DataPoints™

Financial Behaviors & Wealth Potential

Demonstrating the Value of Predictive Assessments for Financial Services

Data Points Research Report

February 2016

Contents

From Our President

More than ever, advisors and advisory service firms must provide evidence of their value to clients above and beyond financial returns; this requires understanding the patterns of and developing their clients' behaviors that impact financial success. Data Points is changing the way financial services can provide tailored products and services to its clients by providing assessments of client Wealth Potential. Instead of focusing solely on demographic characteristics to provide guidance or relying on subjective views about personality or attitudes, Data Points *scientifically measures Wealth Potential* to allow firms to identify and develop their clients' propensity to succeed financially. Data Points' products and services allow firms to demonstrate and differentiate their value to clients: Our objective assessments are based on measurements of factors from 40 years of research on financially successful Americans (as shown in Dr. Thomas Stanley's books such as *The Millionaire Next Door*).

– Sarah Stanley Fallow, Ph.D.

Executive Summary

Can financial services firms use behavioral analytics to identify and develop their current and next generation of clients?

To find the next generation of clients and to maintain relationships with current ones, financial services firms and advisors must have a clear assessment of their clients' financial path, a path marked by financial behaviors and experiences. Wealth Potential, or the scientific measurement of one's propensity to build or maintain wealth over time, can be determined using reliable and valid behavioral-based assessment. Wealth Potential can help firms identify and develop clients' capability for building wealth, predict client behavior in any economy, and retain and grow client portfolios through an objective understanding of financial management behaviors. Wealth Potential adds incrementally to the prediction of net worth above and beyond age, income and percentage of net worth that has been inherited or received as a gift.

This report examines satisfaction, propensity to work with professional advisors, and the use or planned use of financial services within low, medium, and high Wealth Potential groups. It outlines how Wealth Potential can be measured, how the ability to build and maintain wealth spans traditional demographic categories, and how Wealth Potential can help anticipate satisfaction, recommendations, and other key financial outcomes for clients with financial services firms.

Using assessments based on 40 years of data on financially successful, self-made Americans that served as the basis for books such as *The Millionaire Next Door*, Data Points recently examined the Wealth Potential of a sample of nearly 500 mass-market, mass-affluent, and high-net-worth respondents. From the analyses, we reach the following conclusions and make recommendations to those in the financial services industry that want to impact their clients' wealth building potential and secure their own position as a valued advisor.

Key Finding 1: **Wealth Potential transcends age, income, and net worth groups.**

Grouping individuals by *predictive financial management behaviors* demonstrates that high potential clients (those with the highest propensity to build wealth over time) can be found within each age, income, and net worth group. By changing the way prospective clients are considered by financial services firms, advisors can potentially expand their target markets to include those who have traditionally not met their minimums. Likewise, individuals with low potential to build wealth also exist within each group, including high net worth groups. This should caution firms that rely solely on their clients' current or potential income and net worth levels to determine how to coach and develop clients who may not have the behaviors that will allow them to maintain and grow wealth.

Key Finding 2: **Those with higher potential to build wealth recognize they have the potential and are more likely to leave a service provider if not receiving excellent service.**

Those high on Wealth Potential are likely to be more satisfied with their current and future financial situations. Likewise, this group believes they perform their own financial duties well. Coupled with the facts that this group tends to be more likely to already be using many financial services and that they easily leave professionals that do not provide excellent service, high potential clients may be harder to satisfy and keep. Firms and advisors focused on building and maintaining relationships with these clients must demonstrate expertise and service beyond comparison.

Key Finding 3: **Low potential respondents recognize the need for financial advisement more so than other groups and also will most likely be able to see the value of personal coaching and development.**

Those lower on the Wealth Potential score recognize the need for and indicate the use or planned use of financial services more so than their medium or high potential counterparts. This group, a group that spans all income and net worth levels, may be in particular one that can benefit from excellence in financial planning. For firms focused on high and ultra-high net worth, this particular group can benefit the most from and afford personalized financial planning.

Based on these three findings, this report provides recommendations to help develop client behavior in ways that will improve their chances of building and maintaining wealth in the future. Advisors are in a unique position to coach and mentor their clients with the use of behavioral-based assessments to provide the objective measurement of client Wealth Potential, thus allowing advisors to tailor their coaching depending on client scores on various Wealth Factors. Likewise, for firms focusing on technology within financial services, this report provides insight into technological product features based on the findings.

By scientifically examining behaviors—that is, by measuring the Wealth Potential of clients—as opposed to simply examining their current level of wealth, financial services institutions can better market to, retain, and grow the wealth of their clients.

Introduction

Where is the next generation of wealth? Is there an alternative to traditional demographics that helps advisors identify and develop clients? How can behavioral science aid in this endeavor?

