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An increasingly large number of service providers are focusing anew on the needs of affluent and wealthy investors. Well-established private banks are refining the services which they have been providing for decades, when not centuries! They are joined by institutional asset managers, while brokers and a wide variety of other financial intermediaries. They are all discovering a new paradigm: wealth management is an activity which must integrate several disciplines, such as financial, estate, and investment planning. At the same time, new participants are also expanding into the market: estate or financial planners are seeking to offer services comprising an investment dimension.

These changes are not new, but they raise an interesting question, which many service providers have so far not been willing to address: what do affluent and wealthy individual investors really need, want, and seek? Corollaries to that question involve finding market segmentation axes and overall product designs which can be delivered at a profit.

The marketplace currently offers at least three models:

1. *Traditional asset management focus*. Many firms aim to serve wealthy investors by offering an investment management service, delivered in the form of “individual building blocks.” Though proponents of this approach recognize that investors have broader needs than those met strictly by a building block approach to investment management, they argue that a single, sharp focus is required to offer product excellence.
2. *Administrative platform focus*. A few large firms are effectively “integrating downward,” moving from a set of well-developed administrative core competencies (such as master custody or transaction processing) to incorporate some form of asset management, investment planning, and, even more recently, competitive performance assessment and reporting. Though advice in the form of manager selection or customized strategic asset allocation is still somewhat rudimentary, these firms are ostensibly moving toward providing several of the functions traditionally offered by investment consultants.
3. *Integrated asset management*. Other firms are integrating discretionary and non-discretionary investment services, such as brokerage services. They recognize that the extent to which an

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investor is willing (and able) to delegate investment authority is one of the most frequently mentioned differentiating criteria between individual clients or prospects. They, therefore, offer a continuum of investment services, ranging from totally discretionary managed portfolios, to approaches involving the client in the decision process to traditional brokerage services.

To the extent that investors now have more choice, the change has been laudable. At the same time, one can argue that the process is only starting. Investors indeed complain that their needs are still not met, as they need integrated wealth management. What does that entail?

When asked to list their most critical needs, investors often mention the following:

1. *Unbiased strategic advice*. Investors are increasingly recognizing that having a long-term strategy is one of the most important ingredients of investment success. They are increasingly sensitive to the fact that they must be concerned with long-term after-tax results and that they must also understand and optimize the financial and estate planning implications of their choices (this leads them to think in terms of both asset allocation and asset location). They suggest that the advice currently available to them from all but independent investment consultants often seem somewhat colored by the advisor's product line.
2. *Open portfolio architecture*. Investors are increasingly unwilling to delegate the control over all their assets to a single provider. They have come to believe the adage which states that no one can excel in everything. They are thus seeking the flexibility inherent in multimanager portfolios and in the ability to direct some or part of the management of their portfolios. Furthermore, they do not necessarily want these portfolios to be selected by a single firm (at which point, the perception is rekindled that investment authority has been delegated to a single party). Interestingly, they often do not object to the assets being consolidated in a single administrative relationship.
3. *Access to alternative assets and strategies*. Though the question of whether or not the appeal of hedge funds or private equity offerings is, in part, a function of their performance records, few investors doubt the proposition that some exposure to low correlation, high-return, or private equity strategies is beneficial. The diversification case is relatively well understood. Further, there is an almost natural or intuitive appeal to the idea that there must be a few really smart and highly-focused managers able to produce performance that is independent upon market vagaries. After all, many of these wealthy investors built their assets based on their own unique skills.
4. *Sophisticated and user-friendly reporting*. With the move toward multimanager portfolios, focused traditional strategies, hedge funds, and private equity investments, total portfolio consolidation becomes a considerable challenge. Sophisticated master custody (or master trustee) capabilities become an important consideration to investors who want (and need) to be able to see the total picture and make intelligent investment decisions.

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Furthermore, an open architecture makes relative peer performance comparisons a must, alongside the traditional relative benchmark analyses. Electronic access will likely become a sine qua non both as users will be more computer literate and as an internet-based delivery should foster a greater tendency toward mass customization.

