

WEALTH MANAGER

■ Not the Beardstown Ladies Clubs

Peer-to-peer groups for the ultra wealthy raise the bar for wealth managers.

7/1/2007

By Bruce W. Fraser

WARY OF WALL STREET AND THE HARD SELL, SOME ultra-wealthy private investors are seeking another path by connecting with one another to manage money and share knowledge and advice in a forum where they are confident no one has an agenda. As members of elite clubs like Tiger 21, the Institute for Private Investors, the Family Office Exchange, CCC Alliance and others, they aim to be masters over their own wealth and fortunes, beholden to no one. Here they enjoy the camaraderie of like-minded persons of wealth, exchange ideas on investing and wealth management, and sometimes invest on their own.

Those who join get first-hand advice and recommendations from specialists and experts on such matters as hedge funds, trusts, private jets, collecting, vacation homes, security, and preparing their children for their inheritance. These “peer” groups charge hefty fees and require millions of dollars in assets for membership. The threshold for membership in CCC Alliance, for example, is \$100 million.

The groups are growing in popularity as the numbers of the wealthy in the U.S. proliferate. Currently, close to nine million households have assets in excess of \$1 million and there are more than one million individuals with at least \$10 million, according to the Federal Reserve. And studies project that some \$41 trillion in intergenerational wealth will be transferred between 1998 and 2052.

For wealth managers and financial advisors alike, the popularity of these groups raises significant questions: What are club members getting that they could not receive from independent wealth managers and private client groups? Should wealth managers encourage clients to join these clubs? Do wealth managers feel threatened in any way by their existence? Would it be feasible for wealth managers to start their own peer groups? And if so, can the content of these clubs be downsized right to the typical wealth management business?

Meanwhile, financial service firms are taking a page from the clubs and offering similar fare to their ultra-high-net-worth customers: Courses, seminars, and training sessions with experts on wealth to help the next generation retain their assets—and keep their loyalty. Private banking divisions of major banks and trust companies like Citigroup Private Bank, Lehman Brothers Holdings Inc., Northern Trust Corp. and U.S. Trust Corp. among others, offer a full menu of programs on financial issues geared to the children of the super rich.

In addition, a growing number of firms and consultants who are not actual money managers are offering seminars, workshops, and private consultations to both wealth management firms and wealthy families themselves. This burgeoning industry illustrates the range of services the wealthy require to manage their fortunes—from the basics of wealth management to the latest and hottest instruments, such as hedge funds, commodities and exchange traded funds.

“It’s a trust issue,” maintains Kristi Kuechler, director of the Institute for Private Investors (IPI). “They just aren’t confident they’re getting objective advice from their advisor. It’s the creation of their own kitchen cabinet. Whom can they better trust? They’re looking for a second opinion without any conflict, and today they feel that second opinion should come from a fellow investor.”

Some very wealthy people—particularly those who have inherited their fortunes—seek out wealth education courses after being sheltered for years without having to make financial decisions. Elizabeth P. Anderson, who runs Beekman Wealth Advisory, her own boutique wealth management firm in New York, creates custom wealth education programs for families and individuals, mostly heirs. She sells no financial products.

“Anything that helps clients get a better understanding of finance and investing will stand them in good stead and help them make better decisions,” says Anderson. “The number-one problem is that most of the education is being offered by organizations that are really in the business of selling products. It’s unusual to find organizations that provide pure education.”

Each of the peer groups has a slightly different focus. Founded in 1999 by Michael Sonnenfeldt, a prominent real estate developer, New York-based Tiger 21 has 130 members—up from just 63 in 2006—and manages an aggregate of more than \$7 billion in assets. To join, members must have a minimum of \$10 million in investable assets. Annual dues are \$25,000.

Tiger 21 allows no corporate members, though corporate chieftains and Wall Street bankers often are presenters at meetings across the country. The majority of its members are self-made—creators of their own wealth, as distinguished from inheritors of wealth, according to Sonnenfeldt, who serves as chairman. “Some have created, built and sold their own businesses. Others are former CEOs of major corporations, and increasingly,” he adds, “a subset of members is active on Wall Street either in the private equity or hedge fund world.”

“What we’re looking for in new members are people of the highest integrity, who are life-long earners, who can check their ego at the door, and have a passion to teach and learn from their fellow members. All our members have already proven they can perform at the highest levels of accomplishment.”

Headquartered in a townhouse on Manhattan’s posh Upper East Side, Tiger 21 has chapters in a number of cities across the country. Discussion topics are about 50-50 financial and non-financial, says Sonnenfeldt. Financial topics range from subjects like the eroding dollar, real estate or the role of commodities as an inflation hedge to asset allocation, including how private equity and hedge funds can enhance long-term returns. Non-financial topics more likely focus on the preservation of wealth, particularly on how children of wealthy parents are affected in positive and negative ways. Other topics include estate planning, insurance, philanthropy, politics and the global environment.

“Our members join a community of peers that would be virtually impossible to create on their own,” Sonnenfeldt maintains. “On average, anecdotally, we believe our members may be getting 200 to 300 basis points of better performance, which dwarfs the \$25,000 fee they will normally pay. We also want to help the advisor or manager understand why what we’re doing is compatible and even supportive of their mission as opposed to being a threat.”

The New York-based Institute for Private Investors has about 1,050 investor members—four out of five overseeing \$50 million or more. One of four controls \$200 million or more in assets. And seven out of 10 members are the principal—either the wealth creator or the inheritor—leaving 30 percent as family office professionals. Membership fees range from \$6,000 to \$9,000 annually.

The institute has two side-by-side memberships: private investors themselves and an advisor membership consisting of more than 200 firms that advise high-net-worth individuals. “We have separate offerings each for the private members and the advisors,” says Kuechler, who is based in San Francisco. She says advisors are not allowed to solicit private members with products or services. The organization holds educational and networking events in cities across the U.S. and abroad and is supported solely by dues and educational fees.

