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5:30 am ET
May 29, 2015

Wealth Adviser: Business-Owning Clients Need Your 'Smart' Advice

By PATRICK GRAHAM

According to Northern Trust, 22% of all individuals with a net worth of $25 million or more are business owners. "They're a big opportunity for advisers," **Norb Vonnegut writes on Wealth Adviser at WSJ.com**. "But they also pose unique challenges that could lead to epic, estate-planning disasters," which may explain why only a third of all family businesses survive into the second generation. That's why it is crucial for advisers with business-owning clients to get smart about their enterprises and what to do with them when the time comes to sell or keep the business in the family, he says: "Financial advisers win when their clients' businesses succeed."

MANAGING THE MONEY:

Advisers prefer ETFs over mutual funds. It shouldn't come as a surprise, but a new study finds financial advisers now favor exchange-traded funds over mutual funds, **WSJ's Total Return blog reports**. Valerie Chaille of the Financial Planning Association, which helped conduct the survey, says advisers and other investors are drawn to ETFs for their low costs, tax efficiency and transparency. But she also says ETFs are popular today for another reason: "When equities markets do well, investors tend to favor passive investments over active investments." The survey found that 81% currently use or recommend ETFs for their clients, compared with 78% for mutual funds.

Not all bond funds venture into lower-quality credits. After fleeing interest-rate risk for fear that the Fed will raise rates, many bond funds are now investing in lower-rated credits to boost their yields, **writes Morningstar's Christine Benz on the research firm's**

website. She notes that many intermediate- and short-term funds have average credit qualities of BBB, the lowest rung of investment-grade bonds, or BB, which is considered junk. Funds, she says, that have average credit qualities of A or higher are Dodge & Cox Income, Fidelity Intermediate Bond and Vanguard Short-Term Bond Index.

The pitfalls of being too diversified. Do investors truly understand the meaning of diversification? California-based adviser Jerry Chafkin doesn't think so. "A mistake investors still make is thinking of diversification in terms of volume—that is, the more they own, the better diversified they'll be," **he writes on Wealth Adviser at WSJ.com**. "A portfolio can be too diversified and runs the risk of becoming diluted." But instead, he says, advisers and their clients should focus on how correlated assets in a portfolio behave when markets tumble.

THE BUSINESS:

Many wealthy millennials shun advisers. As more millenials accumulate assets, many are opting to forgo using a financial adviser. A recent survey by U.S. Trust, the private banking unit of Bank of America, found that just 47% of wealthy millennials utilized an adviser, financial planner or a private banker, **InvestmentNews reports**. But advisers shouldn't fret. Many millennials said they'd consider adding social-impact investing or alternatives to their portfolios at some point, which would likely require the services of a wealth adviser.

THE PRACTICE:

Being healthy the best asset? The most valuable asset the wealthy believe they have is their health, **according to the same report by U.S. Trust**. However, the report also found that few are planning for costly long-term care. That said, this may be a good opportunity for advisers to begin conversations with these clients about how they would like to spend their later years, whether at home, with children or relatives, or in an assisted-living facility. Once these goals have been articulated, an adviser can help structure a financial strategy that accounts for them, which could include long-term care insurance, the report says.

Handling a risk-averse client. When clients are scared of stock market risk but need to grow their money so they don't outlive their funds, what's an adviser to do? Colorado-based adviser Brad Jenkins faced such a dilemma with one client–a 64-year-old woman with $1.5 million. "She'd lived through the 2008 market crash and was terrified that would happen all over again," **he tells Financial Advisor IQ**. After some explaining that investing in the safety of CDs wouldn't generate enough money to last for retirement, he managed to convince her to go with a 20-80 split between stocks and bonds, and to limit any losses to 5% before selling.

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