Advisor Authority

ADVISOR AUTHORITY 2017

The Future of Advice

The Innovation and Issues that RIAs, Fee-Based Advisors and Investors Care About Most

CHAPTER 3
MOVING THE NEEDLE:

Targeting the Emerging High Net Worth

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ADVISOR AUTHORITY:

The Innovation and Issues that RIAs, Fee-Based Advisors and Investors Care About Most

To help all advisors at every level tap into the tremendous potential of the independent fee-based channel, our 2017 *Advisor Authority* study, now in its third year, explores the issues and innovative solutions that matter most to RIAs, fee-based advisors and their clients.

In this latest *Advisor Authority* Special Report, we zero-in on the Emerging High Net Worth—a segment of clients that is thriving, growing and accumulating more wealth. To move the needle for your practice, enhance current profitability, and build a foundation for the future growth of your firm, we will help you better understand the priorities, preferences and concerns of the Emerging HNW, as well as help position your practice to meet their unique needs. Today's Emerging HNW are poised to be the future "millionaires next door." As they ascend to the ranks of the HNW and Ultra HNW, it's important to understand how their priorities, preferences and concerns will change.

In a year of the unexpected and the unprecedented, we have already uncovered several important trends to help you understand your clients and position your practice for greater growth. As lawmakers continue to dominate the headlines, our study has shown that Washington politics is among the top factors that impact both financial advisors' and individual investors' approach to investing. Our findings have also revealed how investors and advisors are clearly aligned on the importance of a fiduciary standard, and the benefits of putting clients' best interests first. We've explored how you can gain a competitive advantage, and attract and retain more satisfied clients, by creating a successful customer experience. To help you engineer your own path to success, we've studied the eight traits of highly successful advisors.

We believe in the tremendous potential of the fee-based channel. As RIAs and fee-based advisors continue to drive new innovation and disrupt the status quo, it creates new opportunities for you to transform your career and your practice by moving forward to a fee-based future. As the thought leaders and innovators continue to reshape our industry, we will continue taking the pulse of RIAs, fee-based advisors and their clients, to establish the benchmarks and provide you with the actionable insights that are so important for your success.

Jefferson National, operating as Nationwide's advisory solutions, was built from the ground up with a singular focus on serving RIAs and fee-based advisors. We have never stopped in our efforts to develop a deeper understanding of the challenges you face and the solutions that you need to succeed. We believe you'll find our research insightful. And as always, we welcome your feedback about our findings and your suggestions for next year's study.

Larry Greenberg and Craig Hawley

HOW TO USE THIS SPECIAL REPORT

***Advisor Authority* was conceived as a tool that takes the pulse of RIAs and fee-based advisors of all sizes and at every level of experience, to provide actionable insights and establish benchmarks that you can use to measure your own progress relative to your peers, leaders and industry innovators.**

We also study investors, defined as primary/shared decision makers with investable assets greater than $100,000, ranging from the Mass Affluent to the Ultra HNW, of every generation from Millennials to Matures. Their responses can help you understand where advisors and investors align, where they don't—and the opportunities that emerge as a result.

Three Segments of Highly Affluent Investors:

Throughout this Special Report, we look closely at three segments of affluent investors—the Emerging HNW, HNW and Ultra HNW—what's on their mind, what's keeping them up at night, and what they want when working with an advisor.

The Emerging High Net Worth Investor:

Individuals who have investable financial assets ranging from $500,000 to less than $1 million.

The High Net Worth Investor:

Individuals who have investable financial assets ranging from $1 million to less than $5 million.

The Ultra High Net Worth Investor:

Individuals who have investable financial assets of $5 million or more.

Age	All Investors	Emerging High Net Worth	High Net Worth	Ultra High Net Worth
Millennial: 18-36 years	26%	10%	7%	22%
Generation X: 37-52 years	27%	11%	6%	13%
Baby Boomer: 53-71 years	36%	62%	72%	51%
Mature: 72+ years	11%	17%	15%	15%
Average Age	50.2	58.9	61.9	54.4
Household Investable Assets				
$100,000 to less than $500,000	53%			
$500,000 to less than $1 Million	18%	100%		
$1 Million to less than $5 Million	14%		100%	
$5 Million or more	15%			100%
Financial Decision Maker				
Primary Financial Decision Maker	69%	62%	58%	80%
Joint Financial Decision Maker	31%	38%	42%	20%
Has an Advisor				
Yes	58%	64%	63%	63%
No	42%	36%	37%	37%

INTRODUCING OUR SUBJECT MATTER EXPERTS:

We interviewed leading subject matter experts to provide you with a deeper understanding of the innovation and issues that matter most. In this Special Report, our experts explain what it takes to effectively serve the Emerging HNW, HNW and Ultra HNW. They discuss the unique needs of affluent investors, explain what it means to put these clients first, and examine how you can drive the growth of your practice and enhance its profitability by helping these clients build more wealth.

You'll find their expert commentary at various points throughout this Special Report, as well as more in-depth interviews with each expert in a dedicated section at the back of this report. Their innovative solutions and actionable insights can help you engineer a path to success, build a successful practice and establish a viable long-term franchise for the future.

Ed Friedman,
Director of Strategic Relationships, Dynasty Financial Partners

Mr. Friedman and the relationship management team are responsible for the ongoing partnerships with the Dynasty Network advisors. A securities industry veteran for nearly 30 years, he formerly was Managing Director of Business Development and Managing Director of Advisor Development at Hightower Advisors. Prior, he held various positions at Morgan Stanley, including Director of the Wealth Advisor Program. In that role, his group provided training and support to the firm's top advisors. He also served on the Management Committee of the private client business and was a guest speaker on development and compliance topics. Mr. Friedman holds a BA from Rutgers University and is a graduate of the Executive Education Program at the University of Pennsylvania, Wharton.

Paul A. Pagnato,
Founder and CEO, PagnatoKarp

Paul A. Pagnato is a founder and CEO at PagnatoKarp, an independent wealth specialist firm based in Reston, Virginia, with $3 billion in assets under advisement. Paul is ranked #19 on Barron's Top 100 Independent Wealth Advisors list and #30 on Forbes America's Top Wealth Advisors list. PagnatoKarp's mission is to positively impact one million American lives with True Fiduciary™ Standards of pure, transparent and objective advice that puts the interests of clients first. Our Fiduciary Family Office™ provides in-house investment, tax, legal, concierge, and family services. We streamline the lives of High Net Worth clients by focusing on 3 top issues: safety of assets, simplicity, and cost.

Eileen O'Connor, MBA, CFP®
CEO and Co-Founder, Hemington Wealth Management

Eileen O'Connor is the CEO and Co-Founder of Hemington Wealth Management, one of the top 50 fastest growing RIAs in the industry for the past three years running. She is responsible for the strategic direction of the firm and all aspects of the client experience in addition to her primary role as a wealth manager for her clients. O'Connor was recognized by Investment News as a "Women to Watch" in 2016, an honor only bestowed on 20 women nationwide. She is a sought after speaker and writer on many wealth management issues, especially on issues surrounding women of wealth. She has received numerous honors and awards in recognition of her excellent service to her clients and to her contributions to the wealth management profession.

