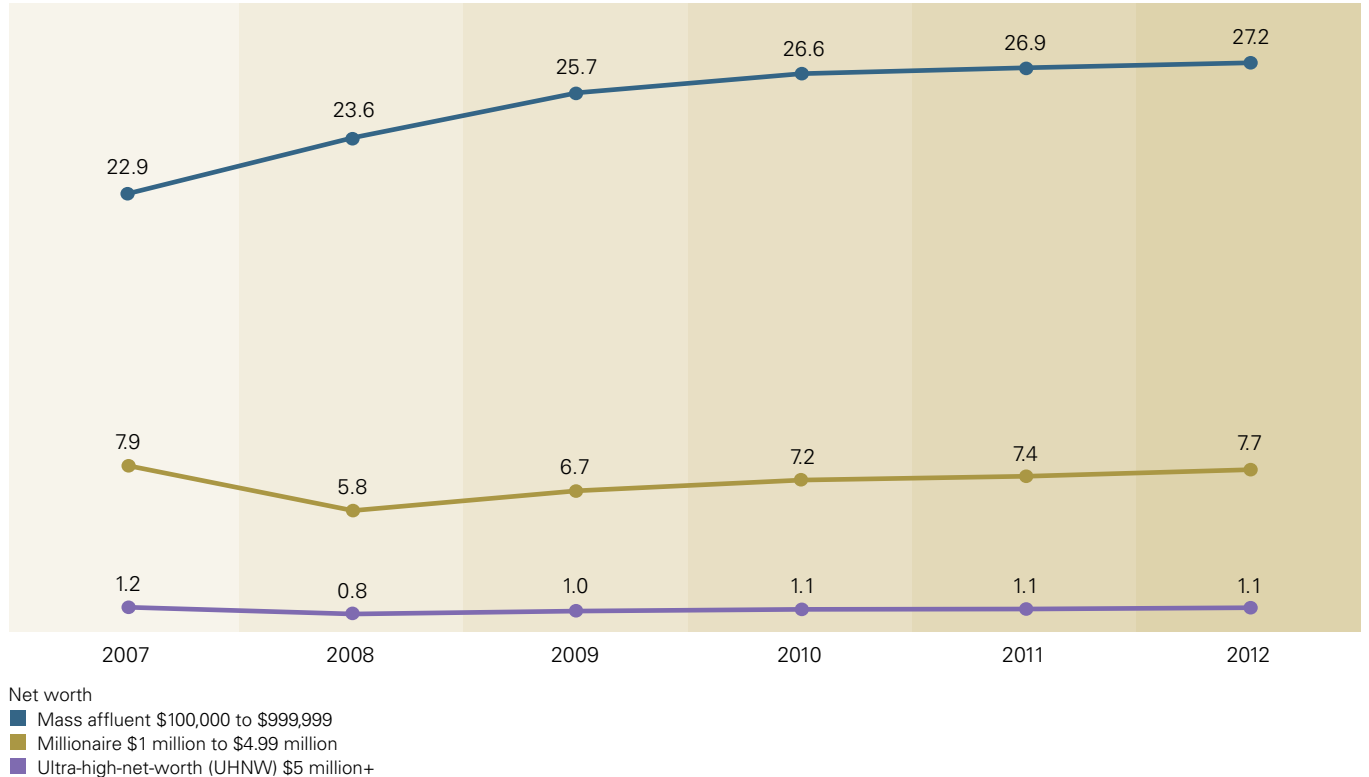
# Methodology and sampling

The number of wealthy Americans with more than \$1 million and \$5 million in net worth, not including their primary residence, has neared the all-time highs set in 2007. Based on year-to-date returns in domestic equity markets, the United States could eclipse the highs in those two wealth segments by the end of the year.

Each quarter, Spectrem Group conducts online interviews with affluent households across the United States. The interviews survey about 1,500 mass affluent households, 1,000 millionaire households and 500 ultra-high-net-worth households. The research presented in the following

report was conducted over a yearlong period from the fourth quarter of 2012 through the third quarter of 2013. Respondents were qualified based on the aggregate total of the household's indicated net worth. The surveys were completed by the individual primarily responsible for making the day-to-day financial decisions the household. Spectrem conducted all of this research through an online panel that is generally representative of the three different segments of wealth throughout the United States.

Total households in millions, 2007 to 2012<sup>1</sup>



<sup>1</sup> Does not include primary residence.  
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# Key findings

## Investor independence still significant

While this has trended slightly down from 2012, the amount of assets affluent investors control without professional help is still substantial; with millionaire investors saying they control nearly half their assets on their own. Mass affluent investors control 55% of their assets on their own, while the UHNW are somewhat lower at 40%.

## Growing confidence among affluent households

All three wealth segments reported that they are more optimistic about their financial situation relative to last year.

## Uncertainty about foreign markets

Investors across the board are quite hesitant about investing internationally, especially the mass affluent, of which 74% of those respondents said they would not be willing to invest outside the United States.

## Taxes remain a core concern

All three wealth segments have increasing concerns about tax increases, with 76% of the mass affluent and 71% of both the millionaire and UHNW stating such worries.

## Health care concerns rising

The subject of health care is one that is making headlines all across the country right now, and the wealthy are not immune to its implications. While millionaire and UHNW investors expect to have sufficient income to live comfortably during retirement, all segments are quite worried about health and care concerns. Five out of seven top personal concerns are related to health and care issues.

## Preparation for the transfer of wealth

Are affluent investors prepared for “what if” scenarios? Sixty-one percent of the mass affluent are not planning to introduce their family to their advisor, and only 18% are currently receiving advice about establishing an estate plan. The percentage of millionaires and UHNW currently getting estate plan advice is modestly higher, at 26% and 27%, respectively.

## Response time remains crucial

Communication expectations remain a key component of client loyalty, with all three wealth segments citing “not returning phone calls in a timely manner” as their number one reason they would switch advisors.

## Social media usage

More than half of the UHNW now use Facebook while 40% are using LinkedIn. This widespread usage of social media is sure to bring significant changes to the investor-advisor relationship in the coming years. While current usage for financial purposes is still somewhat limited, it's important to note that financial firms have been hesitant to use social media until recently.

# Who are the affluent?

	<b>Mass affluent</b>	<b>Millionaire</b>	<b>Ultra-high-net-worth (UHNW)</b>
Net worth <sup>1</sup>	\$100,000 to \$1 million	\$1 million to \$5 million	\$5 million to \$25 million
Average age	<b>58 years</b>	<b>62 years</b>	<b>65 years</b>
Top occupations	15% Educator 13% Manager 10% Health care	17% Manager 12% Educator 8% Infotech	14% Entrepreneur/business owner 12% Sr. corporate executive 10% Consultant
Using financial advisor	72%	82%	89%
Population (millions)	28.4	7.7	1.0
Employed	51%	31%	25%
Semiretired	10%	12%	16%
Retired	39%	57%	59%

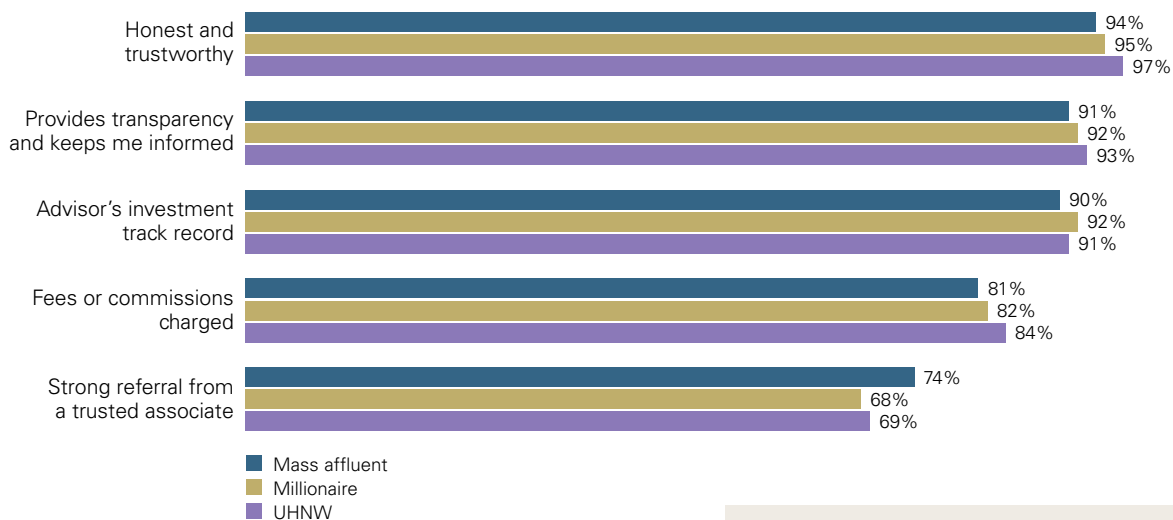
<sup>1</sup> Does not include primary residence.

