Many rich people are DIY investors: Cerulli

By Editorial Staff *Thu, Mar 19, 2015*

Many high-net-worth investors use direct accounts to test their own investment ideas, provide liquidity, and even to shelter assets from their primary advisors," the Boston-based research firm found.

Nearly 30% of high-net-worth investors in the United States identify as "self-directed investors," according to a new study from Cerulli Associates, entitled "High Net Worth and Ultra-High Net Worth Markets 2014: Addressing the Unique Needs of Wealth Families."

That's been good news for direct providers, but not for traditional asset managers, which are in danger of being disintermediated by the new digital advisory channel, especially among the younger folks who live on their smartphones and tablets.

The report analyzes the investors, service providers and asset managers who make up the U.S. high-net-worth (HNW) (investable assets greater than $5 million) and ultra-high-net-worth (UHNW) (investable assets greater than $20 million) marketplaces.

The fact that almost a third of wealthy investors are self-directed "helps explain the dispersion of assets among providers," said Donnie Ethier, the report's author, in release.

To compete against direct providers, which have seen a surge of inflow over the past two years, and which continue to bolster their offerings to "younger, tech-savvy" wealth-builders, traditional wealth managers will have to demonstrate their "willingness, and aptitude, to adapt to next-generation investors."

According to Cerulli's research, more than half of high-net-worth investors have direct or online trading account balances between $500,000 and $1 million. These immense balances help explain where the flows to direct providers—especially to Vanguard—are coming from.

But there's still a lot that the direct providers can't do for the wealthy, which is good news for wealth managers who can pass due diligence screenings and justify their fees.

"Logically, as assets increase, so does the complexity of portfolios, lending more credence to taking on an external advice sources and provider relationships," Ethier said.

"Opportunities to capture additional wallet-share of these investors certainly exists for wealth managers and their advisor forces, although they should know going in that many high-net-worth investors use direct accounts to test their own investment ideas, provide liquidity, and even to shelter assets from their primary advisors," the Cerulli release said.