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BARRON'S COVER

Penta Millionaires: The New Rising Class

By Stacy Perman
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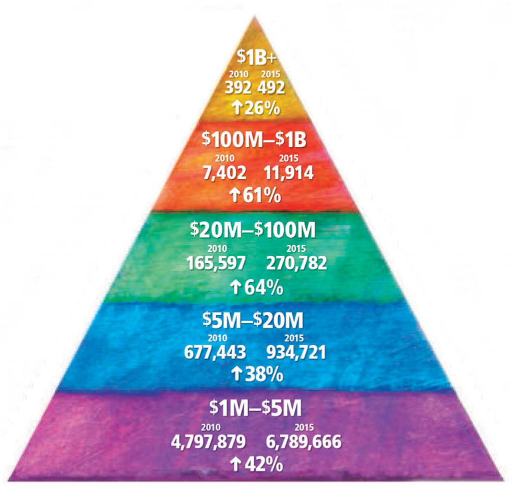
It is fair to say that at no time in history have so many Americans become so rich—or amassed their wealth so quickly. When John D. Rockefeller took title as the country's first billionaire, in 1916, it was as rare an event as sighting a white whale, and seven decades later, the number of billionaires had still only reached 44. Since then, however, the ranks of the megarich have surged ahead with a caffeinated velocity.

At every level of the wealth pyramid, according to *Penta*'s research partner Boston Consulting Group, the ranks of millionaire and multimillionaire households have expanded. Last year, for example, there were 492 U.S. billionaires, meaning that 100 new billionaires were created in the past five years alone. But the most interesting trend is a little further down the pyramid: The number of households with more than $5 million in investible assets just crossed the one million mark, up 5% from 2014.

"This is the first time that has happened since we started measuring these markets in the mid-1980s," says David M. Thompson, managing director of Phoenix Affluent Practice, a Rhinebeck, N.Y.–based firm that tracks the wealthy and their financial interests. Thompson calls this million mark a "historical threshold."



THE WEALTH PYRAMID Two million families became millionaires in recent years, as penta millionaires and above surpassed a million. The biggest percentage growth: $20 million to $100 million. *ILLUSTRATION: SOURCE: BOSTON CONSULTING GROUP*

We might have warm memories of the U.S. economy's prerecession years, compared with the plodding growth of our recent times, but let's put these two wealth-creation periods in context. Penta millionaires saw overheated spikes in their ranks during the go-go years—a 31% rise between 2003 and 2004 alone, according to Phoenix, as households jumped from 498,000 to 650,000. This excessive wealth creation then corrected itself in the Great Recession, when the penta-rich ranks fell by 191,000, or 22%, over two years. (See chart below.)

Flash forward to recent times. The rank-and-file rich have grown by just 5% a year recently, but this steady if modest climb over seven years has actually delivered better results. We now have a million-strong army of very rich emerging from the ho-hum, low-inflation economic growth that has been coupled with robust capital markets. Many have, in this calm environment, quietly sold off their private business or cashed in their stock-option windfalls.

“The $5 million to $20 million is the sweet spot,” says Bruce Holley, a senior partner and managing director at Boston Consulting Group. “At that level, there’s a lot of movement largely due to money events”—consultant-speak for a payday after a life of hard work.

In short, the days when the 400 massively rich families of the Gilded Age could fit inside Caroline Astor’s Manhattan ballroom have given way to a broader, younger, more geographically diverse group of self-made moguls. And yet, while their sizable fortunes, for the most part, have insulated them from the sort of blows that would fell the less flush, such lucre has not, it appears, inured them to a host of fears and insecurities. Having shaken off the Great Recession, they find themselves rocked by ultralow interest rates, stock market gyrations, and a cascade of anxieties. They worry about how their portfolios are invested and whether they’re spending more than they are earning; they fret over their security, both financial and personal; and, above all, they worry about the effect that their wealth will have on their children’s lives.

But America’s affluent have gained significant ground. According to the Boston Consulting Group, the nation last year minted 6,789,666 millionaires, up 41.5% from 2010. That’s impressive, but still below the astounding growth rates clocked at the highest wealth levels.