# Factors considered when selecting a new advisor

What do investors look for when choosing an advisor? The following factors have remained fairly consistent throughout the years.

It is important to note that “fees or commissions charged” falls much lower on the scale than qualities such as being “honest and trustworthy.” Being transparent and keeping the investor informed are just as important when selecting a new advisor as is track record. Being a referral from another source tends to lag other factors.

## What’s important when choosing a new advisor?



### Action step

When marketing yourself as an individual or your firm’s capabilities, make sure you focus on the areas that are deemed most important to the affluent when they are selecting a new advisor.

By establishing a more focused positioning strategy and value proposition, you will expand your opportunities among these wealth segments.

# Control of assets

Mass affluent investors control 55% of their assets with **no** professional help. Even those who are advisor-dependent, on average, allocate only one quarter of their overall assets to a financial advisor.

It is a similar story with the millionaires and UHNW, with investors in these groups controlling between 40% and 46% of their assets with **no** professional help. Among those who are advisor-dependent, more than one-third of their overall assets have no advisor involvement whatsoever.

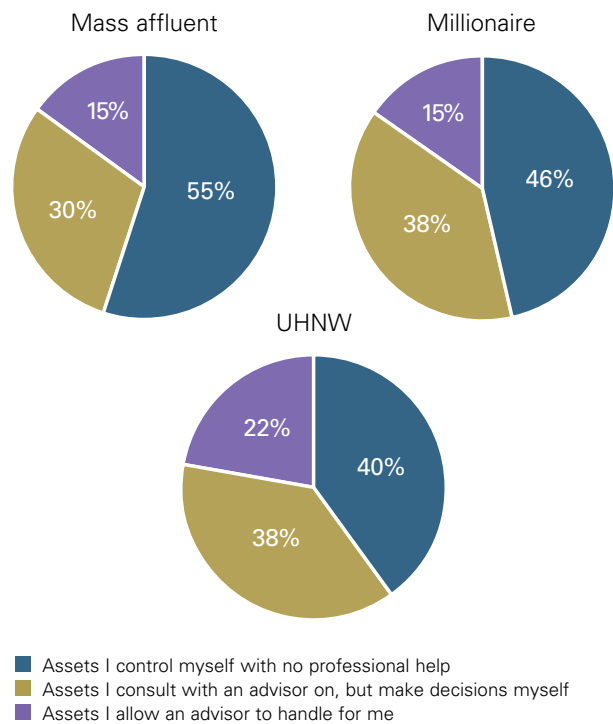
Please note that these numbers are trending somewhat lower than previous years but still represent a significant opportunity set.

## Action step

There is a great opportunity out there for you to expand the share of wallet you manage for your clients. By understanding the trends affecting the wealthy, you may be able to enhance and expand your client relationships.

In these cases, it is essential that you get a clear picture of their entire portfolio, as assets may be hidden or unavailable to you now but may become available in the future. Try asking your clients for an overall view of their portfolios to ensure they have the proper asset allocations and to see if you can add further value to their investment decisions.

## Who's controlling the assets?



Percentages may not add up to 100 because of rounding.

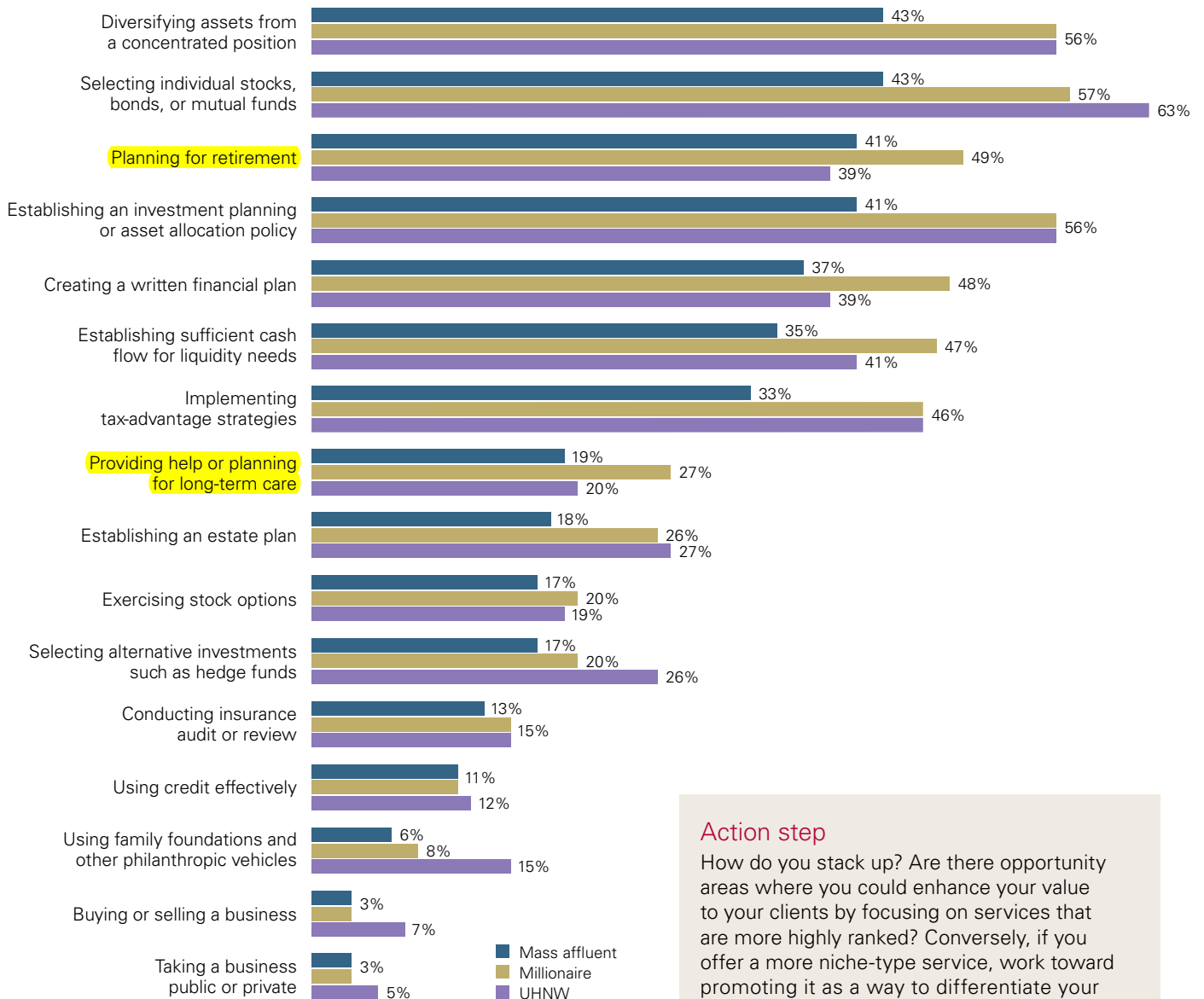


# Types of advice and services offered by primary advisor

Here are the top services that financial advisors are providing, as ranked by the affluent investors we sampled. It is interesting to note that a significant portion of these services go beyond simply the "investment selection" arena.

We have concluded from the research that most affluent investors have an investment plan and tend to focus their relationship with their advisors on investment-selection issues. Estate planning and long-term care are the categories they are most likely to seek advice about in the future.

## Ranking of advice and services received from primary advisor



### Action step

How do you stack up? Are there opportunity areas where you could enhance your value to your clients by focusing on services that are more highly ranked? Conversely, if you offer a more niche-type service, work toward promoting it as a way to differentiate your practice. Explore options for adding value beyond the portfolio construction decision.



