Certified International Wealth Manager

What Affluent Clients Want

(beyond what advisors offer today)

Whitepaper to promote industry discussion

Wealth management is at a crossroads. What it is today is not as important as what it will become as the number of people who demand genuine net worth management grows over 100% in less than ten years. Based primarily on a new 2008 Insights Survey, sponsored by CSI, of emerging affluent and high net worth Canadians, and validated by findings from organizations such as Dow Jones™ in the United States, Canadian advisors need to evolve to stay in step with this growth sector. Substantially more depth and a new breadth of relationships are required to bridge gaps between advisors who focus on investments and clients who value the entire net worth discussion. The emerging affluent are better educated investors who often see themselves as more sophisticated than their advisors. And equally important, understanding the nuances of business ownership is absolutely critical – families with wealth today have entrepreneurs in their gene pool and the next generation of established wealth will share that DNA.

What affluent clients want identifies five key affluence factors and the apparent gaps where substantial gains can be made by savvy, well-educated advisors who choose the path of serving high net worth families.

In early 2008, CSI commissioned an Insights Research survey of 402 emerging and established high net worth families in Canada. Our objective was to build an independent profile of the clients most sought after by advisors. Essentially, we added a new 'client voice' to the wealth management industry dialogue. And in this Whitepaper, we offer specific survey findings along with supporting evidence from other studies to fuel discussion while providing strategic guidance for our partners in the financial services sector.

For more details on the survey parameters, see the last page in this Whitepaper.

Affluence Gaps

1	If advisors do not understand the complex financial implications of clients who own businesses, their opportunity to serve high net worth Canadians will decrease by 50% before they even start.
2	The 450,000 Canadian families who are considered 'high net worth' today have established wealth management relationships that reach beyond investment advisors [source 1]. Learning from this, advisors who want to attract the next 550,000 families destined for high net worth by 2016 [source 3] will have to identify them early on, and build deeper relationships on a broader skill set.
3	If advisors rely on traditional investment practices alone to attract high net worth clients, they will eventually lose those relationships to more sophisticated competitors who serve the complete spectrum of 'net worth'.
4	Affluent Canadians recognize the potential value of more sophisticated wealth management services – they also recognize that complete strategic wealth advice is not being delivered.
5	There is an under-current of opinion change in the high net worth client sector. Greater share of business will go to advisors who can translate client attitudes, lifestyles and opinions into service offerings.

What follows is an exploration of these gaps and summary suggestions of how best to respond strategically either as an advisor or an organization of advisors.

Entrepreneurs Are Personal Wealth Engines

Over 25% of adult Canadians work for themselves (Canadian census data). Strip away micros and basement businesses and the number of genuine 'entrepreneurs' who build companies drops to a very small fraction of the total. But if you look at emerging affluent and high net worth Canadians, the percentages reverse dramatically. Forty-nine percent of Canadian households that land in the high net worth category own businesses [source 1]. The number jumps to 81% if you look at Canadian households with assets in excess of $5 Million. Based on the Insights Survey, 72% of Canadian households with income over $400,000 annually own either part or all of a business.

If advisors are not educated to understand, empathize with and serve entrepreneurs as successful businesses emerge, their potential with high net worth clients in later years will narrow dramatically. They'll also find themselves in the same space as the majority of undifferentiated investment generalists [source 2] where margins will continue to face pressure.

Some of what we learned

Entrepreneurs dominate the high net worth category [source 1]. Building relationships with all high net worth prospects has to start younger [source 1]. Combine these two survey findings and the conclusion is clear: If advisors can learn to identify entrepreneurial success earlier, their full-service wealth management prospects will grow.

We learned that 40% of high net worth business owner households are using specialized investment strategies and that the number grows with age and affluence.

We know that 30% of entrepreneurs participate in family trusts and holding companies – what we don't know is why the balance of them are not, especially when the profile of business owners includes a high percentage of families with children. Advisors would be well-served to have a deeper understanding of the subject.

Thirty-three percent of affluent business owners have not sought advice from a financial planner yet a dominant share of these wealthy Canadians claim to be well-served in financial planning. We suspect that's because 75% of them are also using accountants and other professionals who could be filling that role.

