Understanding Today's Affluent Investor: Managing Affluent Relationships

By Matt Oechsli

Introduction

It can be said that we are now living in what many refer to as the "new normal." The effect of the lingering global financial crisis on affluent investors can be observed in their elevated levels of distrust and cynicism toward the world of financial services. With trust in short supply, the relationship between financial advisor and wealthy client has fundamentally changed.

It's important that financial advisors both recognize these changes and be aware of their origin. In essence, for advisors to have any success in acquiring and retaining affluent clients, they must understand today's well-to-do investor.

A quick look into how today's affluent clients discovered their financial advisor illustrates these new levels of skepticism. According to our data, most wealthy clients discovered their financial advisor via an introduction by another professional, family member or friend, or by approaching them directly.

The message is very clear: it's all about relationships. The majority of affluent investors found their advisor through word-of-mouth-influence. The reliance on this type of personal introduction reflects the delicate nature of trust. The days of affluent investors finding advisors through less personal methods (phone book, cold-calling, public seminar, etc.) are winding down.

In fact, not only are they not as popular, there may be a high probability that these marketing tactics can be harmful to an advisor's reputation and stimulate negative word-of-mouth due to their aggressive, often annoying, sales tactics. The bottom line: affluent investors want the level of trust that comes along with a personal introduction.

Methodology

The data presented in this paper was collected through online surveys. Basic univariate results have been presented directly. When statements of significance are reported, they are based on the results of common statistical methods for the type of survey data and reflect a 95 percent confidence level. Any group comparisons presented reflect significant difference in group responses.

The results reflect the responses of more than 400 investors, all of which have over $500,000 in investable assets (37 percent have investable assets between $500,000 and $1 million, 52 percent between $1 and $5 million, and 11 percent have investable assets over $5 million).

The Relationship Factor

We frequently determine whether or not someone is truly trustworthy by getting to know that individual on a personal level. When trust is in the balance, as it so often is with today's affluent wealth management services clientele, advisors who run a good business from a technical perspective are no longer good enough. Today's wealthy investors are all too aware of horror stories of financial professionals who had stellar reputations from a business perspective, but were lacking in ethics. When these clients get to know their advisor personally—meeting their spouse, sharing a meal with them, or interacting with their team—they have a deeper understanding of his or her character.

A key client demographic is women. The woman of the household plays an important role in this relationship factor, especially in regard to trust. The following are three key areas of importance from a woman's perspective:

AFFLUENT WOMEN TOP 3 AREAS OF IMPORTANCE
Source: The Oechsli Institute

1 Fully understanding their family's goals and needs

2 Being trustworthy and having their family's best interests at heart

3 Providing timely personal communication

The Oechsli Institute found that having a business and personal relationship with both spouses of an affluent client family improves performance ratings in 14 key areas of importance. It also strengthens client loyalty and increases their willingness to provide personal introductions to family members, friends, and colleagues. We've labeled this phenomenon the "relationship factor."

In understanding today's affluent and the relationship factor, our statistical analysis segmented relationships into two areas—relationship management and marketing. Here's how we define them:

- **RELATIONSHIP MANAGEMENT** – Meeting expectations by providing the right services to existing affluent clients.
- **RELATIONSHIP MARKETING** – Generating positive word-of-mouth influence and penetrating spheres of influence with affluent clients, referral-alliance partners, and other centers of influence.

As you read through this report, you'll see the connection between these two relationship factors and the growth of an advisor's business.

Relationship Management: Type of Relationship

From an affluent client's perspective, the vast majority (70 percent) have a purely business relationship with their financial advisor. This highlights what can be both an opportunity and a challenge for advisors: to broaden their current business relationship to something more personal—which can require a lot of thought and effort on the advisor's part.

Primary Financial Professional

With 84 percent of our respondents saying that they consider their financial advisor as their primary financial professional, the wind is truly at the backs of quality advisors.