Ryon Beyer,
Managing Principal and Co-Founder, Hemington Wealth Management

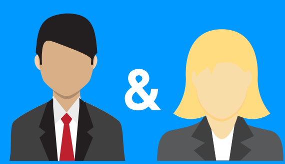
Ryon Beyer is a Co-Founder and Managing Principal of Hemington Wealth Management, one of the top 50 fastest growing RIAs in the industry for the past three years running. He has a diverse background in the wealth management industry, having served in virtually every role throughout his career. At Hemington he oversees the operations, personnel, compliance, investment philosophy, and strategic management of the company. He is a sought after speaker on issues of business efficiency, profitability, formation, and organization.

Demographics & Methodology

This is Jefferson National's third annual *Advisor Authority* study on the issues and innovative solutions that RIAs, fee-based advisors and individual investors care about most. Conducted by Harris Poll, a leading independent market research firm, the online survey was fielded from March 13 – April 7, 2017 using a sample from the Harris Poll Panel of Financial Advisors and Investors. It reflects the viewpoints of roughly 1,600 RIAs, fee-based advisors and individual investors who reside in the U.S.

Among the **779 Financial Advisors**, we surveyed:

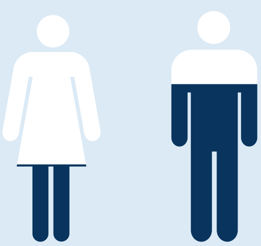
521 Independent Registered Investment Advisors



&

258 Broker/Dealers

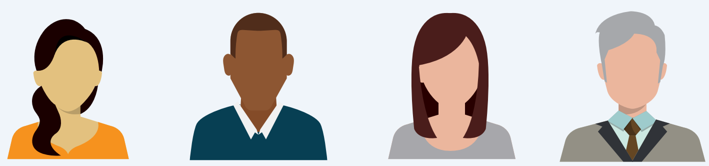
Gender



31% Female

69% Male

Age



Millennial (18-36)	Generation X (37-52)	Baby Boomer (53-71)	Mature (72+)
39%	36%	23%	1%

Total AUM Managed (Individually)

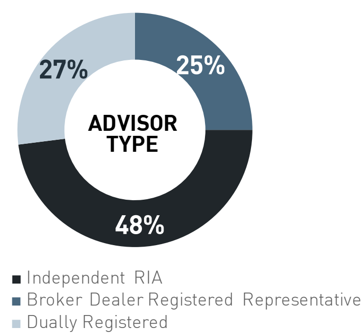
15% Less than **$25 million**

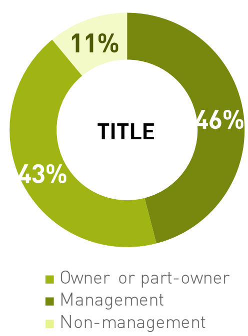
26% **$25** to less than **$50 million**

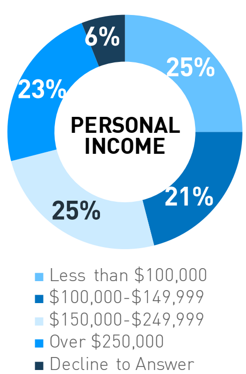
25% **$50** to less than **$100 million**

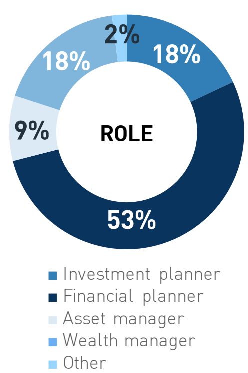
22% **$100** to less than **$250 million**

12% Over **$250 million**









Among the **817 Investors**, we surveyed:

208 Mass Affluent

204 Emerging High Net Worth

204 High Net Worth

201 Ultra High Net Worth

Investors are weighted where necessary by age, gender, race/ethnicity, region, education, income, marital status, household size, investable assets and propensity to be online in order to bring them in line with their actual proportions in the population.

Gender

43% Female

57% Male

Age

Millennial (18-36)	Generation X (37-52)	Baby Boomer (53-71)	Matures (72+)
26%	27%	36%	11%

Financial Decision Maker

69% Primary Financial Decision Maker

31% Joint Financial Decision Maker

Advisor Relationship Status

58% Have a financial advisor

42% Do not have a financial advisor

Household Investable Assets

53% Mass Affluent
$100,000 to less than $500,000

18% Emerging HNW
$500,000 to less than $1 Million

14% HNW
$1 Million to less than $5 Million

15% Ultra HNW
$5 Million or more

MOVING THE NEEDLE: TARGETING THE EMERGING HIGH NET WORTH

The Emerging HNW are Poised for Growth—and Advisors Can Tap into this Market to Drive Success

Year-over-year, RIAs and fee-based advisors rate the pursuit of profitability as their single most important practice management issue—and the push for new clients remains the top driver. Target the market of the Emerging HNW to move the needle for your practice, enhance current profitability, and build a foundation for the future growth of your firm.

The Emerging HNW market in the U.S. is thriving and poised for greater growth. With investable assets ranging between $500,000 and $1,000,000, the Emerging HNW represents roughly 12 million households in the United States—close to 10% of all households. Focused on building more wealth, the average net worth of this group increased by 23% from 2013 to 2016, making them one of the fastest growing net worth segments, according to Federal Reserve data.[1]

Today's Emerging HNW investor is on the path to becoming the future "millionaire next door." The U.S. continues to be home to the largest number of millionaires—and their numbers continue to increase. According to global consultancy firm Capgemini, the number of HNW and Ultra HNW in the U.S. with investable assets of $1 million or more has grown to 4.8 million individuals in 2016, a 7.6% increase from 4.5 million in 2015, and nearly double from 2.5 million in 2008.[2] According to Credit Suisse, the U.S. currently accounts for 41% of the world's millionaires, has six times more Ultra HNW than the next closest country, and has the highest number of individuals in the top 1% global wealth group.[3]

This Special Report will help you better understand the valuable client segment of the Emerging HNW and position your practice to help these investors build more wealth. We study the characteristics that make them unique, including their priorities, preferences and top concerns. And as your Emerging HNW clients ascend to the ranks of the HNW and Ultra HNW, it's important to understand how their priorities, preferences and concerns will shift.