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Through background analysis, we can ascertain that entrepreneurs welcome a higher level of personal attention [source 4] – connect this knowledge with the Dow Jones study finding that the highest earning advisors in the U.S. are those who contact their clients three times more frequently than their peers. Now put the two together – entrepreneurs are wealth drivers in Canada and we know they want more contact. The practices of elite advisors are based on delivering more contact. The model exists for building better relationships with business owners as their wealth grows.

What does it mean for Strategic Advisors?

To build a successful wealth management practice in Canada, business owners as clients will have to be front and centre in the book. You will have to spend far more time with them than with traditional clients – so your number of clients will need to decrease – value over volume is the key. Your wealth management toolkit will have to include deeper knowledge of trusts and holding companies, different risk profiles (the difference between investments in the business and investments in the markets), how to manage varied asset classes and more. To simply be a financial planner may not be enough – to be a strategic wealth manager will require the development of relationships with other specialized professionals and the expertise to manage those relationships from a central, bias-free position.

The Young and the Restless

The Insights Survey supports the conclusion that established high net worth families are satisfied with their current wealth management relationships, while emerging families are more open to building those relationships for the future. We also know the number of families who are considered wealthy will double over the next eight years. So where should advisors who want to build their high net worth clientele focus? Younger Canadians who fit the profile of emerging affluence. The complexity of their needs increases over time as assets are diversified beyond traditional investments – there is income from other sources and the number of professionals retained to manage wealth could also go up. Seventy-five percent of affluent Canadians between the ages of 30 and 40 will seek professional advice in the future about creating a broader, more all-encompassing plan that includes all assets, and that will be managed to grow net worth through all life stages.

Some conclusions

Affluent Canadians aged 30-40 are extremely well-educated – 42% have post-graduate degrees and 86% are either college or university graduates.

This 30 – 40 year old group is growing up with more access to more complex financial and investment information than previous generations. Yet 42% of those at emerging levels of affluence still report confusion about financial planning.

Sixty-one percent of this target demographic (30 – 40 year olds) believe strategic wealth management services would be very beneficial in the future – that is a much higher percentage than their older peers.

Within the youngest group surveyed (aged 30 – 40), 91% had assets in excess of $500,000 and 49% had assets in excess of $1,000,000.

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What does it mean for Strategic Advisors?

Being able to recognize and attract prospective affluence before it happens will become a key skill over the next eight years. Having the patience to nurture those relationships will determine success. Advisors will have to be better educated to serve a highly complex combination of professionals and entrepreneurs who believe themselves to be more sophisticated than any previous generation – bearing in mind that self-perception is 90% of reality. This group has grown up expecting better service – not being 'surprised' by it. They are stretched, they use debt with great flair and 96% of those surveyed live in Canada's urban areas [source 1]. This is the target prospect for advisors and organizations that want to participate in the growth of wealth management over the next decade. It is starting now.

You'll Need a Bigger Tool Box

Advisors know wealth management becomes more complex as clients age, have families, as those families grow up and as wealth is transferred. Business owners move from business building to succession planning – as their families grow, trusts may be formed. Most wealthy Canadians develop sophisticated investment needs as they age - they look beyond standard funds and securities, they move from building wealth to managing security and its transfer. While there is no magic age, lifestyle changes are the triggers where there is potential for relationship changes. It is at these points where early relationships will be at risk if the advisor does not have the skills and the tools to offer innovative strategies or the partnerships to introduce outside expertise. It is at these trigger points where clients may stop asking about investments and start focusing on net worth.

What have we learned?

Wealthy Canadians are searching for better wealth management solutions as their lives change. Thirty-two percent of wealthy Canadians do not have financial planners at all. Fifty-five percent of those who do have financial planners are in relationships of five years or less and even more dramatic, 28% have relationships of less than four years.

> **32%**
> of wealthy Canadians do not have financial planners at all.

