

## 5. Wealth management

Wealth management as an investment-advisory discipline incorporates financial planning, investment portfolio management and a number of aggregated financial services. High-net-worth individuals (HNWIs), small-business owners and families who desire the assistance of a credentialed financial advisory specialist call upon wealth managers to coordinate retail banking, estate planning, legal resources, tax professionals and investment management. Wealth managers can have backgrounds as independent Chartered Financial Consultants, Certified Financial Planners or Chartered Financial Analysts (in the USA), Chartered Strategic Wealth Professionals (in Canada), Chartered Financial Planners (in the UK), or any credentialed (such as MBA) professional money managers who work to enhance the income, growth and tax-favored treatment of long-term investors. One must already have accumulated some amount of wealth for wealth management strategies to be effective. Historically the entry bar was high, however recently due to innovations such as exchange-traded funds, increased transparency in product design and more and more investors managing their own investments, this entry bar is coming down. However, several firms offer this service to minimum investments of \$1M down to £100K

### 5.1 Private wealth management

Private wealth delivered to high-net-worth investors. Generally this includes advice on the use of various estate planning vehicles, business-succession or stock-option planning, and the occasional use of hedging derivatives for large blocks of stock.

Traditionally, the wealthiest retail clients of investment firms demanded a greater level of service, product offering and sales personnel than that received by average clients. With an increase in the number of affluent investors in recent years,<sup>[5]</sup> there has been an increasing demand for sophisticated financial solutions and expertise throughout the world.

The CFA Institute curriculum on private-wealth management indicates that two primary factors distinguish the issues facing individual investors from those facing institutions:

1. Time horizons differ. Individuals face a finite life as compared to the theoretically/potentially infinite life of institutions. This fact requires strategies for transferring assets at the end of an individual's life. These transfers are subject to laws and regulations that vary by locality and therefore

the strategies available to address this situation vary. This is commonly known as accumulation and decumulation.

2. Individuals are more likely to face a variety of taxes on investment returns that vary by locality. Portfolio-management techniques that provide individuals with after tax returns that meet their objectives must address such tax structures.

The term "wealth management" occurs as early as 1933. It came into more general use in the elite retail (or "Private Client") divisions of firms such as Goldman Sachs or Morgan Stanley (before the Dean Witter Reynolds merger of 1997), to distinguish those divisions' services from mass-market offerings, but has since spread throughout the financial-services industry. That had formerly served just one family opened their doors to other families, and the term Multi-family office was coined. Accounting firms and investment advisory boutiques created multi-family offices as well. Certain larger firms (UBS, Morgan Stanley and Merrill Lynch) have "tiered" their platforms – with separate branch systems and advisor-training programs, distinguishing "Private Wealth Management" from "Wealth Management", with the latter term denoting the same type of services but with a lower degree of customization and delivered to mass affluent clients. At Morgan Stanley, the "Private Wealth Management" retail division focuses on serving clients with greater than \$20 million in investment assets while "Global Wealth Management" focuses on accounts smaller than \$10 million.

In the late 1980s private banks and brokerage firms began to offer seminars and client events designed to showcase the expertise and capabilities of the sponsoring firm. Within a few years a new business model emerged – Family Office Exchange in 1990, the Institute for Private Investors in 1991, and CCC Alliance in 1995. These new entities aimed to educate the ultra-wealthy investor, offer an online community as well as a network of peers for ultra high-net-worth individuals and their families. Their growth since the 1990s indicates a market eager to become more informed about private wealth management with total IT spending (for example) by the global wealth management industry predicted to reach \$35bn by 2016, including heavy investment in digital channels.

Several universities offer wealth-management education for either the professionals who advise private investors or private investors themselves who have substantial wealth. The standards and accrediting organization the American Academy of Financial Management (AAFPM, later rebranded as the Global Academy of Financial

and Management or GAFM) offered the first such program for professionals (the CWM Chartered Wealth Manager US Trademarked Program), followed by the Wharton School of the University of Pennsylvania. Since 1999 over 5000 people from over 100 countries have completed the GAFM CWM Wealth Manager program.