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[1] Jesse Bricker, Lisa J. Dettling, Alice Henriques, et al., "Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances," Board of Governors of the Federal Reserve System, Vol 103, No 3, September 2017, https://www.federalreserve.gov/publications/files/scf17.pdf

[2] "2017 World Wealth Report," Capgemini, 2017, https://www.capgemini.com/service/world-wealth-report-2017/

[3] "Global Wealth Report," Credit Suisse Research Institute, 2017, http://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=AD783798-ED07-E8C2-4405996B5B02A32E

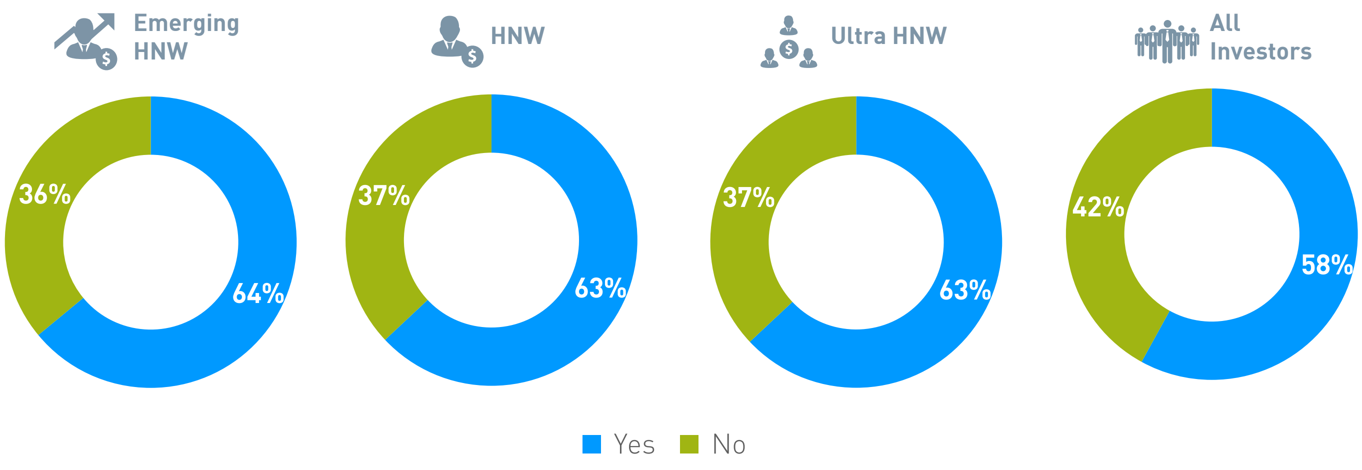
CREATING CONFIDENCE IS A PRIORITY

Emerging HNW say their financial outlook is more optimistic than many wealth segments—and year-over-year this percentage has increased, to 63% who are optimistic in 2017 from 47% in 2016. Roughly two-thirds of Emerging HNW and more affluent investors have an advisor—and the primary reason by a wide margin is to feel more confident in their financial future. Creating confidence is especially important for the Emerging HNW (43%) and HNW (48%).

Among the reasons to work with an advisor, Emerging HNW say concerns about saving enough for retirement (11%) is a distant second. But as clients' wealth increases, so does the complexity of their financial life. While HNW and Ultra HNW indicate concerns about saving enough for retirement are not as important, they instead say that financial planning is a focus (9% HNW and 15% Ultra HNW) and they do not feel confident to go at it alone (9% HNW and 12% Ultra HNW).

The opportunity is huge. Even among Emerging HNW and more affluent investors, slightly more than one-third of the Emerging HNW (36%), HNW (37%) and Ultra HNW (37%) do not have an advisor. While over half of investors without an advisor (54%) say they prefer to manage their own assets, they could clearly benefit from your services. Holistic planning and guided advice goes well beyond the basics of portfolio management—and is essential for helping them build more wealth and managing the complexities that come with it.

DO YOU HAVE AN ADVISOR?



> "To provide a true client experience, you can't just say you put the client first, you have to live and breathe it. It is about having a 'client comes first' mentality and demonstrating it with your actions. That's why we are in this business in the first place."

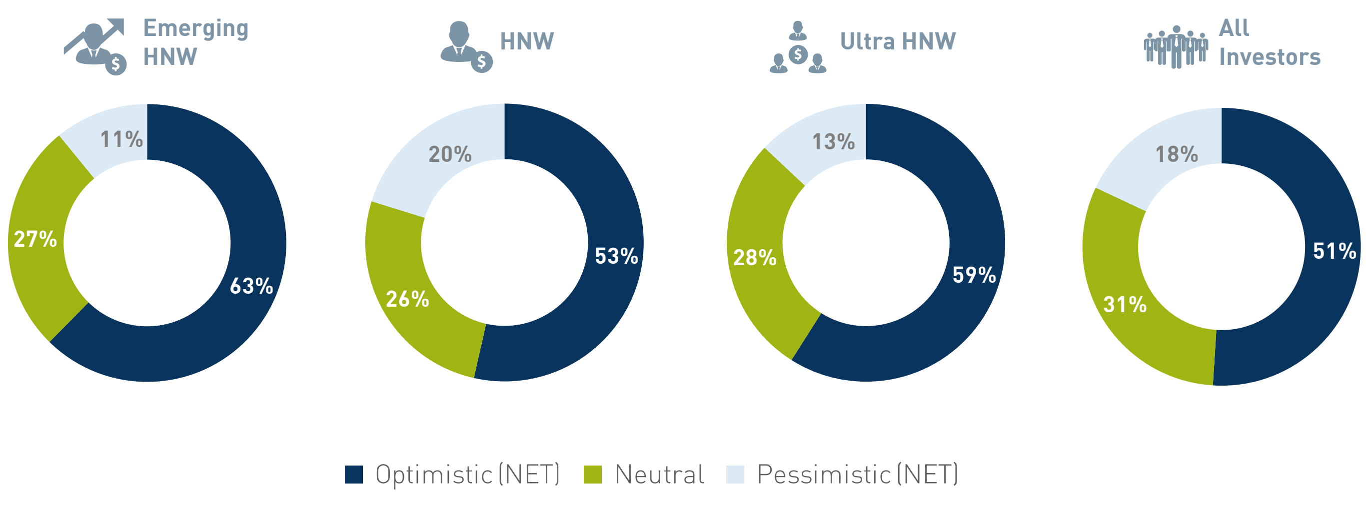
Eileen O'Connor, MBA,CFP®
CEO and Co-Founder,
Hemington Wealth Management

MAIN REASON FOR HAVING AN ADVISOR

	Emerging HNW	HNW	Ultra HNW	All Investors
I feel more confident in my financial future	43%	48%	22%	30%
I am concerned about saving enough for retirement	11%	6%	6%	15%
My family member, friend, or colleague referred me to an advisor	10%	5%	8%	9%
I do not feel confident that I can manage my own finances	9%	9%	12%	11%
Financial planning is a focus of mine at this time	8%	9%	15%	14%
I am focused on leaving a financial legacy	4%	8%	9%	5%
I need help managing my taxes	3%	7%	8%	6%
I don't have time to manage my own finances	2%	2%	8%	4%
Other	8%	6%	12%	6%

*Question asked of Investors with an Advisor

FINANCIAL OUTLOOK FOR 2017



> "To be a business built on values, we must do something much better and bigger than ourselves and always have that passion and mindset of excellence."