Kuechler describes IPI as “a community of families connecting with other families to become more sophisticated stewards of their wealth.” The institute was founded in 1991, she says, as a “safe harbor” where private investors could be confident that they would not be targeted by vendors and would receive unbiased information untainted by the desire to sell products. “This is consistent with IPI’s mission to change the way investors work with advisors and advisors work with investors for the benefit of both,” says Kuechler. Members are also active investors on their own.

Along with regular meetings on both coasts, the institute runs a private investors-only list serve on which they can ask questions of one another. “It’s like a gated community,” says Kuechler, who adds that almost half the queries relate to manager selection or due diligence on a manager. In fact, a recent IPI survey of members’ risk tolerance found the most important risk they monitor is their managers. The list serve is only for private investor members; no professionals are allowed to participate.

The Chicago-based Family Office Exchange, or FOX, provides similar peer-to-peer services to ultra-high-net-worth families, as well as to the advisors and wealth managers who serve them. It maintains an archive of resources (strategic research, benchmarks, best practice articles and whitepapers), offers Webinars, on-line forums, roundtables, and other forms of wealth management education for its members. FOX serves as sort of a clearinghouse for its private investor membership—which is confidential—and advisory constituency. The organization has 500 members in 22 countries worldwide, including 340 families with multi-generational wealth and their offices. In addition, FOX serves nearly 200 multi-family offices and advisory firms specializing in investment advisory, wealth advisory, and family advisory services. Annual membership fees are applied on a sliding scale up to \$26,000.

John Benevides, president of FOX, maintains his organization differs from other peer groups in two respects: research and advice. “We have eight on our full-time research staff. We do very deep, continuous research, including benchmarking. Also, we actually give our opinion to members—whether it’s an advisor or a family member—when asked.”

A fourth peer group, CCC Alliance, was created in 1995 in Boston. It consists of approximately 80 families, each with a minimum of \$100 million in family assets. “We’ve created a private forum where families can learn from each others’ experience with governance, investing, philanthropy, operations, and family business,” says Stephen Martiros, managing partner. CCC Alliance has a strict “no vending” policy and is supported exclusively by dues.

Both CCC Alliance and the Institute for Private Investors have tie-ins with the University of Pennsylvania's Wharton School of Finance. As of May, 2007, a total of 389 investors from 24 countries have graduated from IPI's five-day residential program offered twice a year. IPI is also offering another five-day program entitled Wealth & Values at Stanford University in California.

Does the existence of these peer groups represent a challenge to the bottom line of individual wealth managers and advisors? Should they climb on the bandwagon and create peer groups of their own? IPI's Kuechler says many of the larger wealth management firms are moving in this direction, but she notes that a critical mass of 300 or so clients is probably needed to create an effective peer community.

While there is some cynicism towards the financial services industry among IPI's private investor members, Kuechler says a recent IPI survey shows fairly high satisfaction with their specific advisors. On a scale of 1 to 6, IPI members awarded a mean of 4.7 to the question agreeing with the statement: My advisor did an excellent job.

CCC Alliance's Martiros says the existence of peer groups means that as time goes on, advisors may want to make adjustments for dealing with a savvy clientele. Clients, on the other hand, are looking for new sources of financial information, he says, and seeking "to unbundle their wealth management solutions." Martiros says advisors who are highly confident in their services and don't fear weakening their relationships with clients, could provide forums for clients to meet one another and exchange information. That could be a win-win all around.

Many wealth managers agree that peer-to-peer groups are good for broad educational purposes and study, but shouldn't be viewed as a substitute for personal advice. "Peer groups have a place. I'm not sure they are the answer; they are an answer," says Judy Lau, president and founder of Lau Associates, a multi-family office in Wilmington, Del. that advises individuals and families of wealth. "They're great for education purposes. You need a place for people to get together and exchange ideas on investments. You need others to bounce your ideas off of, but they're only dealing with their frame of reference. They're not really trained to deal with other individuals and their own view of the world and portfolio management. It's not the broad spectrum of, say, 100 clients."

Arthur Bavelas, CEO of Resource Network LTD in New York, an advisor to ultra-affluent individuals and family offices globally, has led group discussions at Tiger 21 and other peer groups. Bavelas says people are better armed with investment knowledge—discussing concepts like family office planning, hedge funds, estate planning—and gain from the camaraderie, but need individual advice to properly manage their own family's wealth. "I think there's value and opportunity in all the silos. The challenge is to extract the value, and not even the smartest, wealthiest people necessarily own the skill set to extract that value."

Elizabeth Anderson, the independent wealth educator, says free of salesmanship, peer groups can be an effective tool for people. A problem, however, is that some may presuppose a level of financial sophistication that many don't yet possess. "Some may be great finding out about the latest hedge fund launch," says Anderson, "but might not be as helpful for those who need basic financial literacy."

Benevides stresses that FOX doesn't manage money per se, and people need individual advice. "The complexity of money management today is well beyond where it was in the recent past, given the proliferation and globalization of products, and people are well advised to get the qualified expertise that's needed," he says.

Some long-time advisors, however, scoff at what they consider the novelty of peer group courses for the "mega" wealthy.

Joseph R. Birkofer, principal of Legacy Asset Management in Houston, ticks off other choices open to the ultra wealthy, such as financial association programs and local experts from universities and colleges.

In terms of wealth managers setting up peer-to-peer groups, Birkofer says, "They're fine as long as everyone is treated equally well. Most clients expect some degree of customization, but the specifics of performance will never be directly comparable. Also, I don't think clients really want to compare performance because it's confidential."