

The Family Wealth Industry Is Being Transformed, Says GenSpring's Michael Zeuner

Harriet Davies – Editor Family Wealth Report
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The family wealth industry is not only changing but being transformed, according to Michael Zeuner, senior executive partner at GenSpring Family Offices. "It's a different industry," he says, speaking to Family Wealth Report at the firm's New York office.

Zeuner is referring to the formation of an advice industry, completely distinct from product production or distribution, and he says our surroundings are testimony to that trend. GenSpring's New York office is based in an old Manhattan town house near Central Park with many beautiful original features still intact. It was created for the family of a wealthy businessman and has been inhabited by members of the Rockefeller family over the course of its history, according to a plaque on the building. "When we took the lease in 2007, it was very much by choice" that the office feels almost like the home of a wealthy family, says Zeuner. Significantly, he points out, it looks and feels nothing like a bank.

It is this distinction – between product providers, distributors, and advisors – that Zeuner thinks is transforming the private wealth industry, and creating a real space for family offices to define their brands and value propositions. "This gap has opened up and the family has realized the providers have a lot more information than they do, and unfortunately the providers tend to use that to their advantage," says Zeuner. And to cope with the information disadvantage they face families are "putting someone between themselves and the distributors and manufacturers," a trend which is creating a three-stage, unbundled model, from the product creation to the end users, he believes.

The advice business is "a totally different business" from the product manufacturing business, says Zeuner. "The value proposition is different, the pricing is different, the marketing is different...everything is different."

However, fat margins on the asset management side make that business very attractive, and the line has often been blurred between advice and product manufacturing or distribution, to the point where it can be hard for clients to understand what they're actually getting, says Zeuner. To solve this problem he believes "the clearest thing a family can do is work with someone who's working under the fiduciary standard." He is currently working on an educational program on the fiduciary standard for investors.

Proving your worth

One of the challenges for the industry though is proving it's worth the fees. Clients are used to paying for their lawyers and accountants, but they're used to having their financial advice thrown in for free with investment products. But that's not an insurmountable problem according to Zeuner.

Knowing best-pricing for the various large institutions and knowing which institution is best at providing which product or service, "you can make your value very tangible," he explains. Furthermore, an advisor who has an

overview of a client's full portfolio is able to go "right down" and identify any overlaps or wasted basis points on fees for investments which are essentially providing index tracking. "Layer on top the 2008 crisis," which exposed many failures in the status quo, and wealthy families are willing to pay for advice, he says.

While saving money on the investment side for a client is a tangible benefit, there are also intangibles such as the service and brand a firm embodies, which need to be priced in.

"In the advice space there were never any brands, there were small providers, the brands were in the manufacturing and distribution space," says Zeuner. The advice space, by contrast, has traditionally been undifferentiated and segmented. "We rebranded a few years ago as GenSpring Family Offices to create a brand in this space."

On the service side, Zeuner defines service as "that my job and what you're paying me to do is to work for you. To represent your interests, whether with accountants or lawyers or money managers. You are my boss." He likens the client to a chief executive, who knows what his or her goals are, and the rest of the team works to reach those and to make sure everything is aligned within the overall strategy.

"The tricky thing" about service and advice is that you can't deliver it with an "inexperienced" person, says Zeuner. The product creation market needs good stock pickers and the intermediary market essentially requires an excellent sales force, he says, but the advisory market needs people who have a handle on the technical aspects of wealth management (investment, tax issues) and also have a very high emotional quotient. "You have to have awkward conversations" sometimes, says Zeuner. He gives the example of an entrepreneur who's made \$100 million by "making widgets." That person "may feel very confident" and knowledgeable based on their business success, but you need to look at their current wealth plan and sometimes explain it's not going to reach the goals they have for it in its current state, he explains.

Meanwhile, as clients are waking up to the growing independent advice industry, so are providers. "What's happened in the last five-to-six years is that technology companies have realized this is a whole new industry," says Zeuner. "What do we need from the tech companies? We need integrated technology. What you need here is technology that's horizontal, integrated."

Goals-based planning

Another significant trend Zeuner notes is that wealthy individuals are "changing their definition of success, from a capital markets-based approach towards a series of goals."

If you sit down with a family and explain the risk in their portfolio in terms of standard deviations and volatility, they might not understand, but if you turn that on its head and tell them the chance of reaching their goals based on their current portfolio is "X per cent," they get it, he explains. "That's a productive conversation. Then they get engaged in ownership."

He says if the team has done their job as an advisor, every client should be entirely comfortable with his or her portfolio, should know why they own what they own, and shouldn't feel worried or stressed by it. "We're marrying behavioral finance with a practical family wealth application," he finishes.

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