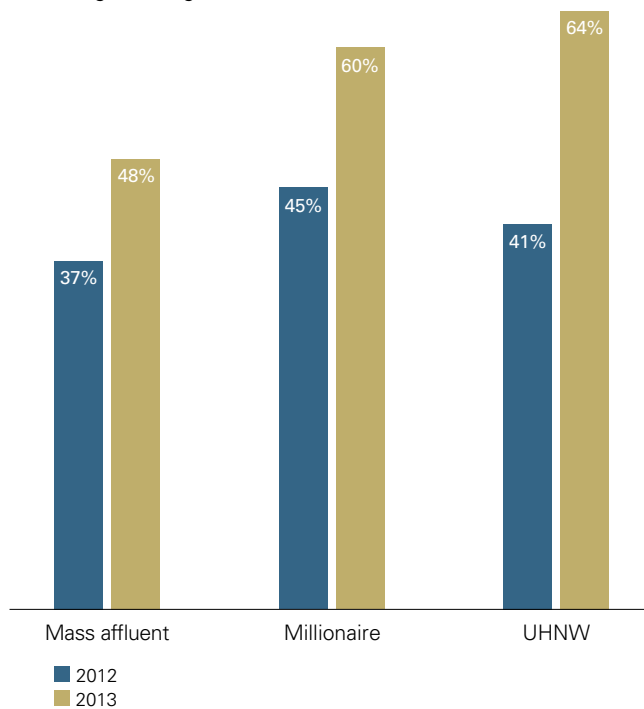
# Factors

influencing investment  
behavior and risk tolerance

# What the affluent think about their financial position

My financial situation is better than it was one year ago

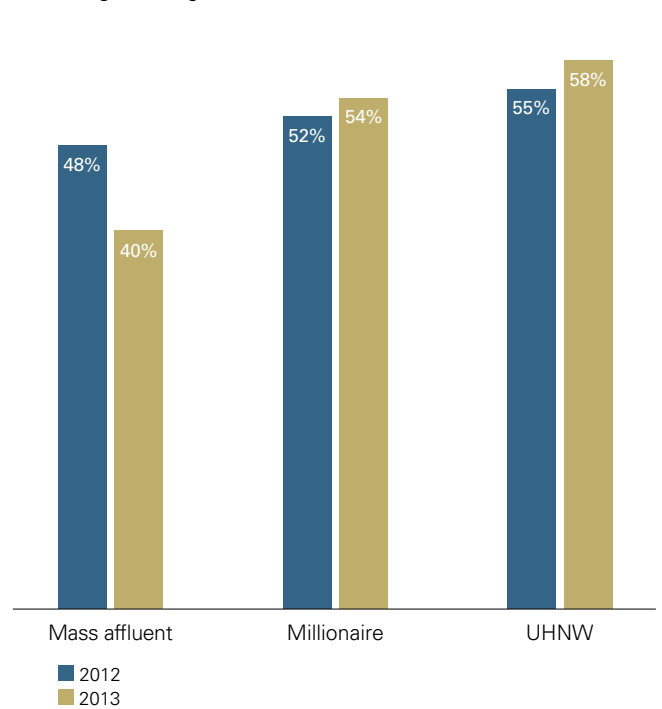
Percentage who agree with statement



All the wealth segments reported that they were more optimistic about the economy and their financial future relative to last year. It is a trend Spectrem believes will continue in the coming years.

I expect my personal financial position will be stronger one year from now

Percentage who agree with statement



The millionaire and UHNW segments both reported that they expect their personal financial position to be stronger in the coming year. You would think that this would lead these segments to take a more aggressive approach with their investments. But what they are saying and the action they're taking with their investments seem to be at odds with each other.

The one exception appears to be the mass affluent, who continue to lag their wealthier counterparts in terms of their perception for future financial recovery.



# Despite optimistic outlook, affluent still conservative with investment decisions

The affluent are still playing it conservatively. In fact, almost half are unwilling to invest in anything that will result in a loss of principal.

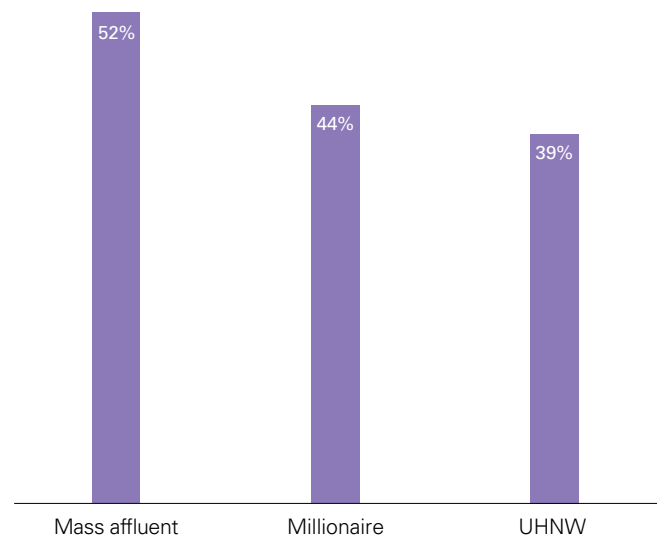
Across the board, the agreement to the strong statement of “I am unwilling to invest in anything that will result in a loss of principal” is fairly high and represents a conservative tilt.

Interestingly enough, the UHNW segment is the least risk-averse of the three. This seems to buck conventional wisdom that they would be the most interested in holding on to their principal, given they have the most to lose.

This represents a shift in the trend of the past few years as our research from 2009 through 2011 showed affluent investors becoming less risk-averse as they gradually came out of the financial crisis of 2008. This trend appears to be halting or hitting a speed bump.

I am unwilling to invest in anything that will result in a loss of principal

Percentage who agree with statement



## Action step

This may be a good place to have a discussion on risk and how external influencers may be shaping your clients' views and risk-tolerance levels. Ask your clients how they would define risk. It may be different from how you as an advisor define risk. Your clients' responses may open the door for further educational opportunities.

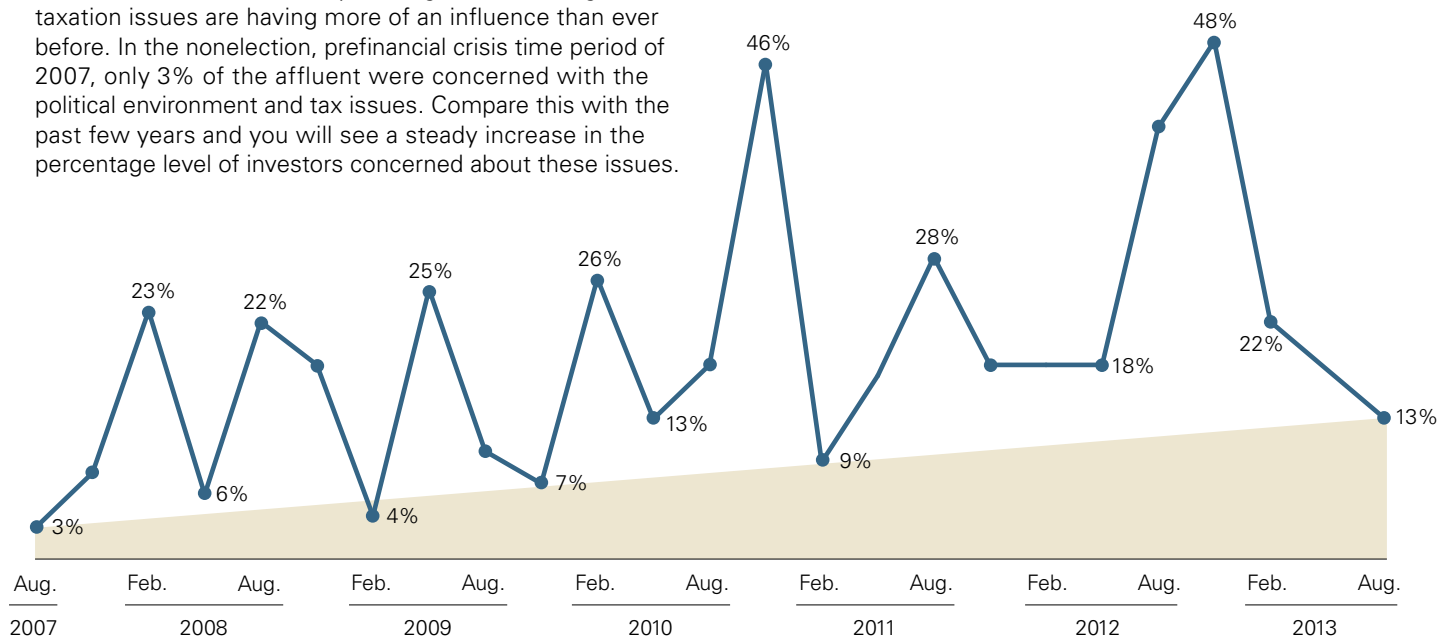
# Top concerns clouding the affluent's view on risk

Spectrem's research uncovered some key external and internal factors that may be influencing client investment behavior. They include:

- Uncertain political environment
- Tax implications relevant to their wealth segment
- Global events and economic turmoil

## Percentage of investors concerned with political environment

The research uncovered a trend that shows how the political environment and uncertainty coming from Washington on taxation issues are having more of an influence than ever before. In the nonelection, prefinancial crisis time period of 2007, only 3% of the affluent were concerned with the political environment and tax issues. Compare this with the past few years and you will see a steady increase in the percentage level of investors concerned about these issues.