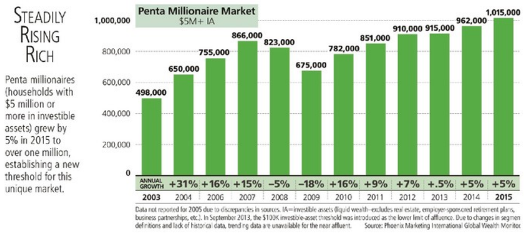
In just a five-year span, the number of folks in the $20-million-to-$100-million band jumped 63.5%; those occupying the $100-million-to-$1-billion strata, grew by 61%.

The times are changing—often in good ways. More women than ever are climbing the wealth pyramid, both as entrepreneurs and as the heads of families—women like Abigail Johnson, CEO of Fidelity Investments; Facebook COO Sheryl Sandberg; and Sara Blakely, founder of body-shaper lingerie Spanx. According to a recent UBS study, from 1995 to 2014, the number of global female billionaires grew by a factor of 6.6, versus 5.2 for men. More than 80% of female billionaires hail from the U.S.; 19% of them were self-made.

And while the moneyed set is likely to be married, the wife is no longer always a stay-at-home spouse; dual-income couples are equally on the rise. According to the Spectrem Group, which releases various reports on ultrahigh-net-worth individuals, last year 62% of those in the $25-million-and-above category were dual-career spouses, up from 39% in 2012. That’s a huge shift in how wealth is created and in the makeup of the nation’s social fabric.

For proof, just look at some of the marquee working couples these days, such as Facebook founder Mark Zuckerberg, married to Harvard University graduate Priscilla Chan, a pediatrician, philanthropist, and CEO of The Primary School; and the latest Yahoo! CEO, Marissa Mayer, married to lawyer and investor Zachary Bogue.

But the fantastically wealthy rank and file aren’t just becoming more female; they’re also getting younger. The Spectrem Group finds that among the very rich, only 4% are younger than 48, but they have an average net worth of over $10 million, roughly the same level of wealth as some 60% of those



who are 65 or older. "You're seeing a lot of superwealth being created in this country around technology and social media," says George H. Walper Jr., Spectrem's president, noting it as a factor contributing to the trend toward younger wealth creators. "If you look at the age of those in the $5-million-to-$25-million range, what you are seeing is not that the youngest are the wealthiest, but that the wealth of younger people is now equal to those who are older in the same band."

This youth trend is transforming the politics of wealth in all sorts of ways. For one, younger folks are tipping the philanthropy scales to more high-engagement giving, helping push social-impact investing from the feel-good periphery to $6.57 trillion in assets in 2014, up 76% from just two years earlier. (See *Penta*'s "Impact Investing Done Right," Nov. 28, 2015.) These younger wealthy folks also have a unique take on everything from how private-banking services should be delivered to the role that art plays in their financial lives.

U.S. Trust asked respondents in its 2016 survey, Insights on Wealth and Worth, whether they viewed art as a way to build significant wealth. They found that 29% of millennials and 36% of Gen Xers answered in the affirmative. "This is an area, as a private bank, we're just starting to approach more aggressively," says Chris Heilmann, U.S. Trust's chief fiduciary executive and a managing director of Bank of America. "We were kind of surprised at the numbers we saw coming out of the survey, in terms of the interest the wealthy have in art."

Shifting alongside that is wealth's geography. Traditionally, wealth was concentrated along the industrial corridors of the West and East coasts, but, according to Capgemini's United States Wealth Report, from 2008 to 2013, three of the four fastest-growing cities for wealth creation were Dallas, Houston, and San Jose, Calif. New fortunes created in the energy, software, and technology industries pump up these local and regional economies.