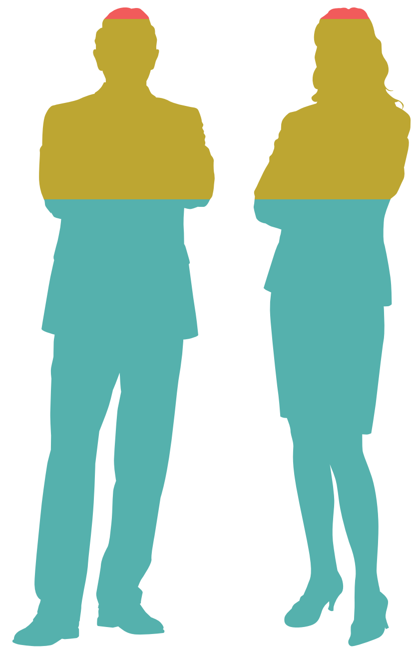
But to fully capitalize on this positioning as their go-to professional, advisors must deliver the services that are important to today's affluent client with the highest level of professionalism—while also expanding the relationship.

Figure 2 | Primary Financial Professional

Source: The Oechsli Institute

Figure 1 | Classification of Relationship with Financial Professional

Source: The Oechsli Institute



Note: Percentages in this paper may not add to 100% due to rounding

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Percentage of Assets with Advisor

Even though 84 percent of our affluent investor respondents view their financial advisor as their primary financial professional, only 30 percent have entrusted them with three-quarters or more of their family's investable assets. This indicates a window of opportunity for financial advisors to consolidate all of their clients' investable assets under their management, or risk that these assets will be consolidated somewhere else.

Figure 3 | Percentage of Assets with Advisor

Source: The Oechsli Institute

11%	21%	38%	30%
LESS THAN 25% OF MY TOTAL INVESTABLE ASSETS	25% TO 49% OF MY TOTAL INVESTABLE ASSETS	50% TO 74% OF MY TOTAL INVESTABLE ASSETS	75% TO 100% OF MY TOTAL INVESTABLE ASSETS

Face-to-Face Meetings with Advisor

Although the majority of affluent clients view their relationship with their advisor as purely business, 41 percent of advisors are meeting with their affluent clients three or more times a year. With the majority of these meetings being mostly business-oriented, advisors should consider not only increasing their face-to-face interaction with affluent clients, but also work towards making a portion of those meetings social in nature.

It is also important to involve both members of a couple in both business and social face-to-face interactions. When affluent clients socialize with their advisors, they get to know them on a personal level, which builds trust and improves performance rankings.

Figure 4 | Meetings with Financial Advisors Over Past 12 Months

Source: The Oechsli Institute

15%	43%	25%	16%	2%
0	1-2	3-4	5+	OTHER

Satisfaction with Frequency of Contact

Whether it's purely business, or business and social, only 42 percent of our affluent respondents claimed to be "very satisfied" with the frequency of contact they're getting from their financial advisor. Considering the significance of the relationship factor, this is an area that needs to be a priority. It is also important that advisors strive to make contact with their affluent clients personally.

Figure 5 | Satisfaction with Frequency of Contact

Source: The Oechsli Institute

3%	2%	14%	40%	42%
VERY DISSATISFIED	DISSATISFIED	NEUTRAL	SATISFIED	VERY SATISFIED

14 Affluent Commandments

Our research highlighted 14 criteria that today's affluent considered "very important" with regards to their financial advisor. We have labeled them as the 14 Affluent Commandments because of the important role they play in the advisor-client relationship. As Figure 6 illustrates, financial advisors are finding themselves challenged in meeting affluent expectations in these 14 areas of importance.

Two trends are prevalent among today's affluent and they are having a direct impact on the 14 Affluent Commandments: the increasing importance of meeting the expectations of the woman of the household, and the importance of expanding the client relationship to a more personal level.

As you can see on the next page, affluent women place a much higher level of importance on each of these areas than do their affluent male counterparts, which translates into higher expectations among female clients. This can create a new set of challenges for financial advisors.

