What the end of the middle class means for the wealth management industry

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Some 15 years ago, a wealthy American client of mine said to me: 'Michael, there's no middle class in the States any more. You're either rich, very rich or poor'.

By today's definition of ultra-high net worth (UHNW) clients, you are looking at net investable assets of a minimum of $50 million (£40 million). The current statistics are staggering, especially in the US, where more than 6,000 individuals joined the ranks of UHNWs in 2018, bringing the total to 70,540, according to Credit Suisse's 2018 World Wealth Report.

This represents an 8.5% jump compared with just 1% in the UK, where an increase of 400 brings the total of UHNW individuals to 4,670. A total of 0.8% of the world's population owns 44.8% of global wealth, with countries such as Russia and India leading the way – the richest 1% own 57.1% and 51.5% of their country's assets, respectively.

There is no doubt that a combination of both quantitative easing (QE) and extremely low interest rates provided by central banks have led to this massive asset price inflation.

The ultra-wealthy have therefore benefited from the rise in equity markets, especially in the US, as well as rises in other physical assets. The remainder of the population, who tend to rely on income from low-risk interest-bearing investments, have become even poorer, as this has been the worst area for investment and income returns over the past 10 years.

It is estimated that American savers have lost $500 billion due to low interest rates since the financial crisis of 2008.

It is not my intention to decry the pitfalls of capitalism, but growing wealth inequality has led to an unbridgeable gap between the lower/middle classes and UHNW families. For example, the ratio of pay for an American CEO compared with their average worker is now 475/1. In Germany, it is 12/1, and in the UK, 22/1.

BILL AND MELINDA GATES

THE TRILLION-DOLLAR MARKET

The long-term trend is for sustained growth in the family office sector, partly due to the increasing number of billionaires being created in the Indian sub-continent and China. There are now probably in excess of 10,000 single family offices.

Since 2011, three dozen hedge funds have converted into family offices.

The latest UBS Wealth Report estimated that family offices hold assets in excess of $4 trillion.

The other significant statistic, among many in this sector, is that some $59 trillion in intergenerational transfers from estates will be handed down from now until 2061, making it the largest shift of wealth in history.

These families will attract some of the best fund managers and private bankers, who have the unique combination of being able to invest in a whole range of sectors and deal with the world's most prestigious and long-lasting family businesses.

The managers will also have the economies of scale and access to funds that many banking and smaller fund groups will find impossible to match.

Only big players (such as Credit Suisse, UBS and JP Morgan) will be unintimidated by the challenge.

I also anticipate there will be increasing consolidation in the family office consultancy field, such as the recent amalgamation between Stonehage and Flemings.

However, the sector will no longer consist of a series of walled gardens. Many well-run and professional family offices have now allowed outside access to their expertise, particularly in the fields of private equity and fund management. The Rockerfeller Family Office, for example, now has over 250 clients.

Bill and Melinda Gates and the Quandt family offices also let fund management groups invest in their funds. The era of secrecy and total lack of regulation could now be coming to an end, with governments, intelligence and security organisations taking an active interest in global family offices. This, of course, poses problems for those families that are subject to geo-political risks. •