What does it all mean? Wealth tracker Thompson nicely summarizes all of these changing forces and fortunes when he says, "The high-net-worth market has continued to grow since the downturn and hasn't looked back, in terms of steady growth." And, it should be noted, this growth isn't likely to come to an abrupt halt anytime soon, even as politicians and thought leaders fret over the fact that the wealthiest 400 Americans now have more wealth than the bottom 61% of the population combined, according to the Institute for Policy Studies. "Based on historical patterns," says Thompson, and "barring any significant downturns, there is no reason to believe that growth won't continue." One reason, he says, is that the $5-million-plus crowd has "access to asset classes that less-wealthy households don't have," and that competitive advantage will help propel their growth.

That doesn't mean that the wealthy don't have their own set of unique and very real concerns. Five years ago, Boston College's Center on Wealth and Philanthropy released a report titled, "The Joys and Dilemmas of Wealth." Bankrolled by the Bill & Melinda Gates Foundation, it took a deep dive into the inner lives of the megarich; the majority of respondents had at least $25 million in assets and an average net worth of $78 million. The study enumerated a catalog of anxieties—from feelings of social isolation to dissatisfaction over their place on the wealth hierarchy—but the biggest flash point was concern over whether their fortunes might sap their progeny of motivation and prevent them from living meaningful lives. "How consistent and how sincere respondents were about the future of their children surprised me," says psychologist Robert Kenny, one of the study's authors and a founding partner at North Bridge Advisory Group.

Anthony Alves, 54, faced such apprehension after he sold his New Jersey firm, Oasis Foods, to Sweden's AAK in 2012. At the time, the company was generating about $130 million a year. With a 50% stake in the company, the sale catapulted him from "upper-middle class," with a Honda minivan and nice family vacations, to a net worth well over $25 million. "It was life-changing," says Alves.

He needed help figuring out how to live with this elevated level of wealth, so Alves' advisors at Wells Fargo Private Bank had him assess short- and long-term goals, and then established a budget pegged to seven- to 10-year cycles. After making some initial lifestyle upgrades—a Maserati and a $2 million yacht for him, a new Mercedes-Benz for his wife, a new swimming pool, and a vacation home—Alves says his priority was his four children's futures. They ranged in age from 10 to 17, and he enrolled them in a top-flight private boarding school with $50,000-a-year tuition per child. "For me, my biggest concern was for them to have an education to give them the ability to reach their goals and opportunities," he says.

Advisors are telling the wealthy they can't afford all their toys in this low-return environment. Author G. Bruce Knecht has written about the Lady Linda yacht and ?the millionaire who can?t really afford it.? *ILLUSTRATION: PHOTO: RUPERT PEACE*

But Alves also worried that while his wealth offered his children countless opportunities, it also had the potential to mess them up. So he came up with a plan. He and his wife started by setting up trust funds for their children, to be accessed only when they reached age 40. "It was important for me that they understand there is this other part of life, that they should overcome challenges and not have a soft cushion to fall on every time," he says. "I didn't want to rob my kids of their own character." The couple then launched a charitable trust, something that Alves half-jokingly calls the "forced family fund." This vehicle is intended to bring the children together, with the goal to disburse $300,000 annually, and also to be a means of infusing the family's wealth with meaning. "This brings everyone to the table to participate in giving," he says. Hopefully, the charitable trust will be a "tool to understand the value of the money," while also helping them understand the importance of doing "something to help others with the money they have."

Wealth managers across the nation, catering to the rising tide of the newly wealthy like the Alves family, are coming up with services dedicated to the specific issues of the inheritors. Such programs offer the basics when it comes to budgeting, investing, and estate planning, but they also help families to establish a set of shared values over their wealth and how that might be manifested through the generations.

Such services will only grow in importance as the decade progresses. U.S. Trust's recent insight survey found that among the wealthy set, 77% originally came from middle-class or lower backgrounds, including 19% who grew up poor. But as our population ages, and dual-income parents funnel their wealth down to one or two kids, inherited wealth will become increasingly important in a nation that has historically prided itself as a nation of self-starters. Over the next 20 years, for example, it is calculated that some $1 trillion a year in wealth will be transferred to the next generation. "The No. 1 concern I hear from clients is the impact of their wealth on the next generation," says Charlie Mueller, a Trust & Advisory Practice executive at Chicago-based Northern Trust. "Wealth planning is incomplete unless and until it takes into account the family and prepares them for wealth."