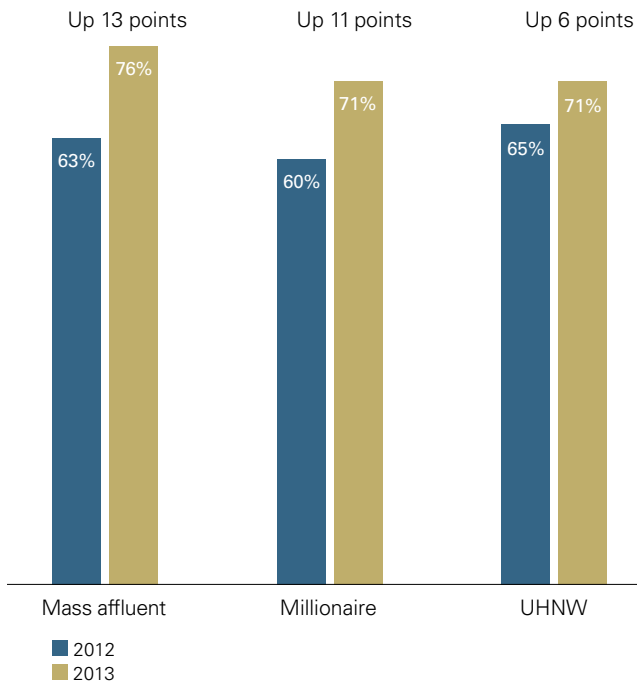
### Action step

Affluent investors are eager to understand what's happening in Washington and how the political uncertainty will affect their financial lives. With this being such a "top of mind" issue with your affluent clients, look to incorporate consistent Washington updates into your communication plan, such as newsletter articles, e-mails, and client events to name just a few.

### Level of concern about tax issues on the rise

Concerns about tax increases and their implications continue to be an area of worry among all levels of the affluent. Driving the increased levels of concerns is the instability coming from Washington. The mass affluent seem to be the most concerned as three-fourths of the respondents identified this as a key issue. This topic will continue to remain top-of-mind until a more cohesive and forthright message is sent from our elected leaders.

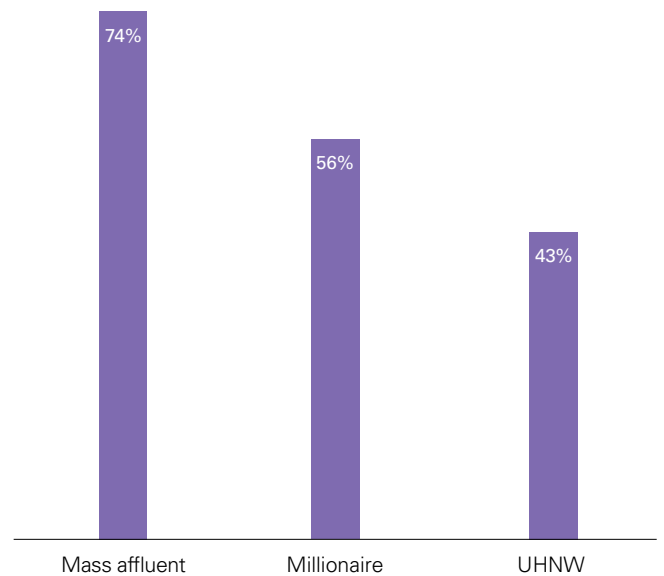
### Year-to-year issues: Level of concern about tax increases



#### Action step

Focus on the areas that you can control. While you can't control tax legislation, you can help clients understand how the changing tax landscape influences their financial situation and implement a tax strategy to help minimize the tax impact.

### Those not willing to invest outside the U.S.



### Misconception on risk leading to unwillingness to invest outside U.S. borders?

Of the three wealth segments, the group that is the least likely to invest outside the United States is the mass affluent segment, where a surprising 74% stated their unwillingness to invest beyond U.S. borders.

Even 43% of the wealthiest segment (UHNW) reported having no interest in investing outside the United States.

#### Action step

Educate existing or prospective clients about the diversification benefits of international investing. Use historical research on international investing to dispel some of the myths resulting from daily headlines and crush of media attention surrounding the global markets.





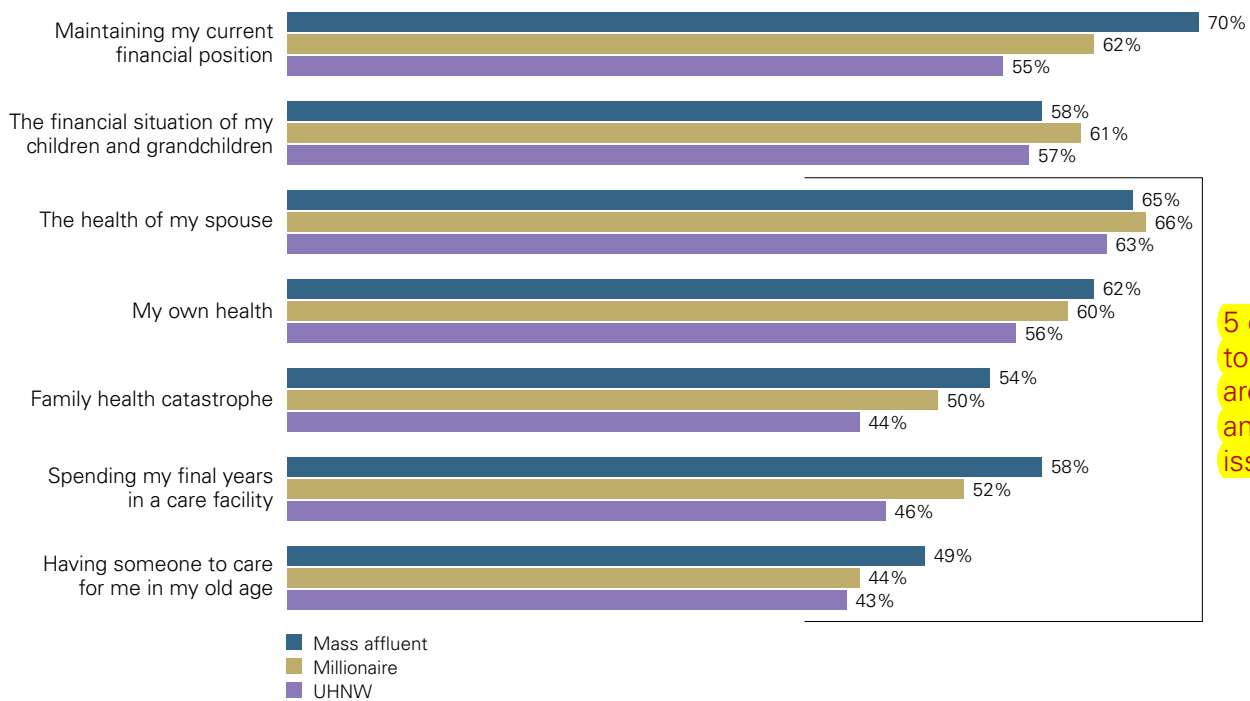
The impending transfer of wealth:

# Money in motion

among the affluent

# Health concerns continue to dominate

## Primary concerns of the affluent<sup>1</sup>



5 out of 7 top concerns around health and care issues

The mass affluent indicated that their current financial position and health issues are their primary concerns. The financial condition of children and grandchildren are also issues high on their list of concerns. More so than their more affluent colleagues, there are also relatively high proportions who express concern about caring for aging parents and about job security. More mass affluent are concerned about living in a nursing home than are wealthier households.

