

## **PRACTICE MANAGEMENT: Wealthy Hone In On Their Money Mgmt**

By **Kristen McNamara**

22 October 2008, 14:41

NEW YORK (Dow Jones)--Wealthy investors are taking a closer look at their financial advisors and investment strategies as global stock markets career and economies contract.

They're questioning their financial advisors more thoroughly, turning to peers for guidance and, in some cases, taking a more active role in managing their wealth, according to organizations that work with families who have tens, or hundreds, of millions to invest.

Financial advisors and asset managers who keep in close contact with clients and explain the reasoning behind their recommendations can retain investors and win new ones in today's challenging environment, counselors to the wealthy say. Those who hide out or don't appear to be acting in their clients' best interest risk losing business.

"They are definitely casting a more critical eye on their financial advisors," says Michael Sonnenfeldt, founder of Tiger 21, a network of nearly 170 members, each of whom has at least \$10 million to invest. "Members are holding their financial advisors to a much higher standard of accountability."

Investors realize they're ultimately responsible for their family's money and need to know what's happening with it and why, according to Sonnenfeldt.

He says recent events, including the subprime mortgage mess and lock-up of the auction-rate securities market, have dispelled any notions investors may have had about financial advisors possessing "secret truths" or omniscience.

Tiger 21 members spend a good deal of time sharing information about financial advisors, including matters such as fees, service and investment returns, Sonnenfeldt says.

Recent shake-ups of major Wall Street firms also have caused investors of varying wealth levels to re-examine their financial relationships, according to data from research and consulting firm Prince & Associates.

### **Turning To Peers**

Wealthy families view other wealthy families as valuable resources and sounding boards, says Laird Pendleton, co-founder of CCC Alliance, a membership organization for super-wealthy families.

"Most definitely in times like this, people turn to their peers for unbiased and experienced advice as to what people are doing," Pendleton says. "Simply relying on the Street has had its land mines."

The level of interest from prospective CCC Alliance members during the past two months has been two to three times greater than usual, he says.

Family Office Exchange, which provides research, advice and education to ultra-wealthy families, is holding its annual membership forum this week, says Ruth Easterling, managing director for member services. Members include wealthy families, financial advisors and family office executives.

The meeting will focus on current economic and financial market conditions and members' responses. Topics of discussion will include investment opportunities, the process of selecting investment managers and the various types of risk wealthy families face, she says. Staff also will share the results of the latest member investment survey it conducted earlier this month.

Tiger 21 has begun holding weekly conference calls for members, who also meet once a month, to discuss investment and wealth-management strategies in today's topsy-turvy market. Recent calls have covered the best places to park cash, whether the hedge fund model is under threat and how tighter regulation will affect equity markets.

The organization, which has seven offices across the U.S., says it's also fielding an increased number of inquiries from potential members and from investors in other countries, including Canada and Australia.

It plans to open additional offices over the next year in Phoenix; Chicago; Houston; Seattle; Boca Raton, Fla.; and Orange County, Calif.

## **Examining Advisors**

Investors tend to stick with their financial professionals when their investments are generating positive returns, says Robert Casey, head of research for the Family Wealth Alliance. They're more likely to look for a new advice provider when their portfolios lose money or when they come into a pile of money, by selling a business for example.

The Family Wealth Alliance helps families find a wealth manager or start a family office and conducts research.

Independent advisors who focus on comprehensive financial planning and don't sell products could benefit from investor moves, Casey says.

Indeed, the really rich - those worth at least \$30 million - may look increasingly to boutique wealth-management firms, which aren't on the radar of mainstream investors and the media, says Hannah Shaw Grove, a managing partner at Prince & Associates.

Less wealthy investors might also be looking for new financial advisors.

Nearly 81% of individuals with at least \$1 million to invest intend to move money away from their financial advisors, and almost 57% intend to leave their advisor altogether, according to a telephone survey of 351 investors that Prince & Associates conducted during three days in late September.

About 86% of respondents would caution other investors against working with their financial-service firm, and nearly 45% would recommend other investors avoid their own financial advisor.

Investors who work with national or regional banks and brokerage firms were more dissatisfied than those working with boutique firms that are principally local, according to the survey.

Investors who say they will move won't necessarily follow through, Grove says. Inertia is a powerful force. Responses may also have been clouded by emotion.

The survey took place the week after Bank of America Corp. (BAC) agreed to acquire Merrill Lynch & Co. (MER); Lehman Brothers Holdings Inc. (LEHMQ) filed for bankruptcy protection and a U.S. bankruptcy court approved Barclays PLC's (BCS) purchase of the bulk of Lehman's North American operations; and the New York Federal Reserve said it would make an emergency loan to American International Group Inc. (AIG).

The really rich tend to be really private. They're less likely than the merely rich to compare notes about financial-advice providers with friends and family, Grove says.

But the wealthy members of peer-to-peer groups do talk.

Each Tiger 21 member, for example, opens his personal balance sheet and income statement to a subset of the overall membership once a year. The ensuing analysis includes whether the investor is being well-served by his financial professionals.

At least four financial advisors or money managers count dozens of Tiger 21 members as clients due to word of mouth, Sonnenfeldt says.

"We are a great friend to the great managers," he says. "We're not a great friend to lousy managers."

(**Kristen McNamara** writes Practice Management, a column that looks at ways financial advisors can build and improve their business. She can be reached at 201-938-5392 or by email at [kristen.mcnamara@dowjones.com](mailto:kristen.mcnamara@dowjones.com).)