Paul A. Pagnato,
Founder and CEO,
PagnatoKarp

ADDRESSING KEY CONCERNS

Advisors have an opportunity to target this valuable segment of Emerging HNW investors by understanding their top concerns now—and how these concerns will shift as they accumulate more wealth. What keeps the Emerging HNW and other affluent clients up at night—and how can advisors better align to provide the right solutions?

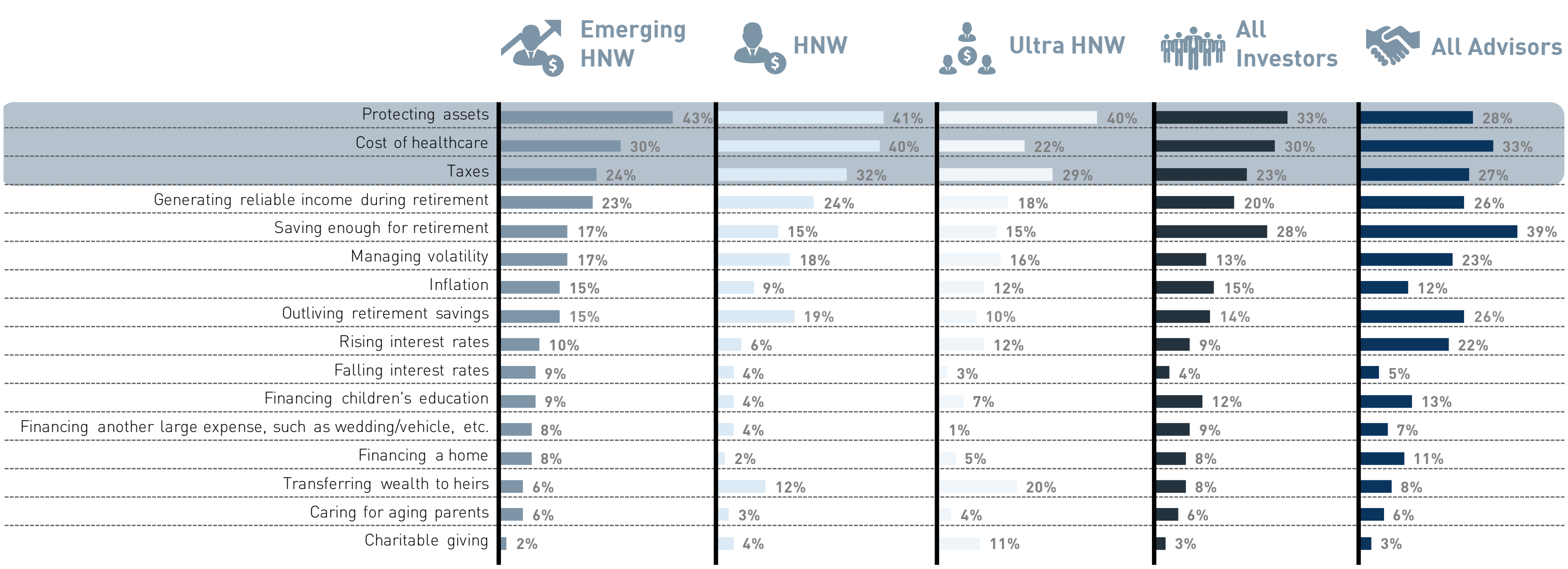
Year-Over-Year, Protecting Assets is a Top Concern of Emerging HNW

When asked to rate their top three financial concerns, Emerging HNW say protecting assets is number one year-over-year, at 43% in 2017 and 40% in 2016. Cost of healthcare is rated second in 2017 at 30%, and third in 2016 in 26%. Focused on their bottom line and their portfolio, taxes are rated third in 2017 at 24%, and second in 2016 at 29%.

Likewise, protecting assets is the number-one concern for HNW (41%) and Ultra HNW (40%). While HNW cite cost of healthcare second at 40% and taxes third at 32%, the Ultra HNW cite taxes second at 29% and cost of healthcare third at 22%.

Many advisors say that saving enough for retirement (39%) is their clients' top concern, and cost of healthcare has increased in importance year-over-year (33% in 2017 vs. 24% in 2016). But to better align with Emerging HNW and other affluent investors, advisors should also prioritize solutions that can help these clients protect assets and manage taxes.

TOP FINANCIAL CONCERNS OVER THE NEXT 12 MONTHS



*Coded Responses less than 2% not displayed

"Being empathetic is the key to giving advice. It's about really listening—not waiting for your opportunity to talk. Our job is to figure out the underlying stress, excitement, or the basis of our clients' emotions. You're trying to get to that root cause. By doing this, you'll be able to help clients accomplish their goals, and positively change the outcome of their lives."

Ryon Beyer,
Managing Principal and Co-Founder,
Hemington Wealth Management

Washington Politics Impact Investing Approach of Emerging HNW

As lawmakers continue to dominate the headlines, Washington politics (34%) is rated the number-one trend in 2017 that will impact the investing approach of Emerging HNW. Concerns about domestic economic performance (30%) is rated second, U.S. Fed Policy (29%) is rated third and changes to the tax code (25%) is rated fourth.

Washington politics is also the top trend impacting the investing approach of HNW (36%) and Ultra HNW (30%). Changes to tax code ties with U.S. Fed Policy as the number-two trend according to HNW (34%), while changes to the tax code also occupies the number two spot for Ultra HNW (29%).

Many advisors say U.S. Fed Policy (32%) will have the number-one impact on their approach to investing in 2017. But to help reassure their Emerging HNW clients, and the other affluent investors in their practice, advisors should be sure to address the impact of Washington politics and ongoing gridlock when discussing investing strategies with their clients. An increased focus on tax-efficient investing would also be beneficial for their more affluent clients—and their practice as well.

TOP TRENDS THAT WILL IMPACT INVESTING OVER THE NEXT 12 MONTHS

	Emerging HNW	HNW	Ultra HNW	All Investors	All Advisors
Washington politics	34%	36%	30%	33%	28%
Domestic economic performance	30%	26%	20%	24%	24%
US Fed policy (e.g. interest rates, monetary policy)	29%	34%	28%	29%	32%
Changes to the tax code	25%	34%	29%	24%	22%
Low returns on investments	23%	21%	20%	23%	17%
Ongoing volatility	20%	16%	18%	17%	23%
Energy prices (e.g., oil, gas, etc.)	17%	8%	9%	15%	16%
Inflation	13%	8%	15%	18%	17%
Social discord in the U.S.	13%	9%	11%	12%	13%
International economic performance	13%	15%	9%	11%	15%
Geopolitical tension	12%	10%	18%	13%	13%
Threat of terrorism	11%	4%	14%	9%	7%
Regulatory changes (such as the DOL fiduciary standard)	7%	12%	7%	8%	29%
Instability in Chinese market	6%	3%	3%	3%	6%
Instability in European markets	4%	7%	9%	5%	7%
Monetary policies abroad	1%	5%	7%	5%	7%
None	7%	10%	11%	7%	2%

*Coded Responses less than 2% not displayed

"It's about having a very deep sense of purpose to make a difference and to truly make an impact. Again, understand what's really important to your client and remember, they are your top priority."