The top personal concerns of millionaires revolve around health and financial positioning. The health of their spouse is the top concern, followed closely by maintaining their current financial position, the financial situation of their children or grandchildren, and their own health. More than half are worried about spending time in a nursing home in the future.

### Action step

Ask your affluent clients about their health care concerns and see how you can best position yourself to assist them with planning for “what if?” scenarios.

<sup>1</sup> Not ranked in any particular order.  
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# The affluent seek help in life-transition scenarios

## Advisor dependency—self-categorized by respondents

	Mass affluent	Millionaire	UHNW
<b>Self-directed:</b> Investors make their own investment decisions without the assistance of an investment advisor.	38%	26%	23%
<b>Event-driven:</b> Investors make most of their own decisions but use an investment advisor for specialized needs such as retirement planning, asset allocation advice or selecting alternative investments.	34%	32%	27%
<b>Advisor-assisted:</b> Investors regularly consult with an investment advisor regarding most investment needs but make most of the final decisions.	18%	29%	32%
<b>Advisor-dependent:</b> Investors rely on an investment professional or advisor to make most or all investment decisions.	11%	13%	18%

More than 30% event-driven

To improve and expand client relationships, advisors are wise to take a closer look at how affluent clients depend on them in the four distinct ways listed above.

Fifty percent of the UHNW identify themselves as either self-directed or event-driven, increasing to more than 70% among the mass affluent. This is an ideal opportunity for you to establish new relationships and exhibit the various ways your services can be used.

This is fertile territory for advisors who wish to mine the gold in life-transition scenarios. Catastrophic events such as death or disability often set off a frantic search for professional advice.

### Action step

While the investor psychology around event-driven catastrophes is difficult to navigate, advisors who gain experience in helping clients through these events will be well positioned to foster loyal relationships after the dust settles and possibly win some new clients.

Medicare one of two key pillars in retirement. The other being Social Security timing. Without address Medicare, you're leaving a huge gap in a client's plan for retirement.

# Estate planning needs of the affluent present an opportunity for advisors

It is important to make sure that your affluent clients have a properly established estate plan or are considering one.

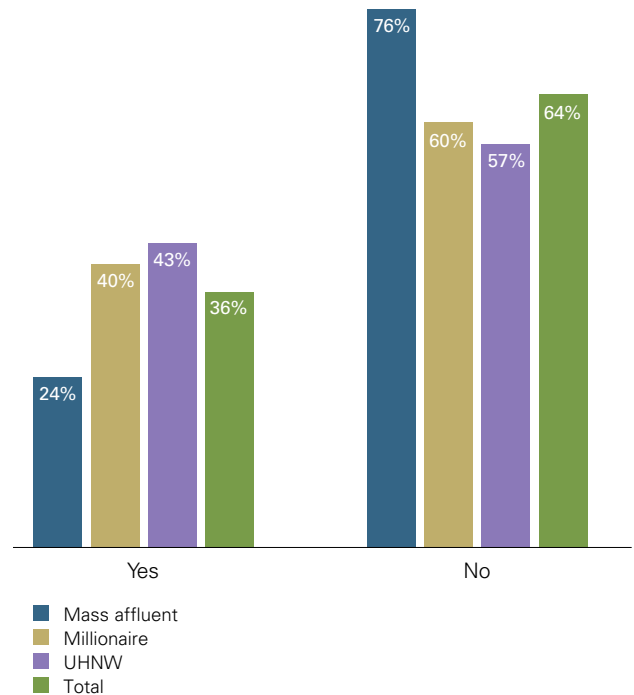
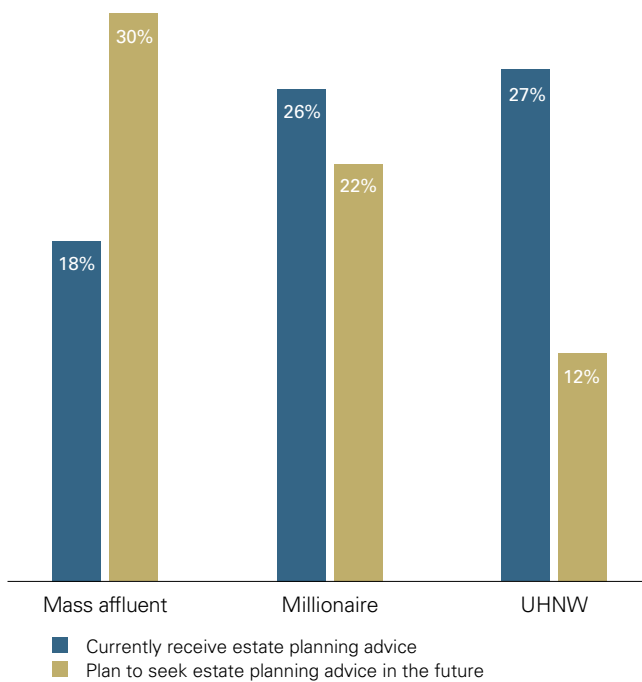
Our research shows that among the three wealth segments, there is a large percentage of investors who are not currently getting this advice but plan to seek it out in the very near future.

End-of-life issues are delicate and difficult to discuss. Often, investors do not have an estate plan simply because they are uncomfortable dealing with the issue. To ensure that you are seen as a “trusted advisor,” it is important to proactively encourage the process.

As evidenced by the research, there is clearly a perception among the affluent that you may not be the one to whom they go for estate planning needs. On average, only 36% of the affluent believe their advisor will be involved in executing their estate plan. The percentage increases as their wealth increases.

## Will your financial advisor be involved in executing your estate plan?

### Do you receive estate planning advice?



#### Action step

Getting involved in the estate planning process can leave you better positioned for this transfer of wealth. It is also an opportunity to get a full assessment of your clients' wealth and location of assets.

#### Action step

To be viewed as a “trusted advisor,” it is important for you to proactively address the estate planning issue with your affluent clients. Create a strategy to develop a strong network of relationships with outside professionals such as attorneys and tax professionals. Help with a referral from your network or use your own skills to develop a comprehensive estate plan.

Helping clients with Medicare can open the discussion about estate planning

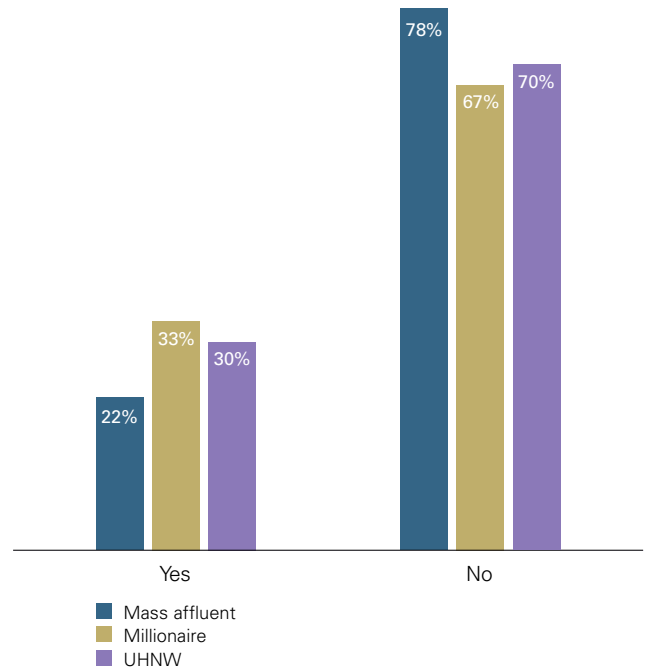
# Question of preparedness

## Are the affluent prepared for the “what if” scenarios?

Across the board, regardless of wealth segment, your ability to counsel clients during a crisis is consistently in demand.

Overall, only 22% of mass affluent investors have long-term care insurance. Ownership rises with both increasing age and wealth. One in three millionaires have purchased long term care insurance. Not surprisingly, ownership increases as age increases. This may be a result of younger millionaires still saving for retirement and planning for their children’s needs and not yet focusing on their long-term care needs.

## Do you have long-term care insurance?



This is a huge point of discussion when addressing Medicare. Medicare does NOT cover long term care needs.