Wealthy entrepreneurs will be looking in your toolkit for 'trust' expertise, a deeper understanding of tax, succession planning and more. We know that almost 50% of the wealth management client base is comprised of business owner households – we also know that of this large sector, 76% have children, but only 30% have created family trusts. Only 39% of business owner households have consulted a professional about wealth transfer plans in the past. We also know based on Canadian census data that a high number of entrepreneurs will seek to 'retire' in the next ten years – yet another life stage that advisors need to understand at a deeper level.

Advisors will need the expertise and solutions to identify and manage wealth that is created from sources other than traditional employment. Twenty-two percent of affluent Canadians have or participate in holding companies – we also know 82% of high net worth Canadians have income from sources other than employment-based wages.

Fifty-nine percent of those surveyed have not consulted a professional about taking income from their investments and yet 85% will plan to do so in the future. This means more than three quarters of those surveyed will be looking for help to move from building wealth to managing it.

One-third of the survey respondents reported having specialized investments and that percentage is higher after age 40. These investments include hedge funds, private equity investments, managed portfolios or discrete, sophisticated investment services. Thirty-six percent of the market surveyed have insurance policies that they expect to turn into cash at some point.

What could it mean for Strategic Advisors?

First and foremost, change happens and wealthy clients change advisors at a point where their needs become more complex. This likely occurs between the ages of 40 and 60, but is more closely tied to financial success and lifestyle – when clients start looking for more sophisticated wealth management tools, advice and access to expertise. So the question has to be asked: Is investment advice alone enough to retain wealth management relationships through the different life stages of affluent Canadians? The Insights Survey reports that very wealthy, established Canadians go far beyond investments and that they look to a variety of experts for solutions. For today's advisors to be in the right position to serve the emerging affluent, they should expand their range and depth of service now to be positioned for growth in the future.

The Opportunity for Strategy

As it appears today, wealthy Canadians look to advisors primarily for tactical investment solutions. However, few advisors are connecting the dots between investments and overall net worth or the more strategic client-centric model [source 2]. Based on the Insights Survey findings, a significant portion of the market is open to a more well-rounded relationship. Wealthy Canadians see the value of integrated expertise – they just don't see who offers it. One reason they don't see this in their financial planners could be advisor compensation; investment generalists are rarely rewarded for deeper, non-investment relationships, yet investments are only one part of overall wealth management advice. Based on the survey findings, the market differentiates between tactical and strategic solutions – and based on the younger demographic being most open to change, this sector is where advisors can differentiate their offering by adopting a new approach to strategic wealth management.

What have we learned?

Only 10% of emerging and established wealthy Canadians believe they are getting a complete strategic wealth solution. While they believe their investment needs are being met, they have trouble identifying who among their current advisors would offer a more strategic, all-encompassing approach.

Higher net worth Canadians do not see their financial planners as strategic wealth practitioners. In fact, 80% of those who were not currently receiving any strategic wealth services saw any of the professionals they were currently working with as a potential source for this kind of advice.

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Only 6% of financial advisors surveyed in the Dow Jones Study use the consultative approach – however, these elite advisors focused on high net worth 'strategic' wealth management earn three times what investment generalists earn.

The definition of Strategic Wealth Management earned high marks as being of benefit: 50% gave scores of eight out of ten or more and the number increases to 64% at seven out of ten or more.

Seventy-two percent of those surveyed either have or expect to create an estate plan for their heirs, legacy and/or charity. Furthermore, no single sector is viewed as the source of this kind of advice: Only 12% of those that have financial planners use them exclusively [source 1]. Although 50% of advisors are employed by banks that leaves half of the market in other sectors [source 1].

What does it mean to Strategic Advisors?

Affluent Canadians see value in a more strategic approach to wealth management and they recognize the value of going beyond what investment generalists offer. In fact, this is an untapped market and could become an excellent differentiator for advisors who want to focus on fewer clients with greater holdings. To get there, advisors must build wider and deeper skills, build knowledge and the partnerships needed to manage diverse assets and issues, and offer a genuine consultative approach. As is made apparent on the next page, superficial and/or tactical investment planning is not enough to hold relationships through the life stages of wealthy Canadians and their families.

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What did we hear?

"We work with many professionals – but do not have one person who looks at all scenarios such as selling real estate to finance retirement, options for selling the business, etc. It seems like we have the ideas and the professionals fill in numbers."

