

INVESTMENT CHALLENGES OF THE AFFLUENT INVESTOR

AFFLUENT INVESTORS FACE UNIQUE CHALLENGES WHEN PUTTING TOGETHER AN INVESTMENT STRATEGY.

High net worth investors face investment challenges that some would consider unique to their financial status. The fundamental tenets of investing apply just as equally to them as any other investor, but these investors need to be mindful of issues that typically arise only from substantial wealth.

Let's examine a few of these.

Being Too Conservative. When an individual has more assets than they think they may ever spend, there can be a tendency toward overly conservative investment. This may result in lower long-term returns, which may shortchange the impact of bequests to charities or the wealth that will transfer to the next generation.

The Value of Collectibles. The affluent have a tendency to invest in their passions, and many collectibles have performed well over the years. One common mistake, however, is not keeping up-to-date appraisals, which may have adverse consequences with regard to estate liquidity and taxes. An investor should also remember that the value of collectibles can be significantly affected by a variety of factors, including economic

downturns or markets that have little or no liquidity. Therefore, there is no guarantee that collectibles will maintain their value (or effective purchasing power) in the future.

Concentrating Equity. Some senior executives accumulate large stock positions in the company that employs them. A general rule of thumb is that any position making up more than 10% of a portfolio should be reviewed for appropriateness. Not every concentrated position needs to be sold, however. Indeed, it may be possible for a client to continue to hold a sizable amount of one stock if their portfolio also has a solid foundation of well-diversified investments to help pursue their goals. Keep in mind that the return and principal value of stock

prices will fluctuate as market conditions change and that shares could be worth more or less than their original cost when sold.¹

DIY Mentality. Some wealthy investors have achieved great career or business success due to their intelligence, initiative, and self-confidence. This very success often promotes the belief that building or managing successful enterprises is not dissimilar to managing great wealth. In fact, it can be quite different, requiring a whole different body of knowledge and experience. An investor might be surprised how the company they have invested in actually makes money.

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*"The possible's
slow fuse is lit by
the imagination."*

- EMILY DICKINSON

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Too Many Advisors. Affluent investors often place their invested assets with multiple investment professionals, presuming this may lead to better performance. Many of the key needs of larger portfolios, such as risk and tax management, could suffer as a consequence. This may occur because an investment professional supervising only some of the assets would lack an overarching view into the larger picture of an individual's entire portfolio. The independent actions by separate investment managers, all with the best of intentions, may actually encourage suboptimal outcomes.

With increasing wealth comes even more unique challenges, beyond those covered by this discussion. Consequently, affluent investors are encouraged to seek professional guidance that may be best suited for their particular needs and circumstances.

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Citations.

1 - ellevest.com/magazine/investing/concentrated-stock-position [10/10/18]

OUR OFFICE WILL BE CLOSED MONDAY, MAY 27TH IN OBSERVANCE OF MEMORIAL DAY.

SUMMER OFFICE HOURS MAY 1 – AUGUST 30

7:30AM – 4:30PM

MONDAY – THURSDAY

7:30AM – 3:30PM

FRIDAY