### Action step

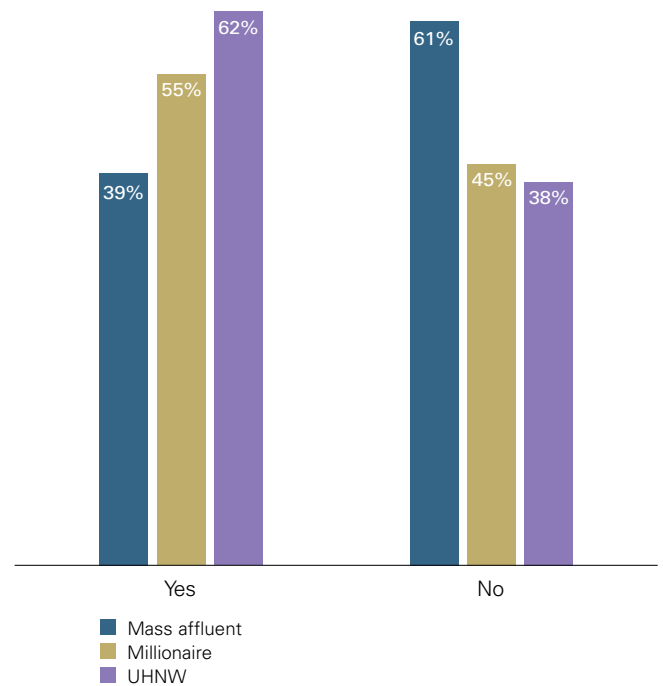
This is an opportunity for you to educate your clients about the benefits and drawbacks of long-term care insurance. If this is not an area of specialty for you, consider having them contact someone from your referral network who can provide the advice and education they need on this topic.

# Getting to know your affluent clients' family can reap future benefits

On average, only 50% of the wealthy intend to introduce their family to their advisor. As wealth increases, affluent investors are more likely to introduce members of their family to their financial advisor.

Our research has found that by making a point of getting to know your client's family, including the spouse, children, and grandchildren, before a major event happens, you have a better chance of ensuring that bequests don't slip through the cracks. Most often, recipients of an inheritance leave their assets where they are for about a year, and if no one reaches out to them with counsel, they tend to take their money to the first advisor who offers help.

Are you planning on introducing your family to your advisor?



## Action step

Great opportunity to earn the trust of your affluent clients by getting involved in their estate planning issues at an early stage. You can serve as their trusted partner during a difficult process. And by getting more family members involved, you have a chance to acquire these individuals as current or future clients.

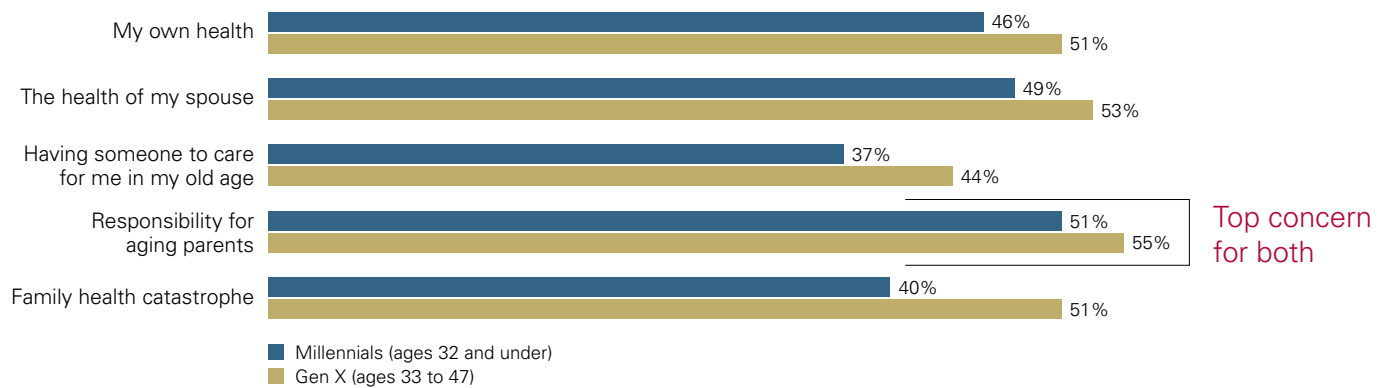
# Younger generations welcome your counsel

Young affluent investors are set to inherit a large portion of the generational wealth over the coming years. Yet their relationship with their financial advisor leaves room for improvement.

The research found that more than 25% of millennial investors do not currently use a financial advisor. This presents a great business-building opportunity for your practice.

As the chart below illustrates, the primary concern of younger generations is the responsibility they feel for aging parents, followed closely by the health of their spouse. Getting your current clients' children involved in the life-planning discussions not only helps alleviate their concerns, but it also offers great potential for building a long-standing relationship with these younger investors for the future.

## Top personal concerns of the young high-net-worth



### Action step

Explore different ways to engage your clients' children in the investment planning process to establish a relationship and foster trust. For example, you can conduct seminars on life-transition topics such as long-term care planning, phasing into retirement, or selling or transferring a business and encourage your clients to invite their children.

More so than their older counterparts, the younger affluent tend to be more socially responsible and often seek out ways to use their wealth to help others. These are key attributes to keep in mind when having client meetings and touching on these topics will help deepen the relationship.





# Communication

is key to advisor success

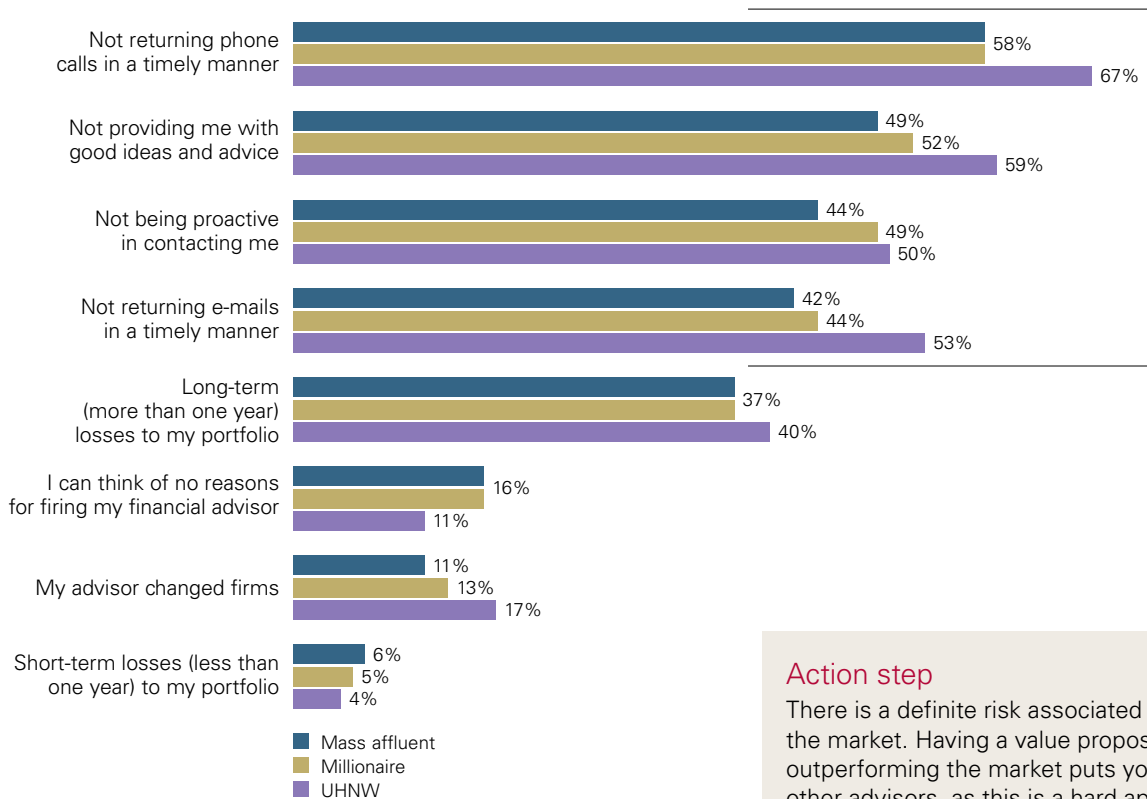
# Top reason for switching advisors

We asked affluent investors for reasons they might consider changing their financial advisors.

The top reason for all segments was “not returning phone calls in a timely manner,” which has consistently been the number one reason for the past few years. In fact, as you can see, the top four reasons these investors gave were “communications-related.”