Paul A. Pagnato,
Founder and CEO,
PagnatoKarp

ATTRACTING AND RETAINING THE EMERGING HNW

The Emerging HNW look for a depth of relationship and level of engagement with an experienced advisor who can provide greater value and can put their clients' best interests first. These affluent investors recognize the benefits of technology—but it's clear that they see greater value in guided advice and the human touch.

Top Factors to Attract Emerging HNW: Experience, Fee-Based Fiduciary Standard and Personalized Holistic Planning

When asked to select the top three factors that influence them to work with an advisor, the Emerging HNW rate advisor experience first (54%). Compared to other more affluent investors, the Emerging HNW place greater importance on a fee-based fiduciary standard, rating it second (31%), followed by personalized holistic planning, rating it third (22%).

When targeting the Emerging HNW and other affluent investors, less experienced advisors should consider partnering with more experienced advisors within their firm and building multi-generational teams. To be consistent with a fee-based fiduciary standard, all advisors should make greater transparency and greater choice a top priority. To provide more personalized and holistic planning, consider partnerships with specialists such as CPAs, Trust Attorneys and Estate Planners.

TOP FACTORS WHEN CHOOSING AN ADVISOR

	Emerging HNW	HNW	Ultra HNW	All Investors
Advisor experience/years of experience	54%	57%	43%	46%
Serve clients using a fee-based fiduciary standard, instead of commission-based sales model	31%	28%	20%	25%
Personalized advice for a holistic financial picture	22%	31%	25%	26%
Working more with a client's family and children	10%	7%	12%	12%
Highlighting historical performance	9%	18%	13%	16%
Robust cyber security procedures	8%	5%	8%	8%
Reducing fees for younger clients	8%	3%	6%	12%
Socially responsible investing	6%	7%	14%	15%
Increased use of social media	6%	3%	5%	5%
Leveraging Robo Advisors or other digital portfolio allocation tools	5%	4%	3%	4%
Enhancements to current website and/or client portal	5%	3%	2%	6%
Hiring advisors of all age groups, including younger advisors	4%	4%	7%	6%
Increased use of mobile technology	3%	3%	9%	9%
Additional strategies for charitable giving	3%	1%	6%	5%
None	5%	13%	9%	5%

*Coded Responses less than 2% not displayed

> "It comes down to researching and redefining your practice by building on your success and identifying areas of opportunity. It's important to learn which services these clients value or don't value, and what they'd like to receive that they're not currently getting."

Ed Friedman,
Director of Strategic Relationships,
Dynasty Financial Partners

Relationships Matter Most to Emerging HNW

Emerging HNW say personal one-on-one relationships matter most (52%) to a successful customer experience, while quality of communication comes second (38%). The Emerging HNW are clear that products and strategies should be transparent (26%), low-cost (25%), high-value (22%), and offer more choice (17%) to contribute to the success of the customer experience.

A personal one-on-one relationship is also a top priority for the HNW (41%) and the Ultra HNW (36%). Quality of communication comes second for the HNW (37%), while tying for first for the Ultra HNW (36%). Likewise, the HNW and Ultra HNW appreciate transparency, high value, low cost and more choice in their products and services. It is worth noting that these affluent clients value comprehensive and sophisticated expertise, saying that partnerships with CPAs, Trust Attorneys and Estate Planners, can help create a more successful customer experience for the HNW (12%) and Ultra HNW (14%).

TOP FACTORS FOR SUCCESSFUL CUSTOMER EXPERIENCE

	Emerging HNW	HNW	Ultra HNW	All Investors	All Advisors
Establishing a personal, one-on-one relationship between advisor and client	52%	41%	36%	35%	44%
Quality of communication	38%	37%	36%	36%	39%
Transparent products and investment strategies	26%	27%	26%	28%	22%
Low-cost products and services	25%	28%	19%	26%	14%
High-value products and services	22%	27%	28%	26%	24%
Serve clients using a fee-based fiduciary standard, instead of a commission-based sales model	18%	17%	22%	16%	18%
Broad choice of products and investment vehicles	17%	30%	20%	20%	16%
Analyzing client data to better understand their expectations and behavior	17%	18%	18%	17%	19%
Improving a client's financial literacy	14%	12%	9%	19%	22%
Implementation of a cyber security program	10%	2%	10%	7%	6%
Creating a digital client experience	8%	1%	5%	8%	12%
Integration of a Robo-advisor	7%	1%	1%	5%	6%
Partner with other professional experts (CPAs, Trust Attorneys, Estate Planners, etc.)	6%	12%	14%	8%	15%
Customer appreciation events	6%	3%	7%	7%	13%
Use of referral networks (i.e., peer recommendations)	1%	4%	6%	6%	11%
Don't know/Not sure	4%	8%	3%	4%	1%

*Coded Responses less than 2% not displayed

"The types of new technology we have implemented are what we define as 'optimizers' — solutions and tools that make our current technologies integrate better, create greater efficiencies, automate workflows and make everyone's lives easier. This gives us more time in a client-facing capacity, which allows us to add greater value for our clients."

Ryon Beyer,
Managing Principal and Co-Founder,
Hemington Wealth Management

"Whether it's in the quality of your recommendations or going the extra mile in your delivery, putting the client first has to translate into every aspect of your business. It's more than being a financial planner—it's about making a difference in people's lives."

Eileen O'Connor, MBA,CFP®
CEO and Co-Founder,
Hemington Wealth Management

Trust Comes First for Emerging HNW—Track Record and Value Follow

The Emerging HNW say that one-on-one relationships matter most for a successful customer experience. And to ensure that these relationships will work, trust must come first. In fact, trust is rated first by the Emerging HNW (44%), HNW (34%) and Ultra HNW (34%) as the attribute that is most important to them in the relationship with their advisors

And when it comes to the business of managing their finances, Emerging HNW and other affluent investors want results. To make the advisor/investor relationship work, proven-track record is rated second by Emerging HNW (13%), HNW (23%) and Ultra HNW (21%). Likewise, the Emerging HNW (12%) and the Ultra HNW (10%) are at least twice as likely as other investor segments to expect advisors to add value to make their relationship work.

While advisors also say trust (44%) comes first, and they prioritize good communication (11%) and good listening skills (9%) as important attributes of the advisor/investor relationship, when working with the Emerging HNW and other affluent investors, be aware—and be prepared—to address your track record and your approach to adding greater value.

MOST IMPORTANT ATTRIBUTES OF ADVISOR/INVESTOR RELATIONSHIP

	Emerging HNW	HNW	Ultra HNW	All Investors	All Advisors
Trustworthy	44%	34%	34%	35%	44%
Proven track-record	13%	23%	21%	16%	8%
Add value	12%	5%	10%	5%	7%
Good communicator	10%	15%	7%	16%	11%
Easy to understand	7%	9%	7%	8%	7%
Intelligent	5%	9%	9%	9%	6%
Good listener	5%	4%	4%	2%	9%
Empathetic	4%	< .5%	< .5%	4%	5%
Willingness to take risks	0%	< .5%	5%	4%	3%

*Question asked of Investors with an Advisor

> "The depth of your financial planning, and the quality of your client service, not your investment acumen, is what will differentiate you. Clients want to see that you are trustworthy, consistent, have a deep conviction in the advice and services you are providing, and that you work as a cohesive unit."