At Wharton, the first curriculum designed exclusively for investors and family offices was offered in 1999. 730 investors from 39 countries have completed the five-day course. The five-day program is offered twice a year and is a continuing partnership with the Institute for Private Investors. The University of Chicago also offers a 5-day program. In 2009, Columbia University offered a three-day program on value investing designed for high-net investors.

Wealth management can be provided by large corporate entities, independent financial advisers or multi-licensed portfolio managers who design services to focus on high-net-worth clients. Large banks and large brokerage houses create segmentation marketing-strategies to sell both proprietary and non-proprietary products and services to investors designated as potential high-net-worth clients. Independent wealth-managers use their experience in estate planning, risk management, and their affiliations with tax and legal specialists, to manage the diverse holdings of high-net-worth clients. Banks and brokerage firms use advisory talent-pools to aggregate these same services.

The events of 2008 in the financial markets caused investors to address concerns within their portfolios. "The past 18 months have challenged traditional thinking about investing and asset allocation, diversification, and correlation. For individual investors, risk tolerances have been tested, investment assumptions have been overturned, and fundamental truisms have been questioned."<sup>[14]</sup> For this reason wealth managers must be prepared to respond to a greater need by clients to understand, access, and communicate with advisers regarding their current relationship as well as the products and services that may satisfy future needs. Moreover, advisors must have sufficient information, from objective sources, regarding all products and services owned by their clients to answer enquiries regarding performance and degree of risk - at the client, portfolio and individual-security levels. "This state of affairs poses a dilemma for wealth managers, who, for a generation, have adhered to the core principles of asset allocation and earned their keep by preaching the mantras of 'buy and hold', 'invest for the long term', and when things get tough, 'stay the course'."

Since 2009 many firms have promoted their adherence to the fiduciary standard in order to regain the trust lost during the financial crisis. In addition firms now publicly embrace the code of ethics published by the CFA Institute. As of 2013 wealth-management advisors must have access to an objective content repository. This repository must contain a current and readily available profile of the clients' holdings.

## 5.2 Private banking and wealth management rankings

According to Euromoney's annual Private banking and wealth management ranking 2013, which consider (amongst other factors) assets under management, net income and net new assets, global private banking assets under management grew just 10.8% YoY (compared with 16.7% ten years ago).

"Best private banking services overall 2013". This table displays results of one category of the Private banking and wealth management ranking.

Rank 2013	Company	Rank 2012
1	<u>UBS</u>	2
2	<u>Credit Suisse</u>	1
3	<u>JPMorgan</u>	4
4	<u>HSBC</u>	3
5	<u>Citi</u>	5
6	<u>Deutsche Bank</u>	6
7	<u>Merrill Lynch Wealth Management</u>	9
8	<u>Santander</u>	8
9	<u>BNP Paribas</u>	7
10	<u>Goldman Sachs</u>	11

UBS took the top spot in Euromoney's 2013 survey for "Best private banking services overall 2013."

### 5.3 World Wealth Report 2013

The 2013 World Wealth Report, released in June 2013, showed that despite the turbulence of the global economy, particularly in the Eurozone, both the population and wealth of global HNWIs reached significant new highs in 2012. Even though the year got off to a shaky start, HNWIs ultimately benefitted from strong market returns in spite of sluggish global GDP growth. The report was widely welcomed as good news for the private wealth management sector.

The 2013 edition of the World Wealth Report also included the inaugural Capgemini, RBC Wealth Management and Scorpio Partnership Global HNW Insights Survey. The survey represents one of the largest and most in-depth surveys of high net worth individuals ever conducted, surveying more than 4,400 HNWIs across 21 major wealth markets.

This survey-driven section of the report aimed to provide perspectives from the world's wealthy. Key findings included:

- In Q1, 2013, around 61% of HNWIs said they have trust and confidence in their wealth managers and firms, an increase of roughly four and three percentage points respectively, from 2012.
- 75.4% of HNWIs around the globe cited confidence in their ability to generate wealth over the next year.
- 52.6% of HNWIs gave their advisors and support staff a strong performance rating for service.