WHALES: Pricing for Ultra-High Net Worth Clients

Our recent PriceMetrix Insights paper Big Fish examined the characteristics and behaviors of high net worth clients (defined as households with $2 million or more in investable assets). Given that the majority (75%) of high net worth households have investable assets of $2 million to $5 million, our pricing analysis focused on this group. One of the most common questions we were asked from readers was: what does pricing look like for ultra high net worth households?

In this Flash of Insight, we examine fee-based and transactional pricing for ultra-high net worth households. We define ‘ultra-high net worth’ as a minimum of $10 million in investable assets (near the 90th percentile for assets among high net worth households).

This Flash of Insight paper is made possible by PriceMetrix aggregated data representing 7 million retail investors, 500 million transactions, and over $3.5 trillion in investment assets. PriceMetrix combines its patented process for collecting and classifying data with proprietary measures of revenue, assets, and households to create the most insightful and granular retail wealth management database available today.

It is helpful to begin by looking at how ultra high net worth households allocate their assets between transactional and fee-based accounts. The first observation is that just less than one-half of ultra high net worth households have fee-based accounts: 9% are fee-only, 39% are hybrid (transactional and fee), and 52% are transactional only households. As a consequence, the largest share of ultra high net worth household assets is held in transactional accounts (71%, compared to 29% for fee-based accounts) (see Exhibit 1). At the same time, proportionately less revenue is generated by transactional business overall (63%, compared to 37% for fee-based revenue). The median revenue on assets (RoA) among ultra high net worth households for transactional business is 0.11%. For fee-based business, the median RoA is 0.48%. This suggests that some ultra high net worth households may be regulating their fees by only moving a portion of their portfolios into fee-based accounts (or remaining with transactional accounts only) since fee-based accounts tend to yield higher revenue on assets than transactional business.

EXHIBIT 1

TRANSACTIONAL AND FEE-BASED ASSETS AND REVENUE, ULTRA HIGH NET WORTH HOUSEHOLDS
Fee-Based Pricing for Ultra High Net Worth Clients

Our previous research observed that high net worth households tend to pay lower fees (in percentage terms) on fee-based business compared to households in other asset tiers. At the same time, there is a wide range for revenue on assets (RoA) for fee-based products in the market. Focusing specifically on high net worth and ultra high net worth households, the same patterns emerge.

First, it is clear that as assets increase, fee-based RoA tends to decrease. Second, the fees paid by ultra high net worth households vary substantially. Among households with $10 million or more in assets, the 25th percentile for fee-based RoA is 0.23%; the 75th percentile is 0.76%, a range of over 50 basis points. Taking in a broader cross-section of households with $10 million or more in assets, the 10th percentile for fee-based RoA is 0.06%; the 90th percentile is 1.08%, yielding a difference in fee-based RoA among ultra high net worth households between the lowest and highest deciles of over 100 basis points. Overall, 13% of ultra high net worth households pay 1% or more on their fee-based business.

One factor influencing fee-based RoA is the investment portfolio composition. As expected, equity focused portfolios generate a higher RoA than balanced portfolios. Fixed income-focused portfolios are relatively uncommon and generate a lower RoA than both equity-focused and balanced portfolios. The median fee-based RoA for households with $10 million or more in investable assets in an equity-focused portfolio is 0.65%. For those with a balanced portfolio, the median fee-based RoA is 0.47%. For those with a fixed income-focused portfolio, the median fee-based RoA is 0.31%.

Again, differences in median RoA for different types of portfolios is only a small part of the story. Variance within each type of portfolio is significant (see Exhibit 3). Among households with $10 million or more in assets in an equity-focused portfolio, the 25th percentile for fee-based RoA is 0.35%; the 75th percentile is 0.99%. Among households with $10 million or more in assets in a balanced portfolio, the 25th percentile for fee-based RoA is 0.24%; the 75th percentile is 0.72%. For those with a fixed-income-focused portfolio, the 25th percentile is 0.14%; the 75th percentile is 0.50%.
Equity Transactional Pricing for Ultra High Net Worth Clients

Our previous research documented that high net worth households tend to receive greater discounts on their equity transactional business compared to households in other asset tiers. Just as with fee-based business, however, the range of discounts is quite wide (see Exhibit 4). The data indicate that as assets increase, the discount from the commission schedule also increases steadily. Overall, the median discount for households with $10 million or more in investable assets is 36%.

Similar to the fees paid by ultra high net worth households on fee-based business, the discounts they receive on transactional business show substantial variation. Among households with $10 million or more in assets, the 25th percentile for transactional discounting is zero (or full price). Indeed, 27% of ultra high net worth households receive no discount from their advisor. The 75th percentile is a 68% discount from the scheduled price. Again taking in a broader cross-section of households with $10 million or more in assets, the 10th percentile for transactional discounting is again zero (full price); the 90th percentile is 85%.

One plausible explanation for discounting on transactional business centers on volume: those ultra high net worth households who receive substantial discounts are those who conduct a large number of trades or have high average trade size. The data indicate that the number of equity trades, the dollar value of principal trades and average trade size are all relatively weak predictors of discounting. This is to say that a large number of trades (or a high value for principal traded) tends to result in only marginally higher discounts, on average.

Another plausible explanation – one that advisors sometimes tell themselves – is that advisors who discount on transactional business recoup their fees on fee-based business. Very simply, the data do not support this claim. To offer a preview of a finding explored in detail in a future paper, there is effectively no relationship between equity transactional discounting and fee-based RoA. Among ultra high net worth households, for any level of transactional discounting between full price and a 100% discount, there is a wide range of fees on fee-based business. The inverse is also true: for any price on fee-based business, there is a wide range of discounting on transactional business. In short, the notion that discounts offered on some business are regained elsewhere is not supported by facts.

To service ultra high net worth households effectively, an advisor needs to be informed about the dynamics of price in the market. Our data for both transactional and fee-based business among ultra high net worth households reveal trends of decreasing RoA on fee-based business and increasing discounting on transactional business for progressively larger clients. In addition to these trends, the other story in the data is that both fee RoA and transactional discounting exhibit wide variation across ultra high net worth households. Just as with other asset tiers in wealth management, the law of one price does not apply among the most affluent. With many prices coexisting in the ultra high net worth space, what is it that permits some advisors to charge significantly more than others for similar business? The answer is likely both a strong and clearly-articulated value proposition for one’s clients, and also a willingness to let low price seekers to find an alternative provider.