Figure 6 | 14 Affluent Commandments

Source: The Oechsli Institute

		Extremely important to women	Extremely important to men	Performed extremely well business/social	Performed extremely well purely business
1	Truly understanding their family needs	77%	65%	61%	37%
2	Having their best interests at heart	75%	65%	61%	38%
3	Providing timely communication	72%	52%	61%	42%
4	Possessing a breadth and depth of knowledge	71%	54%	61%	45%
5	Meeting investment performance expectations	68%	53%	45%	30%
6	Being a problem solver	68%	56%	59%	47%
7	Protecting their family's investments	63%	47%	46%	31%
8	Overseeing their finances, not marketing	62%	53%	58%	42%
9	Creating a financial plan and keeping it current	60%	38%	50%	32%
10	Delivering high-level personal service	59%	45%	63%	41%
11	Making them fully aware of fees	57%	47%	50%	37%
12	Using current technology	41%	33%	47%	40%
13	Coordinating their financial documents	39%	29%	41%	28%
14	Providing insurance solutions	17%	12%	29%	16%

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Although every one of these expectation gaps are statistically significant, the gaps between the importance placed on the criteria by the affluent woman of the household and the performance ranking of an advisor with only a business relationship presents an advisor-client relationship that many advisors need to correct. For example, here's what we found to be the five largest expectation gaps among affluent client relationships:

- Truly understands their family's needs
- Meeting investment performance expectations
- Having their best interests at heart
- Protecting their family's investments
- Providing timely communication

Financial advisors must make a concerted effort to not only involve the women of their affluent households in review meetings, but to make certain both spouses have a complete understanding of the inner-workings of their family's portfolio, and that both spouses' expectations are being met.

Interacting on a personal level requires more face-to-face interaction and non-business personal phone calls. This interaction should involve the advisor and support personnel and be directed towards both spouses. This level of personal contact will also provide advisors and their team with the information they need to please today's discerning affluent investors.

These statistics should be a warning signal to advisors that there is much work to be done to strengthen these relationships. Without the foundation of a strong relationship with existing affluent clients, success in relationship marketing (expanding into your clients' spheres of influence) will be extremely difficult, if not impossible.

Advisor Takeaways

Involve the affluent woman of the household in both business and social face-to-face interactions

Strive to make contact with affluent clients in a personal way

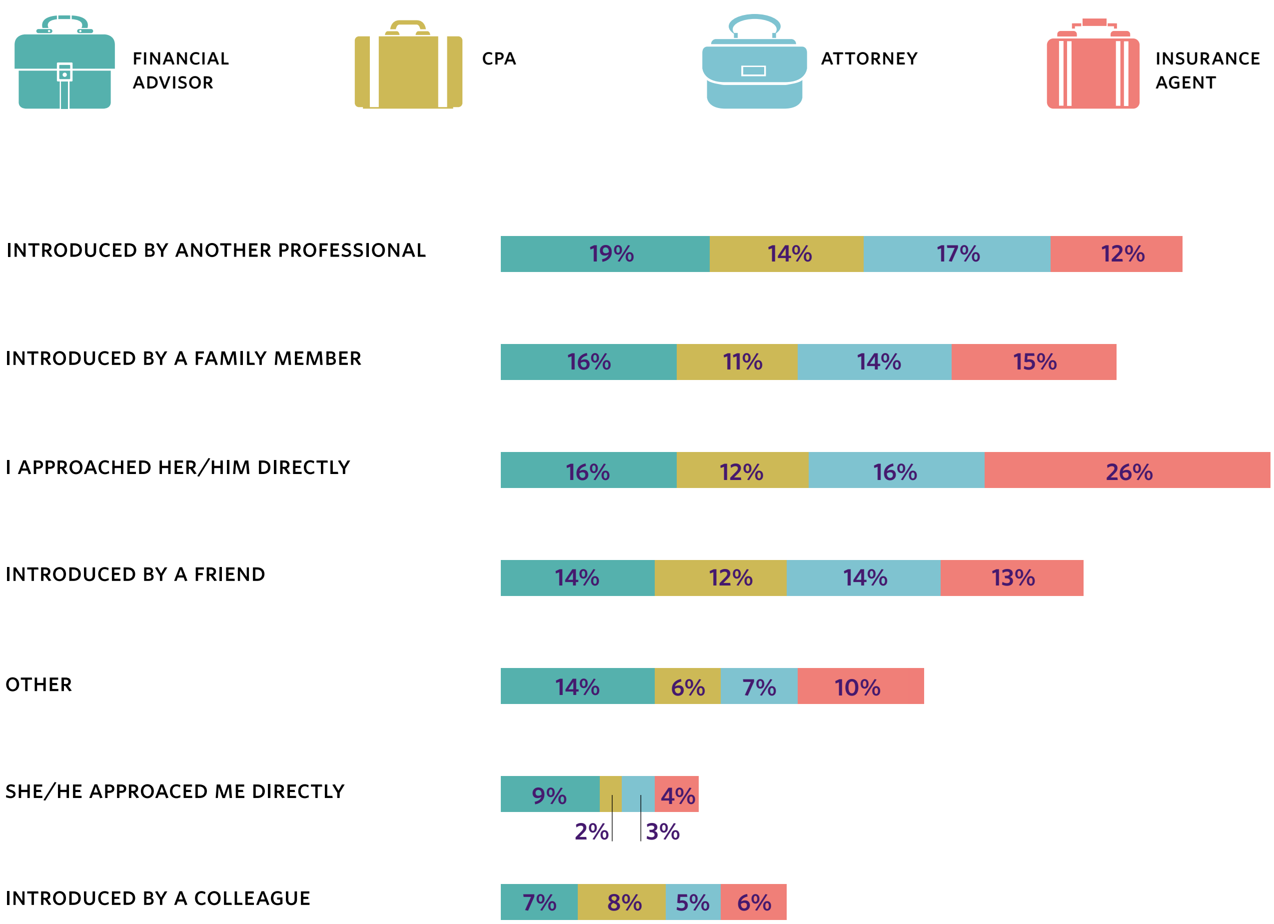
Make a concerted effort to involve both spouses in review meetings and make certain they each have a complete understanding of the inner-workings of their family's portfolio