5. *Borrowing capabilities*. Though not as widespread as other needs, being able to borrow against portfolio assets is increasingly important. This probably reflects two discrete factors. First, particularly after a long, almost uninterrupted bull market, it should not be surprising that several investors feel the need to leverage their portfolios. This is specially understandable in an environment where so much of the investable wealth is controlled by entrepreneurs who have used debt in the past. Second, several intergenerational wealth transfer techniques incorporate the need for debt. The challenge which investors experience is, however, often associated with the ability of traditional lenders to use complex or non-traditional portfolio assets or strategies as collateral.

These needs suggest that it is necessary for successful investment managers to use non-traditional approaches to satisfy their clients. This is even more critical in an environment where new, non-investment needs are believed to be as increasingly important. These include:

1. *Integrated planning*. Investors are demanding more sophisticated planning approaches, such as the ability to integrate financial, estate, and investment planning. In part, this probably reflects the increased sophistication of the marketplace and the fact that wealth has been created by increasingly young entrepreneurs.
2. *Philanthropic advice*. Numerous entrepreneurs are setting up private foundations which they need help administering. A desire to "give something back" is creating a need for advice on how to undertake charitable activities. Many entrepreneurs have been accustomed to seeking help whenever confronted with a new problem. The desire to "make a difference" and to "optimize the utility" of their philanthropic activities leads them to seek expertise and may in fact promote innovation in the field as well.
3. *Generational training*. Mindful of the cliché according to which it is not uncommon to go from shirtsleeves to shirtsleeves in three generations, numerous wealth creators are concerned about the effect of their wealth on their children. The ability to help them deal with that issue is becoming increasingly important criterion in their choice of a wealth management provider.

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This Summer 2000 issue of the *Journal of Private Portfolio Management* contains seven articles covering four different topics.

The first article, by Barton Francis, presents a ten-step checklist for succession planning, an issue of critical importance to many entrepreneurs. He argues that a primary goal in financial planning engagements is to assist clients in deciding how, when, and to whom to transfer their wealth. In particular, planning for closely-held business owners, he focuses

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on the need to have the liquidity necessary to pay estate taxes and to avoid the disruptive effects of a change in management and ownership on the operation and the value of the family business.

The next three articles discuss behavioral finance issues. Hersh Shefrin writes on recent development in behavioral finance, setting out the six main concepts underpinning the analysis of individual actions and reactions. Scott Budge takes a different tack and considers the psychology of investments. He presents an overview of emerging insights, discussing trends creating urgency around the topic and three areas worthy of continual monitoring. Rudolph-Riad Younes takes aim at an issue which can be argued to be particularly timely: he embarks on the task of measuring "the madness of the crowd." Based on an analysis of historical speculative bubbles, he attempts to explain whether bullish news is accurately reflected in the stock market's current valuation, or whether such news is overemphasized, leaving the market vulnerable to a significant correction.

The fifth and sixth articles discuss broad asset allocation concepts. They expand on the need to evaluate both location and allocation issues, and to focus on the total wealth of an individual or a family rather than specific portions thereof. William Reichenstein focuses on frequently asked questions related to savings vehicles, the third installment in a series of articles on the interaction of investments and tax structures. Ernest Ankrim and Paul Bouchey present a contrast between a total portfolio approach to an asset allocation problem when some part of the portfolio is taxable, and the more conventional approach of treating the two (taxable and tax-exempt or tax-deferred) portfolio segments separately.

The last article deviates somewhat from our traditional editorial contents, but still offers interesting insights. David Lovatt presents a methodology designed to time investments using model-based market forecasts. This will add to the controversy about market timing and should, hopefully, elicit further comments.

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Before closing, I would like to invite all readers to consider sending us commentaries or reactions suggested to them by any of the articles which we publish in this Journal, or which they found in other journals and believed to be of interest to our readership. This will help us achieve our mission, which we see as serving as a forum where ideas and insights dealing with private wealth management issues are presented and discussed.

Finally, I would like to welcome the newest member of our Advisory Board, Richard Sincere. Richard and I have worked together on issues related to the management of the wealth of the affluent. His insights will surely be very valuable.

Jean L.P. Brunel
Editor