
Where do the wealthiest Americans buy their financial services?

By Kerry Pechter Thu, Jan 23, 2014

The three biggest types of providers of financial services to the wealthy are the so-called wirehouses, with \$2.4 trillion, private client groups, with \$1.4 trillion, and state-registered trust companies, with \$446 billion, according to new research from Cerulli Associates.

“High net worth” investors in the U.S. maintain an average of four investment advice relationships, according to Cerulli’s sixth annual assessment of the U.S. high net worth (\$5-\$20 million in investable assets) and ultra high net worth (>\$20 million) markets.

The report’s title is “High-Net-Worth and Ultra-High-Net-Worth Markets 2013: Understanding the Contradictory Demands of Multigenerational Wealth Management.” This market tends to have already accumulated wealth and focuses primarily on wealth management and preservation.

The very wealthy represent a relatively tiny subset of Americans. Cerulli’s own data, combined with government data, shows only about 833,530 households in the U.S. with \$5 million or more in investable assets. They represent just 0.7% of the 120.1 million U.S. households but their members control 31% of investable assets, or about \$9 trillion.

In sheer numbers, the affluent/mass-affluent market (\$500,000 to \$5 million) far outnumbers the wealthy. The 11 million affluent households control about \$14.5 trillion, or close to half of the investable wealth in the U.S. Still, they and the wealthy represent only about 10% of all Americans.

The three biggest types of providers of financial services to the wealthy are the so-called wirehouses (Bank of America-Merrill Lynch, Wells Fargo, UBS and Morgan Stanley) with \$2.4 trillion, private client groups, with \$1.4 trillion, and state-registered trust companies, with \$446 billion.

These channels can overlap or incorporate other channels, however. Wirehouses may own trust companies, for instance, and trust companies may outsource advisory services to independent registered investment advisers (RIAs).

Asset managers (mutual funds, hedge funds) trying to market their products to HNW investors view the RIAs as the most attractive channel to sell into, followed by multi-family offices (MFOs), bank trusts and wirehouses, Cerulli’s report said. RIAs and MFOs tend to have open architectures and rely on third-party money managers.

HNW investors tend diversify their providers, “leverage their status among providers and advisors,” and have access to institutional products and prices, Cerulli’s report said.

On the other hand, “high-net-worth investors appear reluctant to terminate existing relationships,” said Donnie Ethier, associate director at Cerulli, said in a release. “Nearly one-quarter of high-net-worth households report their primary provider controls at least 90% of their investable assets.”

The very wealthiest American households—those with \$100 million or more—are the ones most likely to internalize all their financial business by creating a single family office, whose expenses can run to \$1 million or more per year.

As the biggest owners of investable assets, HNW families have benefited greatly from the run-up in equity prices since 2009. “Many high-net-worth investors have moved on from the financial crisis, including recovered assets, optimistic economic outlooks, risk tolerances, and product mix,” Ethier said in the release. “The damaged trust of many financial institutions post-crisis seems to be a non-factor in the recent increase in provider relationships.”

Channels (such as direct providers) that offer greater autonomy, flexibility, and a wide variety of services will continue to attract wealthy investors, Cerulli’s release said. Providers are most likely to lose their HNW customers when generations turn over. The biggest threat to providers’ existing business with HNW households is the potential for breakage of long-standing relationships when assets move from one generation to the next, and are split among multiple heirs who choose their own sets of providers.

© 2014 RIJ Publishing LLC. All rights reserved.