Relationship Marketing: How Financial Professional Was Discovered

The power of word-of-mouth influence within affluent spheres continues to grow in importance. The number one method today's affluent investor used to find their current financial advisor was a personal introduction. Whether from a friend, a colleague, a family member, or another professional, word-of-mouth influence was at work. With 84 percent of our affluent respondents viewing their financial advisor as their primary financial professional, it is worth noting that 56 percent of our respondents found their primary financial professional through being personally introduced.

Figure 7 | How Financial Professional Was Discovered

Source: The Oechsli Institute



Most Important Factor in Selecting Financial Professional

As previously mentioned, the reputation of the individual financial professional is paramount in the final selection process for an affluent investor. As demonstrated in Figure 8, 70 percent of their decision resulted from either a "strong recommendation from someone I trust," "reputation of the individual financial professional" or "reputation of the financial professional's firm."

What is also noteworthy is that the "quality of promotional materials (brochures, websites, etc.)" had absolutely no impact on today's affluent investor selecting a financial professional.

Referrals or Introductions Given Over Past 12 Months

Although the majority of our respondents told us they met their primary financial advisor through a personal introduction, it appears that only a few advisors are taking advantage of this type of word-of-mouth in affluent spheres of influence. Only seven percent of our affluent respondents provided five or more referrals or introductions to their primary advisor in the past 12 months. This fact indicates that financial advisors don't capitalize on relationship marketing. They should endeavor to be introduced into their affluent clients' spheres of influence. It is also important that an advisor excel at relationship management (meeting affluent client expectations), as it is directly connected to success in relationship marketing.

Figure 8 | Most Important Factor in Selecting Financial Professional

Source: The Oechsli Institute

31%	STRONG RECOMMENDATION FROM SOMEONE I TRUST
22%	REPUTATION OF THE INDIVIDUAL
17%	REPUTATION OF THE INDIVIDUAL'S FIRM
14%	PROPOSAL/ RECOMMENDATIONS WERE APPEALING
13%	FIRST IMPRESSION OF COMPETENCY AND PROFESSIONALISM
3%	OTHER
0%	QUALITY OF THE PROMOTIONAL MATERIALS

Figure 9 | Referrals or Introductions Given Over Past 12 Months

Source: The Oechsli Institute

46%	36%	9%	7%	2%
0	1-2	3-4	5+	OTHER

Response to Being Asked for a Referral

Given that seven percent of affluent respondents provided five or more referrals over the past 12 months, it's no surprise that we found that only about one in three affluent clients indicated they would provide referrals (including names and numbers) to their advisors. This leads us to conclude that asking for referrals is no longer an effective marketing tactic and doesn't fit into today's world of relationship marketing. Furthermore, when we inquired how clients felt when asked for a referral, a whopping 83 percent told us that it makes them "uncomfortable." For that reason, we believe that this approach is probably a bit too "salesy" for the typical affluent client.

