

Dead Wrong About Inheritors

Advisors waiting for unprofitable clients to become heirs to vast fortunes are missing an opportunity to cultivate an affluent clientele here and now.

FINANCIAL ADVISORS HOPING TO BUILD more profitable businesses are often fascinated with the potential of the inheritors market. Such advisors frequently cite predictions that from \$10 trillion to over \$100 trillion will be handed down by mid-century. Advisors enrolled in CEG Worldwide's coaching program share this fascination, and frequently tell us that they want to retain certain smaller clients — even those who are clearly unprofitable — because at some point down the road some of these clients might receive large inheritances. Sometimes these advisors know the likely size and scope of these anticipated inheritances, but often they have little concrete evidence as to potential likelihood or size.

When asked for advice about the inheritors market, we turn to the extensive research performed by CEG Worldwide's senior managing principal, Russ Alan Prince. The insights provided by this research have an unmistakable bottom line: While there

is indeed a substantial opportunity in the inheritors market, it's nearly the exact opposite of what most advisors think it is.

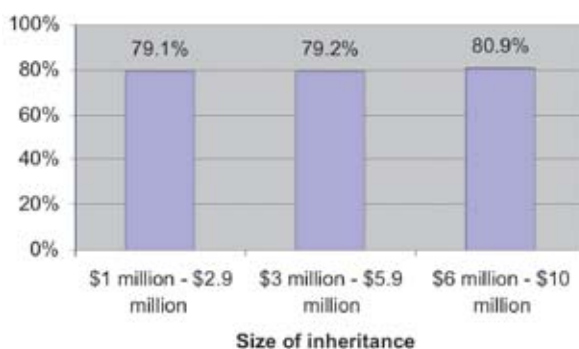
Inheriting a Mistaken Belief

One widely held industry belief is that if the client of a loyal and competent advisor inherits a substantial sum, that

client will probably continue to work with the advisor. After all, if the advisor has stuck with the client through thick and thin, then why wouldn't the client likely choose to maintain a functional and well-developed relationship? Empirical research, however, clearly shows that *the vast majority of those who inherit a substantial amount switch advisors*. As the first chart shows, of 334 inheritors surveyed, roughly 80 percent switched advisors after their ship came in.

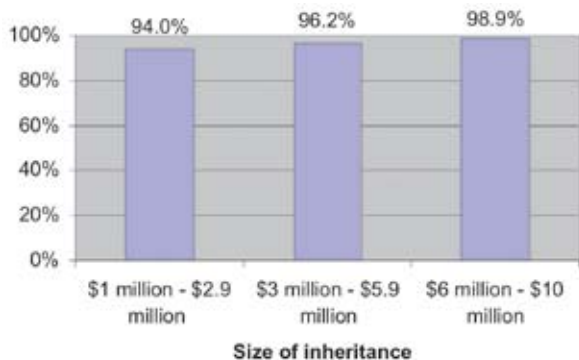
A related mistaken belief is that it is worthwhile for advisors to cultivate the adult children of their clients, that is, adult children who are some day likely to inherit their parents' wealth. Based on this belief, many advisors hold "family meetings" that include the adult children, or have a more junior advisor attend directly to them. But here

Chart 1: **After Inheritance, Inheritors Switch Advisors**



N = 334 inheritors. Source: Merrill Lynch Investment Managers/Prince & Associates, 2003.

Chart 2: **Inheritors Want to Work with Advisors Who Specialize in Investing for the Affluent**



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What drives the high percentage of switching over? As the second chart shows, *affluent inheritors almost universally want to work with advisors who specialize in investing for the affluent*. This makes perfect sense: Individuals who inherit substantial amounts want to work with advisors who are already experienced in serving the needs of the affluent, and who unmistakably know what they are doing. If you don't already mainly serve affluent investors, then any substantial inheritors are highly likely to leave you to start their "new life" with an advisor who already serves a wealthy clientele.

But is it possible for an advisor to lower the odds of an inheritor moving on? If one or more clients are likely to inherit substantial fortunes, might it not make sense for an advisor to hold onto those clients, even if they are unprofitable, given the possibility that one or two might "hit it big" with an inheritance? The answer is a resounding "no." Don't waste your time on a business plan that has an 80 percent chance of failure. Instead, consider how you can position yourself now to work with clients who have inherited substantial sums. That is, if so many substantial inheritors switch to a new advisor, then how can you position yourself so that *you* are one of those advisors?

Specializing in the Needs of Inheritors

To be in the right position to attract the business of inheritors, actively position yourself as a specialist serving individuals who have inherited substantial amounts. By specializing in this niche, you will become better at serving those who have inherited, which over time will enable you to provide better service and counsel, thereby eventually bringing you even more inheritance-related business.

Transforming your practice so that you specialize in the affluent inheritors market can be a dead certain path to success.

More specifically, CEG Worldwide recommends the following three-step process for tapping into the inheritors market:

1. Form the right strategic alliances.
2. Create an effective investment process.
3. Position yourself as an advisor to the affluent.

The first step is to form the right strategic alliances. When someone inherits a great deal of wealth, they usually turn to certain professionals to help sort things out, especially accountants, trust and estates attorneys, and insurance specialists. By systematically developing ongoing strategic alliances with these professionals, you not only gain access to their relevant expertise, but you also put yourself in a position to receive their referrals.

Second, create an effective investment process, one that will both serve inheritors and impress these referring professionals. Remember that there is only a short window of opportunity — one or two months — where the attorneys, accountants and others who work with inheritors are likely to be asked for a referral. To get that referral, you must be first in the mind of these professionals. You must impress them not only with your general abilities and

dedication to the inheritors' niche, but with your consultative client relationship management process. Your process must enable you to truly uncover the goals, values, challenges and deepest needs of inheritors, and then invest and manage their wealth accordingly. With such a process in place, you will develop the confidence and trust of these referring professionals, and be able to offer any referred clients the best possible service and advice.

Lastly, consistently position yourself as an advisor to the affluent. Remember, the research shows that inheritors want to work with advisors who specialize in the affluent. You therefore need a compelling value proposition that unambiguously states that serving the affluent is your primary focus, and you must be able to deliver the kind of service and expertise that the affluent demand. Specializing in the affluent requires a different mindset and a willingness to transform your business in many ways, such as letting go of smaller and unprofitable clients.

In the Long Run...

"In the long run," famed economist John Maynard Keynes once said, "we are all dead." While this is inescapably true, there is little opportunity to be found sitting around and hoping that your small clients (or the adult children of wealthy clients) will someday inherit. Instead, the opportunity is to actively position yourself — here and now — as a specialist for those who are inheriting substantial wealth. To be successful on purpose as a financial advisor you need a replicable and profitable business plan; waiting for specific clients' parents or relatives to die is neither replicable nor profitable. But turning this equation around 180 degrees — and transforming your practice so that you specialize in the affluent inheritors market — can be a dead certain path to success. **B**