It’s important to note that not far behind the communications-related causes was, “long-term losses to my portfolio.” At times, it is about more than just the relationship—it’s also about the investment performance of your clients’ portfolios relative to their expectations. Investors expect a reasonable return; and if they aren’t achieving their investment objectives, they will look to change advisors. You have to be able to effectively balance both sets of expectations.

## Causes for switching financial advisors—as ranked by respondents



Top 4 causes communications-related

### Action step

There is a definite risk associated with underperforming the market. Having a value proposition based solely on outperforming the market puts you at a disadvantage to other advisors, as this is a hard approach to consistently fulfill over time.

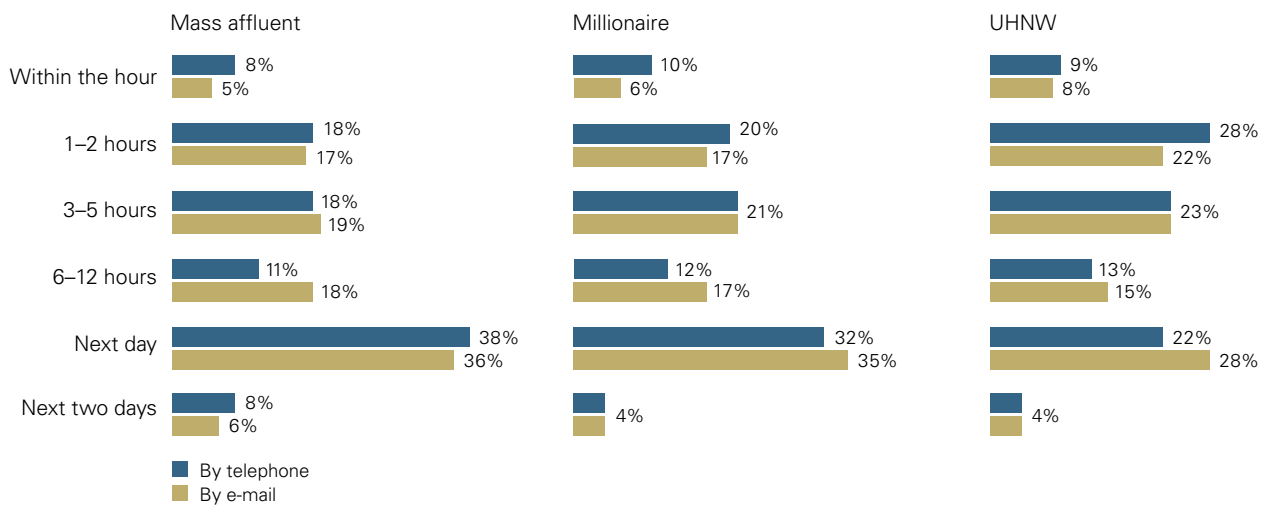
Consider setting realistic performance expectations and having a conversation about the benefits of a portfolio that combines active and index investments.

# What is considered an acceptable response time?

For all three wealth groups, the greatest percentages of customers expect a call back within a day, but equal percentages expect to hear back from you in less than two hours, especially those in the ultra-high-net-worth category. Twenty-two percent of UHNW are happy with a call returned within a day, compared with one-third for the

other two groups. E-mail responses are similar to those shown for telephone calls but a little less time-sensitive across the board.

## What are acceptable time frames for your advisor to get back to you?



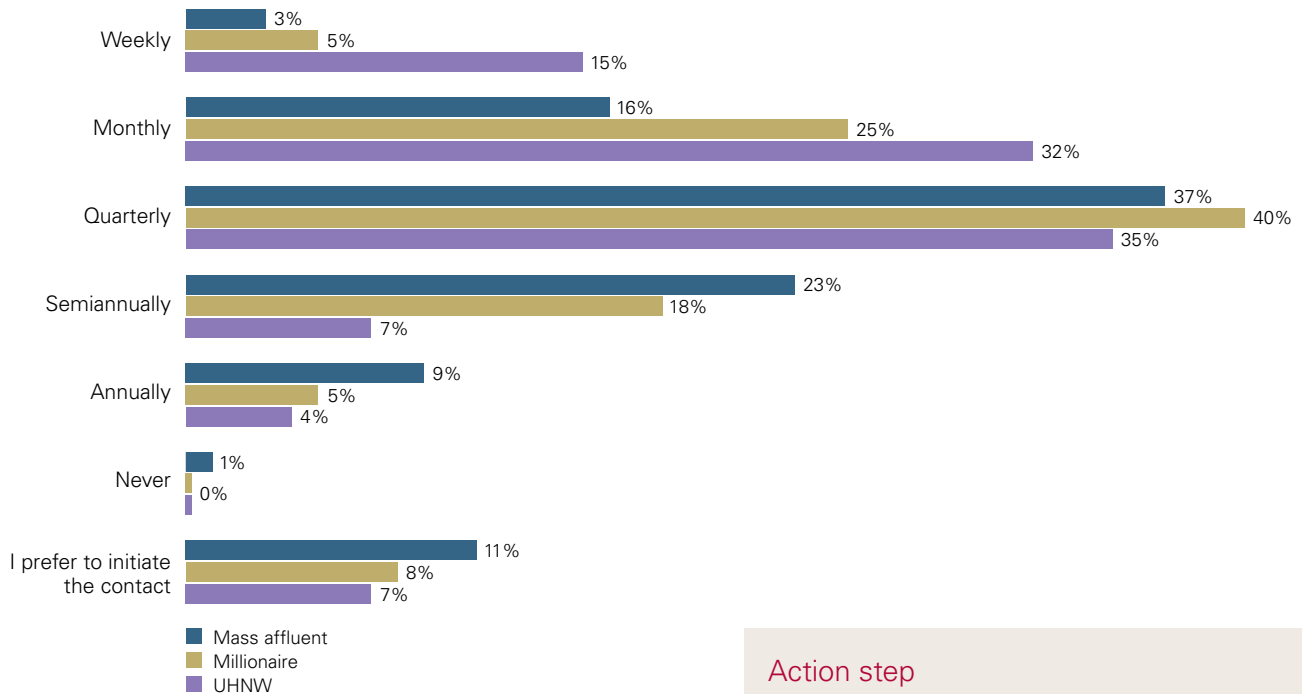
### Action step

A timely response is faster than you might think. Two days is generally too long to wait to return a call. You should set a standard within your practice and strive to stick to it for your entire client base. Look for ways to free up some time in your practice to devote to client communication. For example, using model portfolios or working with investment strategists can help lessen the time spent with clients in the investment selection area.

# Preferred frequency of contact

The preferences of wealthy investors regarding frequency of advisor contact align closely with their reported behavior. Note that just slightly more investors would prefer monthly contact than are receiving relative to previous years.

How often would you like your advisor to contact you?



## Action step

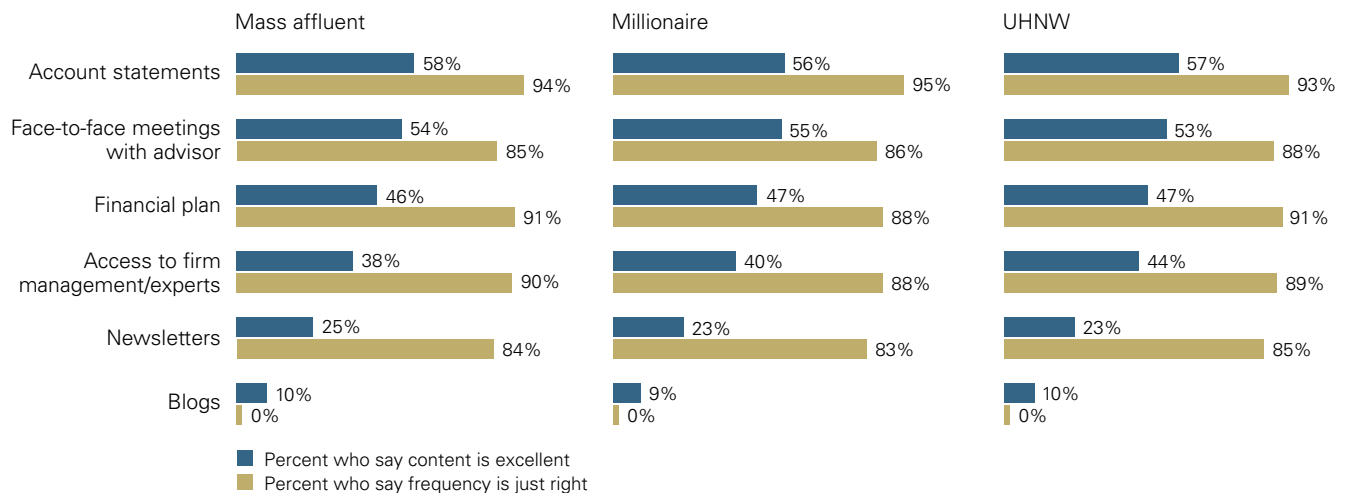
Develop a communication strategy for your firm to ensure your clients hear from you at least quarterly. Look for ways to leverage information from outside sources as well as opportunities for "one to many" communication vehicles such as webinars and blogs to extend reach.