Figure 10 | Response to Being Asked for a Referral

Source: The Oechsli Institute

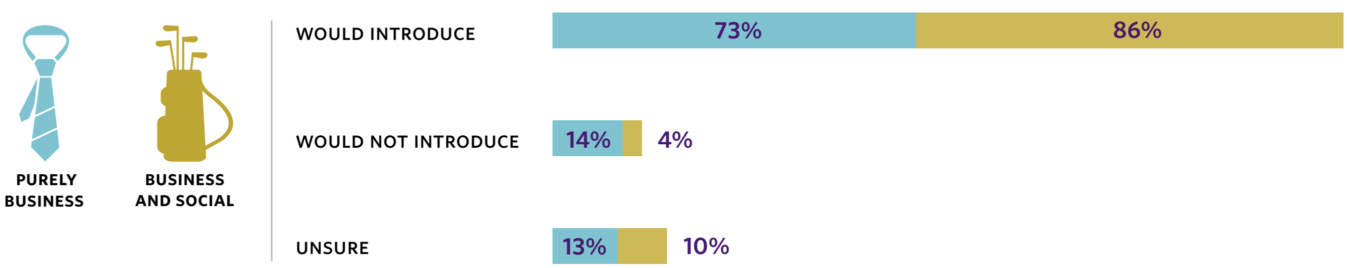
20%	37%	31%	12%
WILL NOT PROVIDE NAMES AND NUMBERS	WOULD HAVE TO THINK ABOUT IT	WILL PROVIDE NAMES AND NUMBERS	OTHER

Willingness to Introduce

Figure 11 provides a clear picture of the relationship factor. Financial advisors who socialize with their affluent clients (relationship management) have an 86 percent likelihood of an affluent client agreeing to personally introduce them to someone in their sphere of influence. Although advisors tend to look at referrals and introductions in the same light, our affluent respondents are telling us there is a big difference: as seen in Figure 10, only 31 percent responded affirmatively when asked for a referral—less than half those who would be willing to make introductions.

Figure 11 | Willingness to Introduce

Source: The Oechsli Institute



Positive and Negative Word-of-Mouth Influence

Natural word-of-mouth influence is at work in affluent circles. Fifty-two percent of our affluent respondents indicated that they have spoken favorably about their primary financial advisor three or more times over the past 12 months. Slightly over one-third (38 percent) told us that they have spoken favorably about their advisors five or more times. This is a positive indicator and financial advisors need to capitalize on this positive word-of-mouth influence. Advisors would benefit from spending more time with their affluent clients on a social level, as it will facilitate personal introductions within affluent spheres of influence. Once again, this is another example of where relationship management and relationship marketing intersect.

Figure 12 | Positive Word-of-Mouth

Source: The Oechsli Institute

19%	25%	14%	38%	3%
0	1-2	3-4	5+	OTHER

The absence of negative word-of-mouth influence signals that today's affluent will allow their primary financial advisor into their spheres of influence. Since 87 percent claimed not to have spoken a negative word about their primary advisor over the past year, it's highly probable that by expanding the advisor-client relationship on a personal level, positive word-of-mouth influence would be activated.

Figure 13 | Negative Word-of-Mouth

Source: The Oechsli Institute

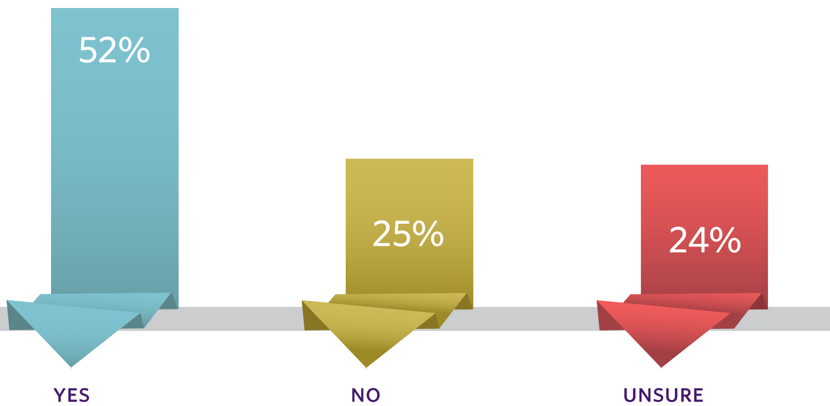
87%	8%	1%	2%	2%
NO NEGATIVE MENTIONS	1-2	3-4	5+	OTHER

