New Wealth Versus Old Wealth?

You are familiar with the traditional classifications of wealthy people: There are wealth creators, wealth preservers and inheritors. But how do the needs of new-wealth clients differ from those of old-wealth families?

Wealth creators are individuals who retain a role in the business they have built up. Wealth preservers are individuals who have withdrawn wealth from their business; their focus is on protecting the newly liquid wealth. Wealth inheritors, finally, are individuals whose assets are often sheltered in structures to avoid wealth transfer taxation.

Other classifications distinguish between

- new entrepreneurs
- old-money families
- second-generation wealth builders
- new-generation millionaires
- sport and entertainment figures
- young professionals

Finally, in assessing these kinds of clients, two main types of financial criteria are used: wealth and income.

Now, if we combine all of this with the terms new wealth and old wealth, we may draw the following conclusions: When assessing an individual's situation, existing client segmentations are not so relevant from an advisor's point of view. However, these categories allow a distinctive approach regarding client needs. But what are these client needs and what are the client issues and areas of consulting?

Let's begin with estate planning. Estate planning is the planning for preservation and transfer of wealth. It raises complex tax and legal issues with no standard solutions. It requires the analysis of international private law issues and the implementation of structures to mitigate heirship problems.

Then there is tax planning. It is obvious that wealth generated through public transactions, such as IPOs, requires onshore solutions and therefore sophisticated tax planning. Generally, the increasing regulatory restrictions provoke the necessity for a shift towards onshore planning. Onshore planning includes taxation, and therefore the investment processes and the benchmarks are focused towards a return after tax.

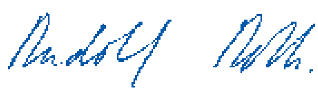
There are also other client issues that have to do with the increased mobility: Migration is a growing alternative in planning wealth management. It can be a useful tool for sheltering unrealized stock options, for tax optimization and for retirement planning.

Further areas of consulting are the setting up of corporate structures and real estate issues – e.g. the question of how to structure real estate (does the buyer hold the real estate directly or through a vehicle?).

Assistance in complex compliance environments addresses the problem that high net worth individuals, by nature, are exposed to multinational compliance issues, e.g. relating to tax reporting, execution of wills and banking relationships. The use of offshore structures to keep family assets together, to replace or supplement a last will and testament or to structure assets in a tax-efficient way should also be mentioned.

And last but definitely not least: strategic investment consulting. This includes strategic asset allocation, the search and selection of portfolio managers, monitoring and reporting.

The balancing of all these client issues is different if new wealth or old wealth is involved. In any case, from my point of view, the main difference is that old wealth requires adjustments to existing concepts, whereas new wealth often requires planning and implementing solutions "from scratch".



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New Wealth

- Empty playing field
- Acquiring / creating wealth
  - IPOs
  - Top executives
  - Outperformers (sports, entertainment ...)
- Shorter time horizon

Old Wealth

- Solutions / structures in place
- Preserving wealth
  - Management of assets
  - Entrepreneurs
- Longer time horizon