Of course, for every trend, there is a countertrend. Entwined with these concerns about offspring and inherited wealth, there is the fact, unfathomable to some, that many of the wealthy don't consider themselves financially secure. "I'm hearing from people with assets between $5-and-$10 million and $10-and-$20 million," says Anthony McEahern, head of wealth planning at Wells Fargo Private Bank. "They don't think of themselves as financially independent."

That's not as outlandish as it sounds. Consider an individual with a $5 million portfolio. With low interest rates, market volatility, and the bond market's 35-year bull run slowing to a sputter, $5 million doesn't stretch as far as it once did. Lisa Shalett, head of investment and portfolio strategies at Morgan Stanley Wealth Management, says a low-risk, primarily cash portfolio today generates an average yield of 1%; a bond-oriented portfolio might earn 2% to 3%; a 60/40 portfolio will, realistically, get you to 5.5%.

That means our wealthy individual, even if he or she takes the 60/40 option, will be earning some $275,000 a year from his or her portfolio. But that's pretax, of course, so take away half of that amount in taxes, and our wealthy individual is left with $138,000 of income a year. Renting a nice three-bedroom apartment in New York City or San Francisco could entirely wipe out that income stream. "In this environment, you're really not that well-off in terms of annual expectations," says Shalett. "Particularly for those who are retired, if they don't have a pension or any other income and they are just living off their investment income—you are talking about a more modest life."

Simply put, the wealthy, like many families with far less resources, are confronting the fact their lifestyles are costing more than they are actually earning. Doris Meister, president of U.S. Markets-Tri-State at Bank of New York Mellon, says that she is frequently engaged in client discussions about lowering their return expectations and how their financial plans need to take into consideration the cost of their current and projected lifestyles. "I have one client with $15 million in assets, the result of a divorce settlement," says Meister. "She has a pretty high lifestyle for that level of assets, and while you might say $15 million is a lot of money—and it is—the infrastructure supporting it is not. We had a conversation that, if she continues at this level, she is going to run out of money in 12 years."

WHAT IT TAKES

The wealth needed to reach the top 10% and 1%.

	WHO ARE THE TOP 10%	WHO ARE THE TOP 1%
Median Income	$175K	$750K
Median Assets	$1.5M	$7.5M
# of U.S. Households	11.9M	$1.2M

Source: YouGov 2015 Survey of Affluence and Wealth

Wells Fargo's McEahern also has frequent talks with clients about their modeled burn-rate projections. "It forces people to rethink how they live their lives," he says. Recently, he had to inform a client that the service costs of maintaining his three jets were draining his liquid assets, and suggested he sell two of them. Meister says that real estate portfolios, in particular, offer a crucial area for strategic rethinking for clients feeling squeezed or alarmed about their spending levels. "Often clients have more than one residence, and properties are expensive," she says. "We talk about selling or renting them out. If the property is in a desirable area, they can turn the asset into an income producer, as opposed to being a cost, or sell it outright and add money to their portfolio."

The wealthy are also rattled by security issues, from potential cyberthreats to the impact social media can have on turning private family moments into public fodder. Northern Trust's Mueller says helping clients come up with a security plan is becoming as significant as estate planning.

After a pair of new clients in the Midwest with school-age children sold their business in excess of $250 million, Mueller customized a strategy. "They had not thought about how the news release would come out and how it would change their lives and how they were viewed within their small community," he says. So the firm came up with a plan advising them about how to handle not only their own personal security, but also their children's activity on social media, and how to respond to friends and neighbors. And they made sure the announcement of the sale did not mention the dollar amount of the acquisition.

When it comes to wealth, says psychologist Kenny, "people can grow up with a lot of money, but they can't buy themselves out of the human condition." That's a wise thought for the very wealthy to keep in mind as they navigate the unchartered waters of their life.

(See related story: "America's Top 40 Wealth Management Firms.")

Email: penta@barrons.com