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MoneyVoices: Snubbing Mass Affluent May Be Costly

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With large wealth managers like UBS and Bank of America – Merrill Lynch placing a greater emphasis on targeting upmarket investors, mid- to small-sized wealth managers wonder whether they should do the same. This debate is often characterized by the same wrenching question: Are we missing out on one of the biggest generational shifts in U.S. history, the retirement of the baby boomers, by focusing on very wealthy investors over the mass affluent?

We believe that in many cases, firms are missing an opportunity by forgoing the mass affluent – investors with between $500,000 to $1 million in investible assets – to target those with greater means. If a separately managed account (SMA) manager or wealth advisor has the resources to service the market effectively and profitably, it would be a mistake to ignore the mass affluent. Leaving money on the table in this economic climate is a practice to be avoided.

It may sound trite, but you have to focus on what you're good at. Determining whether you can run a profitable practice with mass affluent investors comes down to a few critical factors:

• **Product Mix** – Your products have to be relevant to the investor. To serve the mass affluent, wealth managers must have products with account minimums that are appropriate for a $500,000 to $1 million client. For example, one money manager last year rolled out five SMA strategies that each has a $15,000 investment minimum and an all-inclusive 55 basis point fee. This type of product has solid potential with the mass affluent. Other SMAs or unified managed accounts (UMAs) with $100,000 minimums may also be appropriate, depending on the client's situation. As always, keep in mind that the more diverse your clients are, the more diverse your product mix needs to be.

• **Distribution** – You may have great products, but you still have to have the distribution channels to get them out to the right targets. If your distribution system is already set up for the mass affluent, changing course may result in lost future opportunities. Remember, it's the firms that don't have distribution systems in place that have a harder decision to make regarding this strategy.

• **Mindset** – As a wealth manager, you have to be committed to the markets you're serving. If you understand how the mass affluent market functions, go after it and don't focus mainly on upmarket investors just because it's a current trend.

•**Technology** – This is the glue that holds it all together. Your technology is the anchor for reporting, client service, accounting and basically everything that makes your shop go. No matter the client base, you better make sure your firm has the right technology to service it and scale what you’re offering.

Still, we are aware of many cases where dropping the mass affluent for more high-net-worth clients was the right decision for a particular firm. Ultimately, this is a firm-by-firm issue. For some shops, $500,000 to $1 million clients don’t work from an operational standpoint. The mass affluent segment is more about volume. Firms may feel like they don’t have, and don’t want to invest in, the infrastructure necessary to scale their offerings to service this space. That’s an important business decision. Some firms are better at managing assets for two $50 million clients than they are for 50 two million dollar clients. The increased market share of multi-family office channel is a testament to the less-is-more approach.

Is one approach right and the other wrong? No. They are just different philosophies that require different tools to support. Can shops effectively target both segments? Absolutely. But they have to be committed to providing the highest level of service to each. Because the firms that are successful, no matter the climate, are the ones that have clearly defined their market and developed an offering to effectively and profitably service that market.