"I dislike having too many experts involved."

"I have found that I come away with a view that I know more than they do."

"… an overview of the whole picture [would be good] – whereas today, we have financial affairs set up in three different companies."

"… [strategic wealth] would be about reviewing all of my assets together. Currently, my financial planner seems only concerned with what he has under his direct management."

What does it mean to Strategic Advisors?

There is ample, profitable room for improvement and expansion in wealth management relationships. The question is, will change be driven by positive improvements in service, scope and expertise or will change be the result of client unrest? There is enough proof in the Dow Jones Study to show that consultative wealth management is the right strategic solution. But there are also undercurrents of dissatisfaction and a real openness to changing direction on the client side. Transactional investing is losing value as better-educated, on-line clients take matters into their own hands while quarterbacking relationships by default. Building trust by demonstrating genuine, bias-free and diverse wealth management expertise is the answer. Long-term relationships based on deeper trust are the result and a new, unassailable position for Canadian advisors.

More Revelations and Resolutions

The 2008 Insights Survey of 402 wealthy Canadians is comprised of 35 questions that profile affluence, employment, investments, retirement plans and current beliefs and relationships with wealth management or investment professionals. Combined with recent studies by Dow Jones and secondary research from other sources, the current status and potential of wealth management in Canada is pictured quite clearly. Here are a few additional findings from the survey that explain or explore concepts beyond the five Affluence Gaps reviewed earlier in this Whitepaper

New ways to identify wealth

To identify prospective wealth, advisors should look beyond traditional income streams (the wealth of affluent Canadians comes from many sources). Profiling established wealth today and working it back to a younger generation is a good idea. Equally important, asking questions in the early stages that are far deeper than standard know-your-client processes allow – will provide the inside knowledge you need to help them manage more diverse income streams later in life.

Survey participant answers to net worth questions demonstrate wealth diversity beyond traditional investments. Separate advisor focus group studies paint the picture of an industry that is built around investments only. This difference could become more pronounced as more and more wealthy Canadians move money out of basic investments and into investment real estate, privately held companies and more.

Assets under management

In the U.S., a small number of wealth managers control double the assets of a plethora of investment generalists [source 2].

Business owners

It is interesting to note that 35% of business owners had not and did not plan to access professional assistance in the transfer of business equity. However, based on the profile of these owners, there is equity to be managed. We also know that more entrepreneurs will retire and seek to transfer wealth in the next ten years than ever before – and we know succession planning is one of the hottest topics on the minds of Canadian business owners (visit www.cfib.ca to learn more).

Sixty-four percent of affluent households that include business owners had incomes of $250,000 or greater compared to 34% of households that did not include business owners.

Inheritance

Seventy-eight percent of respondents anticipated the receipt of an inheritance (either directly or through family connections). While 48% of the participants who will receive an inheritance reported expectations of less than $200,000, industry periodicals are focused on these transfers as a pending point of significant change in financial service relationships. Whoever owns the relationship with the beneficiary will likely own the allocation of inheritance. This adds more motivation to the premise of identifying prospective affluence before it happens.

Retirement

We asked wealthy Canadians whether they were confident in their retirement security, choice of assets, and theadvice or professional attention they were receiving. The answers vary; most indicated some level of satisfaction, but the door is open: between 50% and 70% did not agree strongly that all their affairs were in order. So while they are getting help, they are not totally satisfied with the results. That means a better idea can change the landscape.

Fifty-one percent of the survey participants plan to retire between the ages of 50 and 60. However, 20% of wealthy Canadians, based on the survey findings, plan to "work as long as they can". This further illustrates that life stage planning cannot be practiced by general age bands; rather a deeper relationship is required to deliver customized wealth management for tax strategies, income planning, capital gains planning and wealth transfer.

What does it mean to Strategic Advisors?

Go younger, go deep, include entrepreneurial clients without limiting your playing field – build relationships with other professionals – fill the most important gap of all: there is ample room for a new breed of wealth management advisor who uses a more consultative approach to forge deep relationships and create strategic solutions while building and managing the overall net worth of their affluent clients. Or look at it another way – as the market for wealth management doubles within eight years, how will you differentiate your advice from everyone else in the financial planning sector?

