How to Navigate the Wealth Curve

Throughout the recent market downturn and subsequent rally, our office has fielded a lot of calls from high-net-worth individuals like “John.” John sold his **dental practice** at the start of the summer for just over $5 million. He has a sizable investment account (about $1.5 million) that’s been capably managed by a broker at a big bank for almost 20 years.

In general, John has been happy with this relationship. But now that his liquid wealth has grown 5 times, he wonders whether his broker has sufficient experience to deal with the challenges his new liquid wealth is sure to bring.

As net worth rises, financial complexity generally does, too, and so does the need for expert advice. This can be illustrated with a wealth curve – a visual representation of how the financial-services industry segments its clients (see below). Its vertical axes measure an individual’s net worth and need for financial expertise, while its horizontal axis measures the complexity of the financial challenges facing the individual.

When John sold his practice, he jumped several steps up on the wealth curve. His liquid wealth grew significantly; so, too, did the complexity of the financial issues and challenges he was now facing. But John was still working with a professional who was several steps down the wealth curve, whose average client generally faces far fewer financial challenges than John does.

That’s not necessarily a bad thing. As we explained to John, the best place to be on the wealth curve is (a) at the high end of the current segment you’re in (a bigger fish in a smaller pond, if you will), or (b) at the low end of the next segment above you (a smaller fish in a bigger pond).

If John prefers being a financial delegator, he’ll probably be very happy being a bigger fish. By being his advisor’s top client, he’s sure to be highly valued, and he’ll receive top-level service and attention. But he might not always have access to as many investment opportunities or as much investment expertise as the segment above him. On the other hand, if John doesn’t mind being proactive when managing his relationship, being a smaller fish can be a very good approach. He’ll have better access to opportunities and strategies. But he might have to be more assertive to garner more attention from his adviser.

Which approach is best? There’s no right or wrong answer. It really depends on the level of attention John is looking for and his need for more sophisticated opportunities and strategies.

Most of the high-net-worth individuals we meet seem dissatisfied in some way with their current advisory relationship. Like John, many have sold a business, received a large inheritance, cashed in a large stock position and intuitively understand they’ve “outgrown” the expertise of their wealth adviser. They’re looking for something “more,” whether that’s a broader range of wealth management options, more sophisticated strategies or greater access to sophisticated investment opportunities.

Others feel loyalty to an adviser who’s served them for years. They know they don’t have access to many of the investment opportunities and expertise they’d like to access, but the thought of moving on is difficult to contemplate. Either way, it’s pretty clear that the cause of their dissatisfaction is their “misplacement” on the wealth curve. The solution is to understand the gap between where they are on the wealth curve and where their current adviser is, and determine whether they’re satisfied with that.

Adrian Reynolds and Greg Taylor are Wealth Management Specialists with DentalWealth; a Multi-Family Office that caters to successful dentists and high net worth individuals in the dental industry. They can be reached at: www.DentalWealth.ca