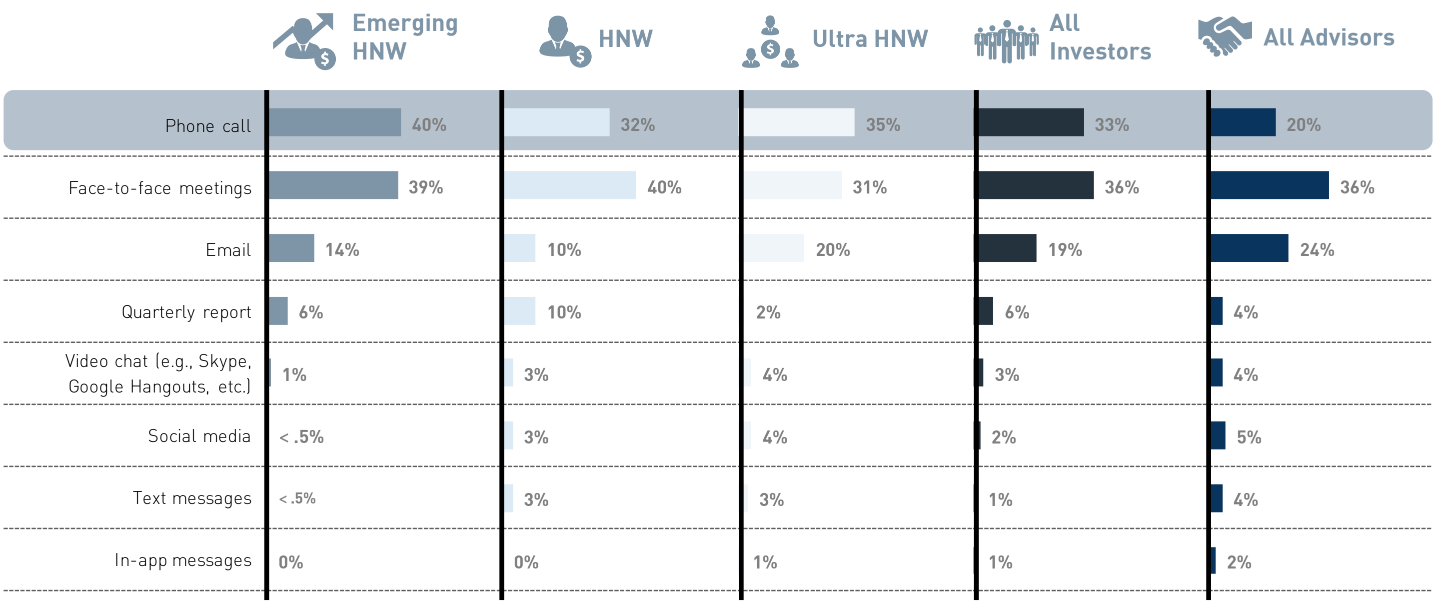
Ryon Beyer,
Managing Principal and Co-Founder,
Hemington Wealth Management

Access and Responsiveness are Important

Emerging HNW and other affluent investors value access and responsiveness. When asked to select their preferred form of communication with an advisor, Emerging HNW rate phone calls first (40%) and face-to-face meetings a very close second (39%). Likewise, Ultra HNW also prefer phone calls first (35%) and face-to-face second (31%). HNW prefer face-to-face first (40%) and phone calls second (32%). Email is a distant third for all of these affluent investors, and all other channels quickly drop to single digits.

While advisors prefer face-to-face meetings first (36%), email second (24%) and phone calls third (20%), it's important to recognize the preferences of more affluent clients. Face-to-face meetings may not always be realistic, because of demanding schedules and competing priorities. While email may be efficient, it can be impersonal. So be available and make the time when these clients call.

COMMUNICATION PREFERENCES



*Question asked of Investors with an Advisor

"Clients will have a higher desire for convenience and accessibility of information—what they want, when they want it."

Ed Friedman,
Director of Strategic Relationships,
Dynasty Financial Partners

Jefferson National

Advisor Authority

MOVING THE NEEDLE: Targeting the Emerging High Net Worth

SUBJECT MATTER EXPERT INTERVIEWS

We interviewed leading subject matter experts to provide you with a deeper understanding of the innovation and issues that matter most. In this Special Report, our experts explain what it takes to effectively serve the Emerging HNW, HNW and Ultra HNW. They discuss the unique needs of affluent investors, explain what it means to put these clients first, and examine how you can drive the growth of your practice and enhance its profitability by helping these clients build more wealth. Their innovative solutions and actionable insights for serving the Emerging HNW and other affluent clients can help you engineer a path to success, build a successful practice and establish a viable long-term franchise for the future.

MOVING THE NEEDLE: Targeting the Emerging High Net Worth

Ed Friedman,
Director of Strategic Relationships,
Dynasty Financial Partners

Advisor Authority: In this competitive market, what is essential for targeting the Emerging HNW and building a successful practice for the HNW Investor? And what can advisors do to differentiate themselves?

FRIEDMAN: Advisors need to develop a growth plan. Pick three to five target markets, research each one, then define the ideal client profile, and specialize in their unique needs. To determine if a target market is appropriate for your firm, it must hit three characteristics: One, it has to be definable. High Net Worth is too broad. You need to narrow down to something more specific and definable, for example, cardiologists in Manhattan. Second, it has to be accessible. While we'd all like to target top winners on the PGA Tour, most of us don't have the connections. But we all know cardiologists, other types of doctors, other types of professionals, so we are more likely to have access to those target markets. Third, the target must have a meaningful level of assets. For example, if I'm only going to work with clients who have investible net worth of two million dollars or more, that specifically defines who I should focus on.

AA: What do you see advisors doing to better serve the entire HNW family?

FRIEDMAN: It comes down to researching and redefining your practice by building on your success and identifying areas of opportunity. We've actually created a value-profit exercise where we suggest that advisors identify their 10 best clients and the 10 clients that they least connect with. We provide advisors with a series of specific questions to help them gain greater insight into how these two very different groups of clients view their practice, and help them define which services they should be offering. It's important to learn which services these clients value or don't value, and what they'd like to receive that they're not currently getting. The clients who fall into the true HNW, Ultra HNW, and family-office category will demand certain things from a firm and are willing to pay for access to those services. So we recommend that advisors tier the level of services they offer these affluent clients, with appropriate fee structures attached to them. Designing your services, and pricing them appropriately, to fit the needs of the HNW helps those clients feel valued, increases their engagement, and helps build relationships with their families as well.

AA: Broadly, what does the future of financial advice look like? What do you think are the biggest areas of opportunity for the advisory industry overall?