An Education in Strategic Wealth

There is more to wealth than a portfolio of securities – there is more to planning than lunch, annual investment reviews and knowyour- client forms. There is more to wealthy Canadians than income from wages and there will be more wealthy Canadians over the next ten years than ever before. The difference between serving wealth and watching it from the sidelines is not a marketing term or new way to discuss old ideas. It is the practice of strategic wealth management.

It is reasonable to assume that the 402 families who responded to the Insights Survey are bombarded daily with financial advice, enhanced banking services, securities sales pitches and all types of wealth management services – yet only one in ten of those families report that they are receiving complete strategic wealth management.

So will you run with the pack or set your own course?

Building a high net worth book of business is an attractive choice if you consider income comparisons between general and elite advisors [source 2]. Based on early CSI industry consultation, these elite advisors will grow their businesses by differentiating along the following lines:

- Deeper relationships, earlier
- Advice and management of investments and beyond
- Quarterbacking professional partnerships
- Sophisticated, knowledgeable, personal
- Focused on building and managing complex wealth through life stages

Strategic Wealth Management will be the elite category and the differences between strategy and tactics will become more apparent. Compensation models may also change and strategic wealth managers will be at the forefront of those changes.

One education will get you there in time

On the path to becoming a Certified International Wealth Manager (CIWM), you will gain the blend of deep knowledge and personal skills required to be an elite wealth management advisor.

The study path leading to the Certified International Wealth Manager designation consists of three courses: Advanced Investment Strategies (AIS), Advanced Retirement Management Strategies (ARMS), and Advanced Estate Planning and Trust Strategies (AETS) - with a final Strategic Wealth 360 evaluation of practical skills in a peer reviewed client simulation.

What you learn from day one will improve your ability to attract and retain affluent clients through their life stages – and you'll be able to put that knowledge to use as early in your career as you want.

Advanced Investment Strategies (AIS) course learning examples:

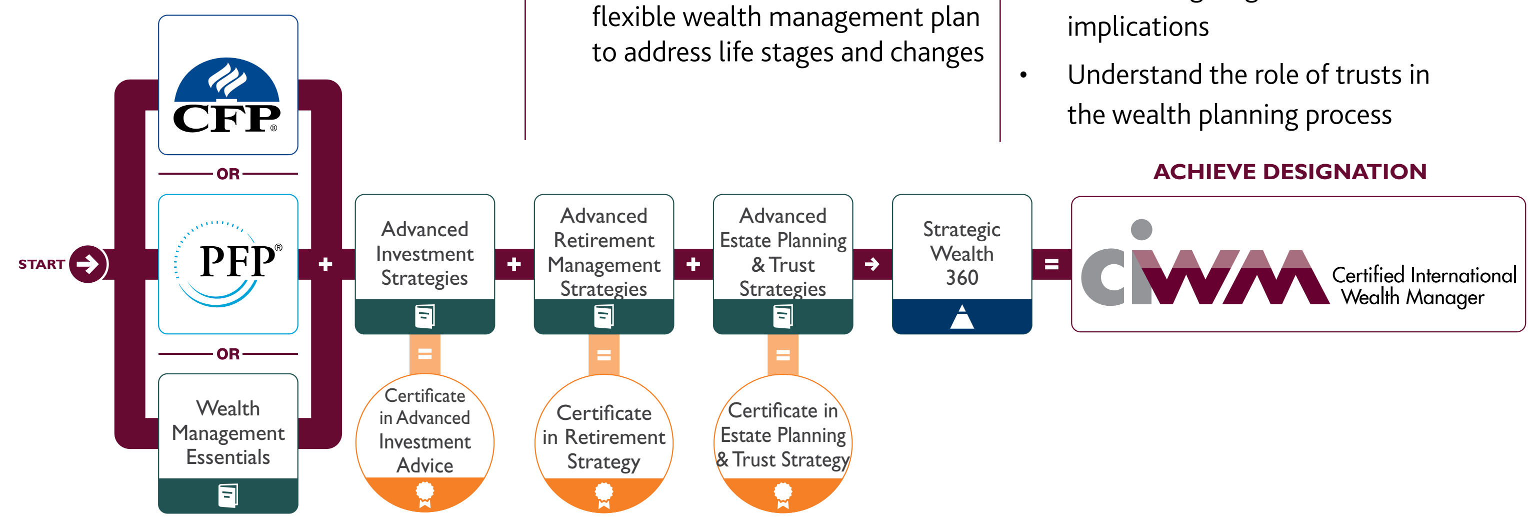
- Identify client net worth, lifestyle expectations and income needs
- Determine risk tolerance
- Conduct investment product due diligence for both traditional and alternative investments
- Implement allocation techniques to help optimize assets
- Manage a portfolio of managed products
- Develop wealth accumulation strategies
- Assess the benefits and risks of international investments
- Select, build and implement strategies that protect client portfolios

