

## From FAMILY WEALTH REPORT

# Statistics and the high-wealth revolution

Thomas Coyle - 6 February 2006

As much as any investor-education alliance, strategic consultancy or fee-only advisory out there, **Private Client Resources** may be one of the most significant change agents on the wealth-management scene today. By providing up-to-date performance reporting across all asset types, the database publisher gives clients an accurate picture of their wealth. This radical transparency also helps advisors manage their clients' wealth to target. And as PCR grows it will be able to give advisory firms an objective measure of the value of their advice in a rationalized high-wealth marketplace.

As matters stand, firms fighting for wallet share in the \$25-million-plus bracket have little to entice prospects other than attractive-sounding bromides. Old firms talk of their "unparalleled experience" or their ability to "understand the complex challenges and opportunities" their clients face. New firms boast of replicating their clients' "values" or providing the kind of slick service "experience" that aging yuppies supposedly crave.

### Crazy assets

But such claims meant little to PCR president and co-founder **Christopher Snyder**, when, in the mid 1990s, he went from being well-off to staggeringly wealthy after selling **Loan Pricing Corporation**, a firm he founded about a decade earlier, to **Reuters**.

"Suddenly I had all these crazy assets to manage and no one to help me understand how I was doing," says Snyder, an economist and statistician by training.

The first thing Snyder wanted to know was how, as a group, his high-wealth peers allocated their assets. But he discovered that no one tracked those data. More fundamentally, he found that none of the advisory firms he contacted could help him answer the three questions he considers vital to effective wealth management: Where am I now? How am I doing? What are my risks?

"These are questions CEOs ask about the companies they run," says Snyder. And for private clients to get answers to such questions, he felt they should have access to a management-information system (MIS) similar to those many CEOs use to get reports on their companies' performance. The personal-wealth reports should give clients customized updates on their performance, including breakdowns across asset classes and liability types and support rigorous analysis of the data.

Snyder took his idea to former **McGraw Hill** CEO **Joseph Dionne**, and the two set about raising capital for PCR, a company that would build an MIS "dashboard" for ultra-wealthy clients and their advisors. The Wilton, Conn.-based company's 40 or so investors include former **Goldman Sachs** CIO **Robert Friedman**, former **Chemical Bank** president **Thomas Johnson**, **Portfolio Management Data** founder **Steven Miller** and **Rockefeller Foundation** chairman **James Orr III**.

About five years ago, with its founders and investors as guinea pigs, Snyder and Dionne got to work on PCR Insight, a private-client version of a corporate MIS. "It's like **Quicken** for high-net-worth individuals," PCR says in a recent press release. "For the first time ever, an individual or family worth, for example, \$120 million can receive an updated report on a daily basis."

### Complexity units

**Intuit's** Quicken may be an apt comparison for PCR Insight, but it's still worth the trouble of registering for a **demo** to get a closer look. It gives wealth owners and their advisors the ability to see assets and liabilities in overview or to drill all the way down to single holdings. Securities can be categorized by type, manager, style or tax status. The report includes trust-held assets as well as alternatives like hedge funds, limited partnerships – which these days account for a good 40% of a high-wealth investor's portfolio, according to PCR – and personal-use assets like homes, farms, marinas and fine art.

Advisors using PCR Insight can see their clients' holdings by "superhousehold" – PCR's term for a client – "households" within each superhousehold and "taxable entities" within each household. In turn, an advisory firm's management can use PCR Insight to see how individual advisors are faring.

PCR charges for Insight on the basis of complexity of assets rather than size of assets. It assigns WCUs or “wealth complexity units” to each asset class – a lower number for, say, equities, higher numbers for a hedge fund or a collection of vintage cars – based on the comparative difficulty of pricing it. PCR assigns WCUs to each taxable entity in a superhousehold and tallies them all up to arrive at a price for its services.

**Roy Smith**, a professor at the **New York University’s Stern School of Business**, a former president of **Goldman Sachs International**, and one of PCR’s investors, says PCR Insight “enables you to collect, categorize and display in one place all the information about your holdings.” Armed with that data, Smith – a decidedly self-directed investor – says he can “look at and manage” his overall asset allocation and risk exposure. Before he had access to PCR Insight, Smith says he was able to get a fair overview of his wealth, but it was a drawn-out process made more vexing by “all the little errors I’d make. Now I get a clear picture, all displayed for me on a dashboard.”

**Sharon Sellstrom**, who runs a single-family office on the West Coast that just became a PCR client, calls PCR a “cost-effective alternative to a master custodian” that “provides pristine data.”

### Steam cleaners

Snyder also sees the reliability of PCR’s data as Insight’s chief selling point. “We’re like Loan Pricing Corporation, **Standard & Poor’s**, **Moody’s** or **FW Dodge**,” he says. “That’s the world we come from.” But Snyder adds that claiming kinship with such respected information providers calls for rigorous normalization processes to eliminate errors and inconsistencies in the data PCR works with. “We steam clean the data,” he says. “And our standards are very high.”

**Jamie Punishill** a Cambridge, Mass.-based analyst with **Cappemini**, a consultancy, says PCR irons out problems that can crop up when one data source – a brokerage, say – writes **IBM** as “IBM,” another source calls it “Int’l Business Machines” and still a third designates it with its **CUSIP** number. Without normalization those different inputs could result in separate entries for each holding. Writ large, that makes for a fuzzy picture of a high-wealth family’s holdings.

Although providing trustworthy performance data is PCR’s mainstay, **Jon Carroll** of **Family Office Metrics**, a New York-based consultancy to ultra-high-wealth families, has also heard nice things about the firm’s service ethic. “People who are working with them say they’re very diligent about customer service,” he says. “It’s more a service company than a software or technology company.”

Still, adds Carroll, PCR Insight might be more attractive to family offices if it linked directly with general-ledger software. But **Mallon Fitzpatrick**, PCR’s manager of business development, says the linkage Carroll calls for is only a few mouse clicks away. “We’re not a general ledger, but we have the data to populate one,” he says. “And you can do that by putting our data on a spreadsheet and uploading it.”

PCR recently signed **Northern Trust**, its biggest client so far. Not counting investors, its other clients are “20 or so family offices and four or five boutiques” including Ardmore, Pa.-based **Hillview Capital Advisors**, according to Snyder. Right now the firm tracks about \$5.5 billion in assets, though PCR expects to see that number jump once it starts processing data from Northern’s high-wealth clients.

### Rationalizing

As that number grows, says Snyder, PCR’s High Wealth Data Set kicks in. And that, as much as Insight, is what makes PCR a potential force for change in the wealth arena. The High Wealth Data Set boils down to a financial map of the high-wealth landscape.

For instance PCR’s preliminary studies suggest that the very wealthy people do – as some may suppose – outperform market averages, and they do so pretty consistently. Another early insight – useful perhaps to advisors thinking of targeting particular professions – is that people who make their fortunes in the arts and media tend to fork out more for services than others in their wealth bracket; entrepreneurs, on the other hand, are a bit stingy.

By facilitating peer benchmarking PCR’s High Wealth Data Set could give clients ways to measure the value they derive from their advisors, just as it could give advisory firms something other than claims to venerability or novelty to woo high-end clients.

Over time, and as statistical tools like PCR's data set shed light on the high-wealth market, successful firms may be able to charge more for their services even as their share of market increases. Meanwhile less successful firms may have to lower their prices, look down the wealth scale for less complex wealth to manage, or leave the business altogether. -FWR