Credit: Daiga Ellaby

LIFE COACHING FOR WEALTH CLIENTS

According to the 2018 Old Mutual Savings and Investment Monitor Wealth Report (OMSIM WR), two-thirds of the wealth market – those earning over R80 000 a month – rate leaving a legacy as a high priority, while only 4% of respondents viewed it as low priority. These findings are supported by the results of the Capgemini World Wealth Report (Wealth Report), which consistently shows that leaving a legacy to the next generation is a major concern for wealth clients.

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So, considering that leaving a legacy is key to wealth clients, why do wealthy families lose their family fortunes in three generations or less? Probably one of the key contributors is the fact that many of them do not have a proper plan in place to ensure that their wealth is indeed sustained. The Wealth Report showed that only 53% of wealth clients across the world have a simple succession plan in place, while just 26% have a comprehensive plan.

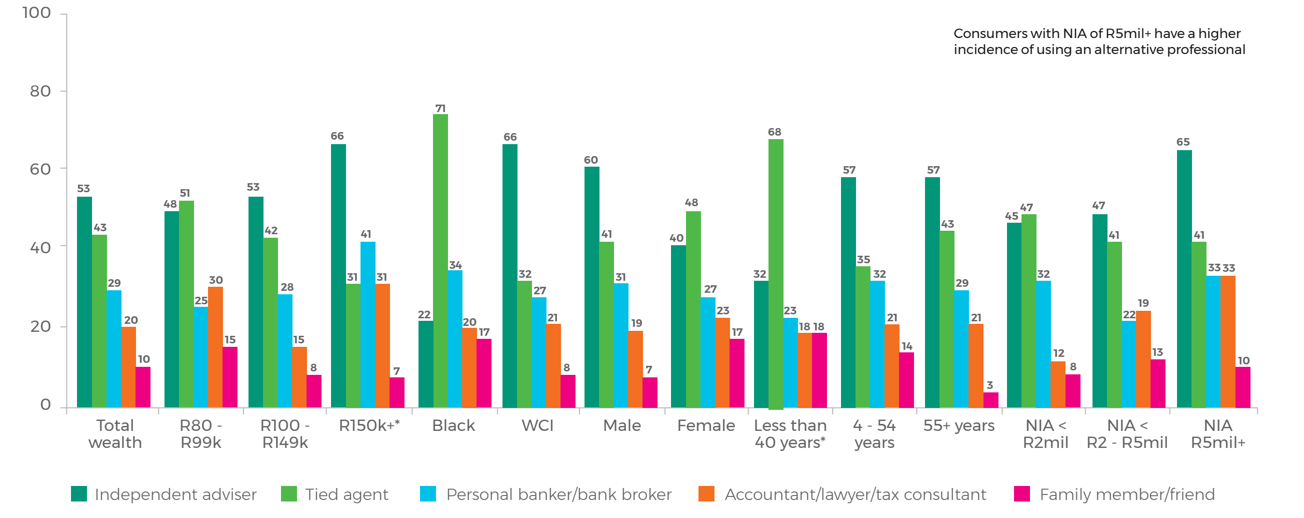
Even though wealth planners and managers have increasingly acquired the expertise and tools to meet wealth clients' needs, research across the world has shown that certain cultures are reluctant to take "external" advice – from people they don't relate to or trust. The OMSIM WR revealed that although the majority of wealth clients use independent advisers for their financial planning needs, black wealth clients and those under the age of 40 (millennial skew) prefer to use a broker tied to an insurance company (see chart). In addition, research by the Wealth Report revealed that wealth clients felt that personal connection with their planners was not up to standard and needed to be improved.

At Old Mutual Wealth we believe that wealth planning and leaving a legacy not only requires proper planning by the wealth manager, but also managing, structuring, protecting and leveraging wealth. The financial planning process is complex as it has to include investing, estate planning, treasury advisory services, tax structuring, portfolio management and trading, among others. There is a risk of not optimally leveraging or even sustaining wealth if it is not structured from a wealth management perspective. We believe that financial coaching and integrated wealth planning are key to achieving the complete solution. Therefore relationships, trust and alignment between client, planner and manager are key to achieving this goal.

The current volatile socio-political environment across the world is leading to many wealth clients looking to diversify offshore and becoming global families, to ensure the growth and retention of their wealth. Socio-political volatility impacting changes in fiscal policy, in turn impacting wealthy individuals, sometimes leads to migration of wealth from countries that need it most. According to the 2018 Wealth Report by Knight Frank (Wealth Report), South Africa is forecast to see a 20% uplift in its ultra-wealthy population over the next five years, following a 14% rise in 2017. Therefore, over and above the need to preserve wealth, there is also a requirement to diversify risk as wealthy South Africans continue to move money abroad and acquire dual citizenship. Therefore it is imperative for a wealth manager to be able to advise on diversification, especially offshore, to retain wealth clients and ensure that assets can be repatriated when the economic environment improves.

Since South Africa has the most unequal distribution of wealth in the world, according to the World Bank, the political rhetoric might sometimes make the wealth market's contribution to the economy seem unimportant. Generally, countries with the most billionaires are those with the biggest economies in the world – the US, China and Germany lead this pack. Therefore, considering this correlation between the wealthy universe in specific countries and the size of those economies, it is clear that not only is there an opportunity for business in this sphere, but also to do more with wealth through appropriate use of the capital provided by this market. At a time when social responsibility seems to be growing and the wealthy are looking at leaving a legacy that goes beyond their families to include their communities, countries and the world, managing wealth has never been more relevant.

FIGURE 31: VARIABILITY OF RETURNS EXPLAINED BY PRICE TO NORMALISED EPS (R-SQUARED OF NORMALISED PE VS SUBSEQUENT S&P 500 RETURNS)



Base = 143 Wealth respondents who use an adviser or a broker (to a greater or lesser extent)

Asked which advisers they use, results are dominated by independent advisers, with the exception of Black Wealth and "younger" where tied advisers are far more prevalent. Personal bankers/ bank based brokers are also accessed at a significant level, and rising with income. Note: Duplication occurs, i.e. multiple adviser types are accessed.