FRIEDMAN: The future of financial advice will be a combination of algorithmic-based investment models married with human advice. The sophistication of the technology will help define what portfolios look like. Other changes we will see is the way clients will communicate with their advisor and the way information is shared from the advisor. Clients will have a higher desire for convenience and accessibility of information—what they want, when they want it. Whether the advisor works 9 to 5 or not, will not matter. Artificial Intelligence (AI) will definitely play a larger, more important role in the future advisory process. I also think there will be greater consolidation—a smaller number of advisors managing a larger number of assets. My advice to advisors? Embrace change, adopt technology and social media, and you will not only survive—you will thrive.

AA: If you could ask 700 investors one question, what would you want to know?

FRIEDMAN: I would want investors to list the three traits that they believe define an exceptional advisor-client relationship.

AA: And if you could ask 700 advisors one question, what would you want to know?

FRIEDMAN: I would ask advisors, "What do you view as the greatest threat over the next five years to the value that you bring to your clients?"

MOVING THE NEEDLE: Targeting the Emerging High Net Worth

Paul A. Pagnato,
Founder and CEO, PagnatoKarp

Advisor Authority: Describe your process/approach to bring on new HNW clients?

PAGNATO: Our number one resource for bringing in new, HNW clients is through client referrals. We have 99% client retention and our clients are very satisfied. Secondly, we have referrers of influence—third-parties that refer Ultra HNW individuals to us. Lastly, we have a strong presence online. Individuals searching for the solutions we offer or for a true fiduciary advisor. Those are the three main ways that we generate new business.

AA: In this competitive market, what is essential to building a successful practice for the HNW client?

PAGNATO: You need to be all in. If you're not all in, someone else is going to be—and they're going to win. As an advisor, this means living and breathing it every day. It has to be top-of-mind. It has to be your passion. And you can't be hesitant or second guess yourself. To be a leader and to be successful, you have to stay one step ahead of everybody else.

AA: Tell us about your experience serving on the Chairman's Council of the Institute for The Fiduciary Standard?

PAGNATO: It's been a wonderful experience. I was first introduced to the council about five years ago. As we were creating our firm's fiduciary standards, I wanted to communicate with as many people in the industry as possible to gather feedback, make adjustments, and implement the highest level of standards for our clients. One of the high points was meeting the Chairman. We were kindred spirits, very liked minded, very similar passions about the fiduciary standard. He asked me to join his council to help carry out their work. A lot of us assume that an advisor understands the conflicts that exist within the industry, but even advisors with 10 to 20 years of experience advising a large client base may not fully understand the conflicts that exist within the industry, or potentially exist within their own firm. It is very important for us to educate and provide a high level of awareness of what these conflicts are, and then to provide solutions and tools to help advisors overcome the challenges that exist.

AA: What do you think comes next for the DOL Fiduciary Rule?

PAGNATO: The industry is in in the adoption and identification period. And I'm a huge fan. It's been amazing to watch the changes taking place over the last 12 months and we'll continue to see change throughout the rest of the year. Once the full implementation happens in 2018, I believe there will be phase two—a heightening awareness, increased demand for transparency and fiduciary solutions. We're going through a massive technological revolution. Technology provides a level of transparency that we haven't seen before and will continue to push the envelope of transparency and disclosure. This combination of regulatory change, along with the technology changes, along with the demographic changes of investors and advisors, all three things are happening simultaneously and reshaping our industry. Advisors must desire and demand transparency in their process and their practice. Every month, every quarter, and each year, you need to be taking it to the next level. I think we're off to a fabulous start this year and the best is yet to come.

AA: How can advisors differentiate themselves, particularly when trying to work with the HNW?

PAGNATO: First and foremost, do not think you are smarter than the client and do not assume you know what the client is thinking. Clients want to have open, transparent dialogue with their advisor. We use something called D.O.S., it's an acronym for Dangers, Opportunities and Strengths. So when I first meet with a potential client, I need to probe and discover your three greatest fears and concerns—your three "Dangers." Next, I need to learn your three greatest opportunities and your three greatest strengths. It's imperative to have a healthy dialogue, and once I understand all of that, I'm going to put together a game plan that eliminates your fears, maximizes your opportunities, and leverages your strengths. If I do that properly, I should be your advisor. Again, understand what's really important to your client and remember, they are your top priority.

AA: How can advisors better serve the entire HNW family?

PAGNATO: Every family is different and unique, but whether middle class or HNW, all families go through life changes. It's part of our responsibility as advisors to be in tune with that. When the time is right and the opportunity is there, we need to be ready to help. Some affluent clients may have large families with several children and grandchildren. We encourage them to create family values and a family mission statement, and then we hold a family meeting. We educate them and put together a specialized education program for their children. For one HNW family, one of their children was going through a divorce, and that triggered them to say, "Okay, I need your help now. I'm ready." Another time, a client's child came home from school, threw his books on the table, and said, "Why do I need to study? We're rich." So it's important for us to stay aware of opportunities to educate and engage the family, and have the resources in-house to be able to provide those family-centric services, while keeping in mind that for affluent individuals, privacy and confidentiality are very important.

MOVING THE NEEDLE: Targeting the Emerging High Net Worth

Eileen O'Connor, MBA, CFP®
CEO and Co-Founder,
Hemington Wealth Management

Advisor Authority: What strategies is Hemington Wealth using to attract new High Net Worth clients? And how does your firm develop and enhance the advisor/client relationship?

O'CONNOR: One of our differentiators is the level of planning that we do and the deliverables we provide for our clients, including our High Net Worth. We cover everything from income tax planning, estate planning, the best way to transfer assets to heirs—a comprehensive approach. Investment management is still important, but leading with holistic planning is essential. Many firms try to cut corners, but we say that in order to truly develop the advisor/client relationship, you have to put in the work. Going through the financial planning process and digging into the relationship is where you learn what makes your clients tick. Until you know your HNW clients at a very deep level, you can't anticipate their needs. Many people miss that important distinction, but that's the best starting point.

AA: Many advisors say they put the client first, but what does that really mean to you? What are your top priorities for putting clients first?

O'CONNOR: Our first core value is "clients come first." To provide a true client experience, you can't just say you put the client first, you have to live and breathe it. It is about having a "client comes first" mentality and demonstrating it with your actions. Whether it's in the quality of your recommendations, or going the extra mile in your delivery, it has to translate into every aspect of your business. It's more than being a financial planner—it's about making a difference in people's lives. Another one of our values is "compete to win." Competition is central to who we are as a team. We truly feel that if we lose a prospect or a client goes somewhere else, then we didn't do our jobs. Our other core values are "Integrity, Accountability, and Empathy." You can't be successful in this industry unless you're naturally empathic.

AA: In this competitive market, what is essential for targeting the emerging HNW and building a successful practice for the HNW client? And what can advisors do to differentiate themselves?

