SpectremGroup
Voice of the Investor

THE FINANCIAL LIABILITIES OF WEALTHY INVESTORS

When a family sits down to create or update their budget, the most difficult items are the liabilities they have. Mortgages, automobile loans and credit card balances are the bitter pill that most Americans deal with daily, weekly or monthly.

But one of the revealing insights from Spectrem's annual examination of the asset allocations of affluent investors is that many investors, including those with a net worth as high as $25 million, maintain financial liabilities of the same sort as people who are not as well-to-do.

"While some affluent investors are pay-as-you-go types that avoid owing money to any entity, others employ the financial structure that makes it wise to maintain certain liabilities," said Spectrem president George H. Walper Jr. "Accountants provide these investors with the proper balance of assets versus liabilities."

Advisors can inquire with their investors what level of liability they wish to maintain, and should definitely assist the accounting process by keeping an eye on an investor's liabilities in respect to their investments and asset levels.

Spectrem's study – ***Asset Allocation, Portfolios and Primary Providers*** – looked into the liabilities of investors from three different wealth segments, starting as low as those with $100,000 in net worth not including their primary residence to those with a net worth as high as $25 million.

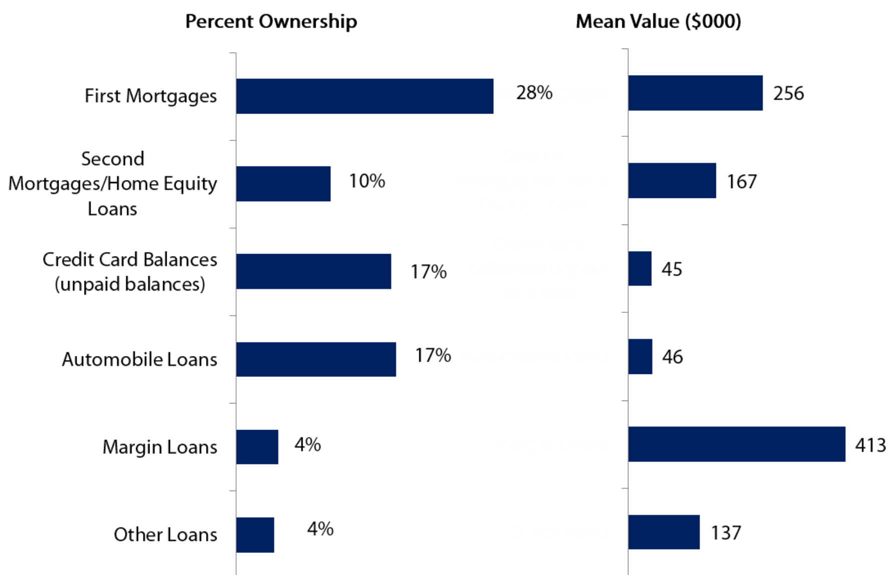
Among the Ultra High Net Worth investors with a net worth between $5 million and $25 million, 28 percent maintain a first mortgage. The mean value of those loans is $256,000, an amount most of those investors could certainly pay off.

Ten percent of those investors also have a mortgage on their second or vacation home, but again the average loan amount is low, only $167,000.

There are some wealthy people who show off their wealth by buying expensive vehicles (although not as many as you might guess; the Spectrem study shows that only 17 percent of UHNW investors spent $25,000 or more on automobiles in the past 12 months). Seventeen percent of all UHNW investors have automobile loans, but the loan amount is $46,000.

Seventeen percent of UHNW investors have unpaid credit card balances with average balances of $45,000. That credit card debt amount actually doubled since 2016, when it was 16 percent of UHNW investors with $20,000 in debt.

Advisors can discuss these liabilities with their wealthy investors to determine if there is a better use of their funds rather than maintaining the loans.



The Spectrem study also says that UHNW investors who are advisor dependent are more likely to have outstanding financial liabilities. Among Advisor-Dependent investors, those who ask their advisor to make almost all the investment decisions, 37 percent have first mortgages and 26 percent have outstanding automobile loans. In both cases, that is almost 10 percent higher than the average.

The UHNW investors are the wealthiest ones in the study. Millionaires, those with a net worth between $1 million and $5 million, are more likely than the UHNW investors to have outstanding debts, although the loan amounts are lower in most cases.

For instance, 33 percent of Millionaires have a first mortgage (compared to 28 percent of UHNW investors), but the loan amount average is $190,000.

Twenty-three percent of Millionaires have automobile loans owing $19,000 on average.

Nineteen percent of Millionaires have outstanding credit card balances to the tune of $13,000 on average. That debt amount dropped significantly from 2016, when it was $21,000 on average.

Wealthy investors are obviously balancing their assets and liabilities. The question to ask is whether this is the best approach to investing.

Top Takeaways For Advisors

Would it be beneficial to speak to your investor's accountant about the balance sheet? Obviously, the money being spent on interest payments could be invested instead. Each investor is going to have a different tale to tell in regards to liabilities, but advisors can (gently) inquire as to why an investor who can pay for an automobile outright does not do so. Redirecting the funds assigned to interest payments into investments can be a win-win for investors.

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