

# Investment Challenges of the Affluent Investor



**High net worth investors face investment challenges that some would consider distinctive to their financial status. The fundamental tenets of investing apply equally to them as with any other investor, but the affluent investor needs 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'll ever spend, there can be a tendency toward conservative investment. This may result in lower long-term returns that may shortchange the impact of bequests to charities or the wealth that will transfer to the next generation.

**Collectibles** - The affluent have a tendency to invest in their passions, and many collectibles have performed well over the years. However, one common mistake is not keeping up-to-date appraisals on record, which may have adverse consequences with regard to estate liquidity and taxes.<sup>1</sup>

**Concentrated Equity** - Some senior executives accumulate large stock positions in the company that employs them. This creates a possible risk and potentially can be managed in several ways.<sup>2</sup>

**DIY Mentality** - Some wealthy investors have achieved a high level of success in their careers, in large measure due to their intelligence, hard work, and self-confidence. This very success often carries over to the belief that building or managing successful enterprises is not dissimilar to managing great wealth. But it can be quite different, requiring a whole different body of knowledge and experience.

**Too Many Professionals** - Affluent investors often place their investment assets with multiple professionals, thinking that better results will arise from that. However, many of the key needs for larger portfolios, such as risk management and tax efficiency, will suffer since there is no overarching view into the larger picture of an individual's entire portfolio. The independent actions by separate professionals, all with the best of intentions, may actually work to suboptimal outcomes.

With increasing wealth come even more complex 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.



## FOOTNOTES

<sup>1</sup>The value of collectibles can be significantly affected by a variety of factors, including economic downturns or markets that have little or no liquidity. There is no guarantee that collectibles will maintain their value or purchasing power in the future.

<sup>2</sup>Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.



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