O'CONNOR: High Net Worth individuals are very busy, especially breadwinner women. We've found that they appreciate a very structured process—one that honors their time and makes them feel valued—while it is also empowering, fun and simple. We don't talk about ourselves, instead we act as information-gatherers. Most clients really love the fact that our first conversations have very little to do with money and are more about pinpointing their goals and aspirations. Next, we work with them on a written investment plan. It's very comprehensive, including what we've learned about them and what they hope to accomplish. There is an exclusive feeling to our process that is very attractive to HNW clients. At the end of the day, what affluent clients value most is quality work, transparency, and sound investment philosophy.

AA: How can advisors better serve the entire HNW family?

O'CONNOR: Whether you know them or not, heirs are already in the planning process because they're part of your clients' goals. We recommend providing a financial planning 101 service to clients' children. It's something we offer at Hemington, and our clients love it. As a mom of five kids, it's one thing for you to do something for me, but it's worth ten times more when you can do something for my kids.

MOVING THE NEEDLE: Targeting the Emerging High Net Worth

Ryon Beyer,
Managing Principal and Co-Founder,
Hemington Wealth Management

Advisor Authority: In this competitive market of targeting the Emerging HNW, what is essential to building a successful practice for the HNW client? And what can advisors do to differentiate themselves?

BEYER: Investment management is and will continue to become increasingly commoditized. We therefore believe the depth of your financial planning, and the quality of your client service, not your investment acumen, is what will differentiate you, especially when serving HNW clients. Most firms think of client service as an afterthought, but we think it is important to elevate the role and to hire high-caliber people who possess a servant's heart. They should be compensated well and they should be on equal footing as a planner, because they are the first line of defense and set the first impression. Clients want to see that you are trustworthy, consistent, have a deep conviction in the advice and services you are providing, and that you work as a cohesive unit. This is why HNW clients hire us—they know they can trust us and believe what we say because it's constantly reaffirmed through the actions of our team members.

AA: Along these lines, what does Hemington Wealth Management consider most important for advisors to enhance profitability, build a more scalable practice and create a long term franchise for serving the HNW?

BEYER: You cannot be everything to everybody. You must define your focus and use that as the foundation to determine what will add the most value to your business. Without specialization, efficiency, the right process, and the right people who are all aligned to the collective goal—you'll never grow. The more times you say yes, the more processes you have to build. But the more times you say no, the more you'll stay focused on your firm's mission. We have remained laser-focused from day one. We said we wanted to be the go-to firm for breadwinner women and that's exactly who we are.

AA: This year, High AUM Advisors ranked adding new technology as the most important thing they can do to enhance the profitability of their practice over the next 12 months. What types of new technology has your firm recently added—and why? Where do you see technology adding the most value for your firm?

BEYER: The types of new technology we have implemented are what we define as "optimizers"— solutions and tools that make our current technologies integrate better, create greater efficiencies, automate workflows and make everyone's lives easier. This gives us more time in a client-facing capacity, which allows us to add greater value for our clients. The reason many firms are not profitable is that they do a poor job of defining what it is they provide to clients. Consequently, they don't build their process, people, or technology stack according to their value proposition. You should define your focus and only add the systems that are specifically designed for what you're doing, and avoid constantly chasing the latest technology or other "shiny objects."

AA: Broadly, what do you think the future of financial advice looks like? And what do you think are the biggest areas of opportunity for the advisory industry overall?

BEYER: With investment management becoming increasingly commoditized, the financial planning side will become more comprehensive, more intimate and more focused on extending to multi-generational planning across the entire family. In the future, more advisors will continue going after the higher net worth. At the same time, these investors will have access to a certain level of advice through online tools. So successful advisors will need to deliver higher-quality advice, with a higher level of service—white-gloved and priced accordingly for the HNW families.

AA: If you could ask 700 investors one question, what would you ask then?

BEYER: I would want to know "How does your advisor add value? And what role does your advisor play in your success?"

AA: If you could ask 700 advisors one question, what would you want to know?

BEYER: I would ask advisory firms, "Where do you think you'll be in five years?" I'm curious to see if they think they will continue to grow if they face pricing compression, growing competition and increasing M&A.

Methodology

The third annual *Advisory Authority* Survey was conducted online within the United States by Harris Poll on behalf of Jefferson National from March 13 – April 7, 2017 among 779 financial advisors and 817 investors, ages 18+. Among the 779 financial advisors, there were 521 Registered Investment Advisors and 258 Broker/Dealers. Among the 817 investors, there were 208 Mass Affluent, 204 Emerging High Net Worth, 204 High Net Worth and 201 Ultra High Net Worth. Investors are weighted where necessary by age, gender, race/ethnicity, region, education, income, marital status, household size, investable assets and propensity to be online to bring them in line with their actual proportions in the population.

Results of this new research are compared to results from a similar March 2016 study conducted online by Harris Poll on behalf of Jefferson National among 683 employed Financial Advisors, including 440 Independent Registered Investment Advisors and 243 Broker/Dealers and among 733 Investors, there were 167 Mass Affluent, 184 Emerging High Net Worth, 199 High Net Worth and 183 Ultra High Net Worth. And, among the investors, 458 had an advisor, while 275 did not.

Respondents for this survey were selected from among those who have agreed to participate in Harris Poll surveys. Because the sample is based on those who were invited to participate in the Harris Poll online research panel, no estimates of theoretical sampling error can be calculated. A complete survey method is available upon request.

Reading this Report

Responses may not add up to 100% due to weighting, computer rounding, or the acceptance of multiple responses.

About Harris Poll

Over the last 5 decades, Harris Polls have become media staples. With comprehensive experience and precise technique in public opinion polling, along with a proven track record of uncovering consumers' motivations and behaviors, Harris Poll has gained strong brand recognition around the world. **Contact** us for more information.

About Jefferson National

Jefferson National, operating as Nationwide's advisory solutions, is a recognized innovator of a leading tax-advantaged investing platform for RIAs, fee-based advisors and the clients they serve. Trusted partner to a network of over 4,000 advisors, Jefferson National provides greater efficiency, transparency and choice through an adaptable technology platform, award-winning distribution strategy and cost-effective servicing capabilities. Named the industry "Gold Standard" as of 2012 and winner of more than 50 industry awards, including the DMA 2010 Financial Services Company of the Year. The company serves advisors and clients nationwide, through its subsidiaries Jefferson National Life Insurance Company and Jefferson National Life Insurance Company of New York. To reach our advisor support desk, please call 1-866-WHY-FLAT (1-866-949-3528). To learn more, please visit **www.jeffnat.com.**

About Nationwide

Nationwide, a Fortune 100 company based in Columbus, Ohio, is one of the largest and strongest diversified insurance and financial services organizations in the U.S. and is rated A+ by both A.M. Best and Standard & Poor's. The company provides a full range of insurance and financial services, including auto, commercial, homeowners, farm and life insurance; public and private sector retirement plans, annuities and mutual funds; banking and mortgages; excess & surplus, specialty and surety; pet, motorcycle and boat insurance. For more information, visit **www.nationwide.com.**

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