Second Opinion Reality

Just over half of today's affluent investors still recognize the value in receiving a second opinion on their family's portfolio (Figure 14); however, that figure has been declining. Why? It can't be due to the fact that today's affluent have already received a second opinion, because only 34 percent of our respondents have even been offered such a service (Figure 15). Additionally, with so many expectations not being met, it is unlikely that the affluent have become satisfied with their current advisor. What is more probable is the result of the entire financial services industry embracing the term "second opinion" and turning it into a sales tactic that's much too obvious. Advertisements on the radio airwaves are now trying to entice listeners to call an 800 number if they have interest in a second opinion. The affluent may view this as just another sales pitch.

Figure 14 | Investors Who Recognize the Value of Second Opinion on Finances

Source: The Oechsli Institute

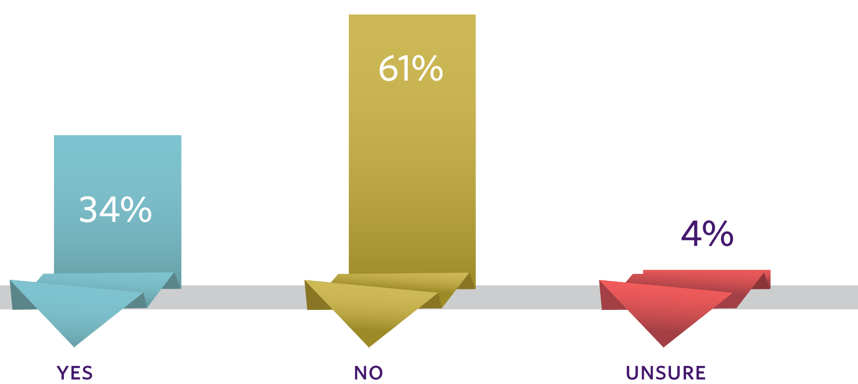


Offered a Second Opinion

Regardless of the declining perception of second opinions, the survey shows more than three-quarters of the affluent target market may be open to getting a second opinion or review of their portfolio. For that reason, advisors should continue to approach affluent prospects and offer one, albeit in a very non-threatening, conversational way. The nearly two-thirds of our affluent respondents who have yet to receive such an offer represent a rich opportunity for the initiated advisor. Add into the mix the fact that many affluent clients aren't having their expectations fully met by their current financial advisor—and that a majority still recognize the value of another opinion—and one can see the potential rewards of proactive second-opinion relationship marketing.

Figure 15 | Has Been Offered a Second Opinion on Finances

Source: The Oechsli Institute



ADVISOR TAKEAWAYS

- Get introduced into your affluent clients' spheres of influence—personal introductions are the number one way affluent clients found their financial advisor
- Socialize with your affluent clients—those that do have an 86 percent likelihood for a personal introduction
- Continue to approach affluent prospects, offering to review their financial situation if they are dissatisfied with their current advisor

Conclusion

As the unsettled nature of the global economy continues to linger, affluent investors are getting weary. Their fatigue is further eroding their trust in the financial industry and in financial advisors, which is already quite fragile. As a result, today's affluent want to know their advisor on a personal level. This is clearly evidenced by how today's affluent rate the performance of their advisor much higher when they perceive the relationship to be social as well as business-focused. As a consequence of this "relationship factor," advisors should work towards spending more time in non-business venues with their affluent clients.

In addition, advisors need to focus on forming a relationship with both members of a couple. Antiquated norms no longer hold in today's marketplace. The women of a household had higher expectations than their male counterparts in all 14 of the criteria our study ranked as important. Meeting these expectations is essential for an advisor who wishes to master relationship management.

And mastering relationship management has its rewards. Most of our respondents initially discovered their current financial advisor through word-of-mouth. With 86 percent of affluent investors saying they're willing to personally introduce their advisor to people within their centers of influence, advisors should devote more time to socializing with their affluent clients.

Understanding the affluent is a work in progress, and is essential for any financial advisor working in that market. With affluent-client expectations going unmet in so many critical areas, the time for financial advisors to act is now.