# Is your content up to par?

Millionaire and UHNW investors are generally pleased with how often their advisors communicate, but many expect more from the content of those communications. For example, 85% of those with more than \$5 million in

assets are happy with the frequency of their meetings with advisors, but only 51% describe the content in those meetings as excellent. Newsletters and blogs were both rated significantly low on content excellence.

## Ratings for communication tools



### Action step

Ensure your communication content is aligned with the interests of your clients. As previously mentioned in this report, topics such as Washington updates, tax concerns, and health care concerns seem to be resonating with the affluent. Newsletters and blog content should touch on these top-of-mind issues.

For face-to-face meetings, consider asking your clients what they would like to focus the discussion on before the meeting.

# Social media is becoming more mainstream

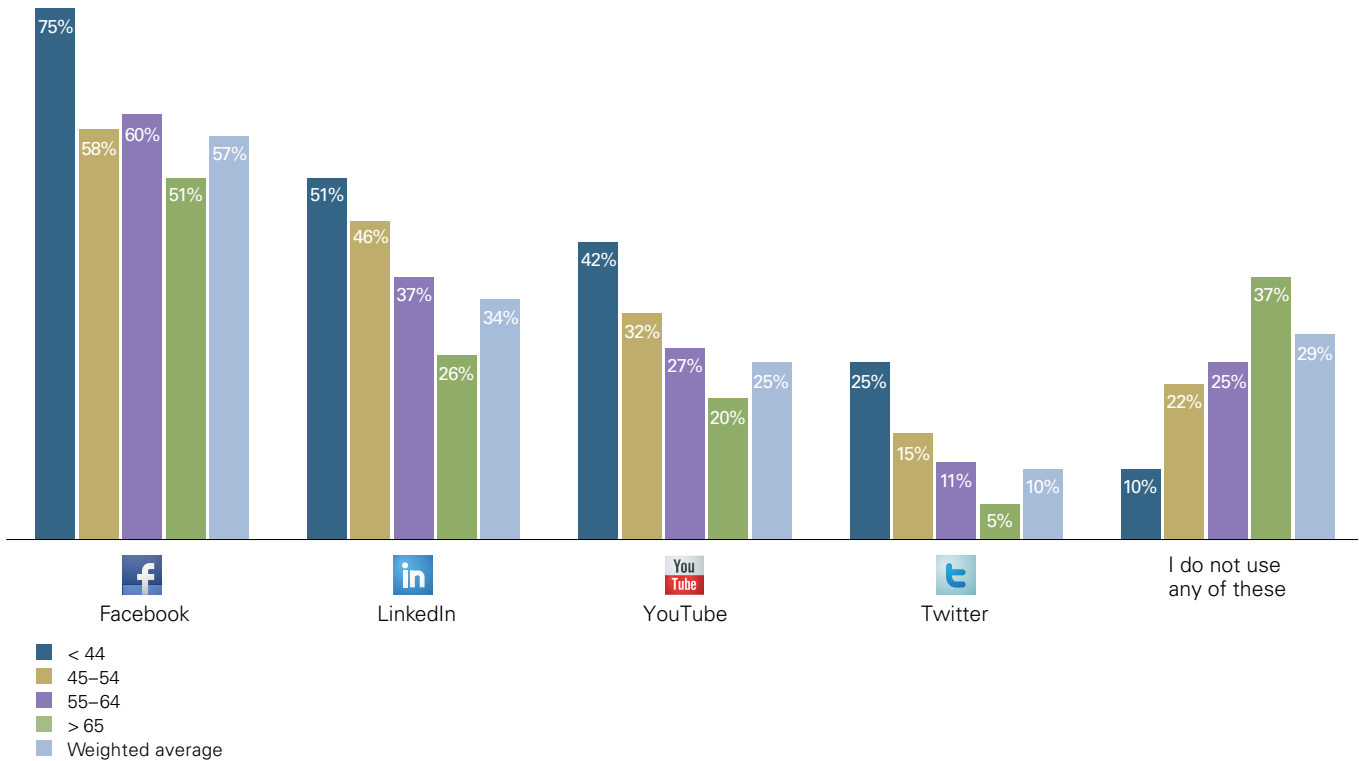
Our research has concluded that social media usage continues to climb, even among the wealthiest households. More than half of the affluent are Facebook users while close to 40% report using LinkedIn. Twitter registered the smallest level of usage among the affluent.

While it may be easy for financial advisors and their firms to believe that clients aren't really using social media, our research tells a different story, making this a communication channel that simply cannot be ignored.

Investors' use of social media seems to be somewhat age-related. However, even affluent investors over the age of 65 are proficient at using the various social media outlets. As expected, younger investors are the heaviest users of social media.

## Social media usage by age

Mass affluent, millionaire, and UHNW combined



## Wealthy investors use social media many times a day

### Mass affluent

- Nearly 40% access at least once a day
- More than 15% use multiple times per week

### Millionaires

- Nearly 35% access at least once per day
- Ranks second in usage, and 14% use it at least once a week













### UHNW




- Nearly 25% access at least once per day
- Heaviest users at 38%, and at 25%

# Social media usage for financial purposes

While social media use strictly for financial purposes is still somewhat limited, this may evolve going forward as more and more firms and advisors become less hesitant about using social media as part of their communication strategy.

## Top four ways affluent are most likely to use social media activities for financial purposes

Rank	Mass affluent	Millionaire	UHNW
1	 <b>10%</b> Viewing financial and investment videos	 <b>11%</b> Viewing financial and investment videos	 <b>10%</b> Viewing financial and investment videos
2	 <b>8%</b> Finding a financial advisor	 <b>7%</b> Finding a financial advisor	 <b>6%</b> Communicating with a financial advisor
3	 <b>6%</b> Reading financial or investment blogs	 <b>4%</b> Reading financial or investment blogs	 <b>5%</b> Finding a financial advisor
4	 <b>5%</b> Communicating with a financial advisor	 <b>4%</b> Communicating with a financial advisor	 <b>3%</b> Reading financial or investment blogs

 Facebook  
 LinkedIn  
 YouTube

## What millennial investors expect from their advisors in terms of social media usage

**22% say:** If I were choosing a new financial advisor, I would look closely at how they use social media in their practice.

**33% say:** I would be interested in my financial services firm providing information via social media such as Facebook and through apps I could use on a tablet.

**41% say:** I rely more on social media to communicate with others than I do traditional channels such as the telephone.

### Action step

Consider strategies for integrating social media into your communication plan. Take baby steps by shooting short videos and posting them to YouTube. This is a relatively easy and popular way to connect with your clients. Make sure that you partner with your firm's compliance area before you engage in any social media use to ensure you fully understand the rules and are adhering to firm policies.

Even if you can't actively use social media directly, look to engage in social media channels indirectly as a networking avenue. You can learn about the latest industry trends by simply following some of your favorite thought leaders for great ideas and current research.

# Action plan



**Uncover** client concerns on the current environment. Ensure you have opportunity to provide perspective.

**Discuss** long-term needs (both financial- and nonfinancial-related). Educate clients on ways to ensure heirs are taken care of.

**Learn** what other professionals your clients are using. Look for opportunities to network with them at community events.

**Scale** your practice allowing you more time to devote to client facing activities. Ease your burden in the investment selection process by incorporating model portfolios and leverage the efficiency of “one to many” communication outreach methods.

**Create** a game plan for responding to client inquiries. Establish a set of expectations and keep to it.

**Integrate** social media into your communication strategy. Look for simple ways to test out effectiveness of various social mediums.







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in the loss of principal.

Source: The Spectrem Group 2012–2013.