Advanced Retirement Management Strategies (ARMS) course learning examples:

- Deal with the special considerations faced by aging clients
- Recommend tactics and financial products to monetize assets into income to help support a client's desired retirement lifestyle
- Identify and recommend strategies to help minimize risks to a client's wealth
- Understand the reality of retirement in the present economy, including the implications for women
- Recommend strategies to minimize retiree's taxes
- Develop a sophisticated, yet flexible wealth management plan to address life stages and changes

Advanced Estate Planning and Trust Strategies (AETS) course learning examples:

- Deepen relationships with high net worth clients and become a partner in planning
- Understand how different types of wealth may be transferred to others
- Understand how taxation, estate planning and finance impact wealth transfer strategies
- Understand the roles of Wills, Powers of Attorney, Living Wills and Probate in a wealth transfer plan
- Explain the challenges and benefits of gifting assets and charitable giving and the tax implications
- Understand the role of trusts in the wealth planning process



Do you already have what it takes?

Based on the independent Insights Survey for CSI and other research, current education streams are delivering good results – but not enough to truly differentiate advisors at the elite level. Courses in the Certified International Wealth Manager (CIWM) include the education needed to either have an advantage earlier in your career or fill significant new gaps. For details, visit www.csi.ca/ciwm to learn about this important education stream.

Quick stats from the 2008 "CSI Affluent Market Study" conducted by Insights Inc.

This Whitepaper discussion was distilled from a national survey of 402 affluent Canadian households. Here's a quick outline of the sampling:

- Age ranges:

30-40 . . . . 34%
41-50. . . . . 33%
51-65. . . . . 33%

- Geographic breakdown:

Maritimes. 4%
Quebec. 18%
Ontario. 44%
Manitoba/Saskatchewan. . 3%
Alberta. 17%
British Columbia 14%

- Male 59%, Female 41%

- 92% live with a partner, 75% have children
- 85% were college or university grads, 38% had post graduate degrees
- 92% describe themselves as a professional, senior manager or business owner/CEO
- 49% own all or part of a business

- Annual income ranges:

$175-249,999. . . . . 49%
$250-399,999 . . . . 33%
$400,000+. 18%

- Income level was a predictor of wealth:

57% of the 30-40 year olds polled had household incomes of $250,000 or more

29% are completely debt-free
6% had RRSPs/pension plans worth $0.5 Million or more, 21% had outside investments of the same magnitude

Only 31% had $1+ Million in real estate/property, while 67% had total assets over $1 Million – to a large extent, total assets are derived from sources other than property

Does this class of clientele appeal to you?

Are you ready to manage their wealth from a strategic perspective? or information about the Certified International Wealth Manager (CIWM) designation and an outline of the education to position you for this high net worth market, contact us at:

address:
200 Wellington Street West, 15th Floor
Toronto, Ontario
M5V 3C7

toll free:
1-866-866-2601

email:
designations@csi.ca

visit us at:
www.ciwm.ca

 [source 1] CSI Affluent Market Survey, Insights Inc., March 2008 [source 2] Dow Jones Press Release: Wealth Managers Control Twice the Assets and Achieve Three Times the Income of Advisors According to New Study, New York, October 16, 2007 [source 3] National Post, Saturday, March 8, 2008, FW4 [source 4] CFIB poll on Canadian banking.