Appendix: Affluent Investor Demographics

GENDER

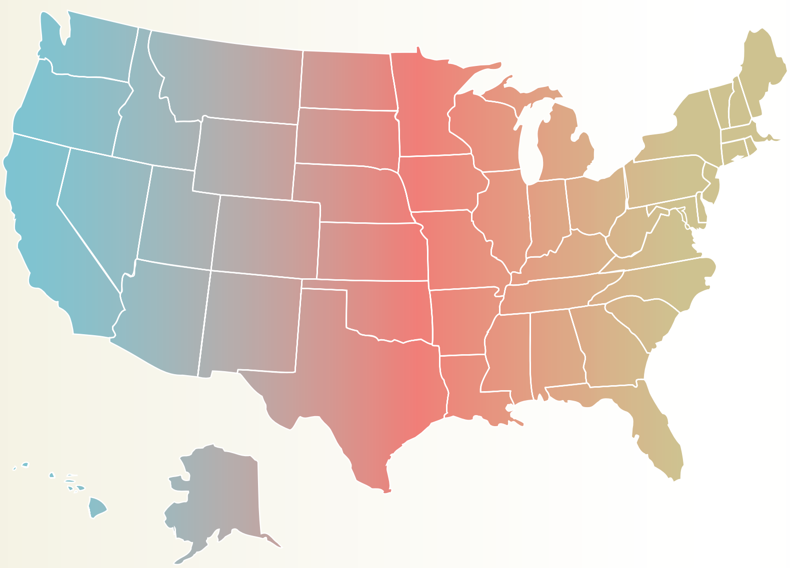
MALE
59%

FEMALE
41%

AGE

39 OR YOUNGER	6%
40 TO 49	14%
50 TO 59	29%
60 TO 69	39%
70 OR OLDER	13%

REGION



WEST	18%
SOUTH	20%
NORTH	1%
EAST	9%
MIDWEST	25%
NORTHWEST	3%
SOUTHWEST	7%
NORTHEAST	17%

MARITAL STATUS

6%
SINGLE, NEVER MARRIED

84%
MARRIED

3%
DIVORCED

RIP
3%
WIDOWED

4%
LIVING WITH PARTNER

Appendix: Affluent Investor Demographics

HOUSEHOLD INVESTABLE ASSETS

0%	18%	19%	52%	8%	3%
LESS THAN $500,000	$500,000 TO $750,000	$750,000 TO $1M	$1M TO $5M	$5M TO $10M	$10M OR MORE

EMPLOYMENT STATUS

39%	17%	13%	14%	10%	6%
RETIRED	WORKING, 5 YEARS FROM RETIREMENT	WORKING, 6 TO 10 YEARS FROM RETIREMENT	WORKING, 11 TO 20 YEARS FROM RETIREMENT	WORKING, MORE THAN 20 YEARS FROM RETIREMENT	OTHER

PRIMARY SOURCE OF HOUSEHOLD NET WORTH

12%	12%	57%	8%	11%
BUSINESS OWNERSHIP	SELF-EMPLOYED PROFESSIONAL	SALARY OR COMMISSION RECEIVED AS EMPLOYEE	INHERITANCE	OTHER

HOUSEHOLD ANNUAL INCOME

12%	55%	15%	7%	3%	6%	1%
LESS THAN $100,000	$100,001 TO $200,000	$200,001 TO $300,000	$300,001 TO $400,000	$400,001 TO $500,000	$500,001 OR MORE	DECLINED TO RESPOND

HOUSEHOLD NET WORTH

1%	6%	14%	51%	13%	9%	3%	3%
LESS THAN $500,000	$500,000 TO $750,000	$750,000 TO $1M	$1M TO $3M	$3M TO $5M	$5M TO $10M	$10M OR MORE	DECLINED TO RESPOND

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About The Oechsli Institute
The Oechsli Institute, founded in 1978, specializes in helping the Financial Services Industry improve its ability to attract, service and develop loyal affluent clients. Their research-based performance coaching and training programs have become the standard within the industry. The Oechsli Institute does ongoing work for nearly every major financial services firm in the U.S. For individual advisors, Matt Oechsli and his associates remain in high demand for Performance Coaching, Rainmaker Retreats, and FastTrack for Growth (for new advisors).

For more information on their services, visit www.oechsli.com or call 800.883.6582.

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