While financial services firms and related companies have traditionally used broad demographic categories to segment and develop products for clients, this method is necessarily limited because it does not take into account the *behaviors and life experiences* of clients. On the other hand, Wealth Potential is defined as *the scientific measurement of one's propensity to build or maintain wealth over time based on behaviors and life experiences*. Forty years of data from the Affluent Market Institute focuses on self-made, affluent Americans who were prodigious at accumulating wealth and provides the basis for the areas of behavior, or Wealth Factors, that contribute to one's ability to build and maintain wealth over time. Our research found that behaviors discovered via years of quantitative and qualitative analysis of 14,000+ financially successful individuals were also able to predict net worth for those who do not currently have $1 million or more in net worth.

This report summarizes the findings from one study examining Wealth Potential. In the study, nearly 500 mass-market, mass-affluent, and high net-worth individuals were divided into three Wealth Potential groups in order to examine differences in satisfaction with their financial management skills and status, working with and recommending professionals, and the use of financial services.

This report will demonstrate how the scientific measurement of wealth-related behaviors and experiences can differentiate individuals in meaningful ways that will allow financial services providers to:

- Identify the Wealth Potential of all clients, regardless of age, income, or current net worth.
- Predict client behavior in any economy.
- Develop and coach clients to improve financial management behaviors.

THE STATE OF FINANCIAL SERVICES

The nature of how individuals are receiving financial advice and direction is changing, not only due to technological changes in finance (such as financial technology or fintech) but also because of changes in the populations that are looking for and providing the advice. Below, we examine a few key trends in the financial services industry which help to understand the necessity and importance of examining the Wealth Potential of prospective and current clients.

The first is that there is above average growth in the field of financial advisors. It is estimated that there are approximately 250,000 personal financial advisors in the United States. It is an employment group anticipated to grow at a rate of 30% between 2014 and 2024 (much faster than the average growth rate).[1] This growth is fueled by the looming large-scale retirement of Baby Boomers and increased lifespan of Americans, in addition to the decline of pension plans offered by companies, leading to the need for individuals to plan for their own retirement.[2] Likewise, as Millennials continue in their careers, they are beginning to recognize the need for retirement planning and savings.[3] Despite the growth in the field, the retirement of Baby Boomers will necessarily mean that advisors in that cohort will be retiring as well, thus leaving the growth to those in younger groups.[4]

1 Bureau of Labor Statistics, 2016.
2 Ibid.
3 Frankel, 2015.
4 Accenture, 2016.

Second, the advent of automation in the investment management world, primarily due to the growth of automated investment advisory services (so-called robo-advisors), is disrupting traditional firms primarily because of the decrease in fees associated with automation. Fees based on assets under management (AUM) are being driven down by a variety of factors, and clients that may have been comfortable with a 1 or 2% fee in the past are now being drawn to the 25 or 35 basis point fees offered by automated investment advisor technology. The impact of this technology is still unclear, but many have pointed to the fact that the financial services industry, like transportation and communications before it, is ripe for disruption.[5]

Similarly, advisors are finding it increasingly difficult to demonstrate the value of their services in relationship to the fees associated with asset management. As robo-advisors drive down fees associated with portfolio management, the relationship aspect of human advisors is becoming increasingly important. The benefits of coaching, developing, and assuring clients is difficult to objectively demonstrate but they remain the value of having personal relationships.

Finally, the nature of financial services clients is changing in general. The transfer of wealth occurring in the next decade is surprising some people in the financial services industry, while others are trying to plan ahead to proactively engage the heirs and spouses of the transferor.[6] Similarly, this trend leads to clients that are younger and increasingly female. Focus on these groups is somewhat confusing and alarming to an industry whose advisors have an average age of 51[7] and are overwhelmingly (66%) male.[8] Approximately 39% of all investable assets in the United States ($11.2 trillion) are controlled by women.[9] Likewise, in a survey of advisors conducted by *InvestmentNews*, 66% of children fire their parents' financial advisors after receiving an inheritance.[10]

This growth in the number of advisors coupled with consolidation and the commoditization of fees in the financial services industry necessarily leads advisors to have to differentiate themselves from each other and technology-enabled services. This can be achieved in part through a focus on individual coaching and potential changes in client behavior that directly relates to improvement in financial outcomes. For companies offering financial technology solutions, the focus on automation may leave clients wanting more in the way of personalized development and coaching.

WEALTH IN AMERICA

The nature of wealth holders in the United States also presents a rationale for the examination of wealth-related behaviors instead of relying solely on assets available today. Most financial services firms divide their target market into groups based on their available investable assets and/or net worth. While there are disagreements over exact divisions, for the purposes of this paper, we will consider the following four groups[11]:

- Ultra-high net worth: Above $5 million
- High net worth (millionaires): $1 million to $5 million
- Mass/emerging affluent: $100,000 to $1 million
- Mass market: $100,000 and below

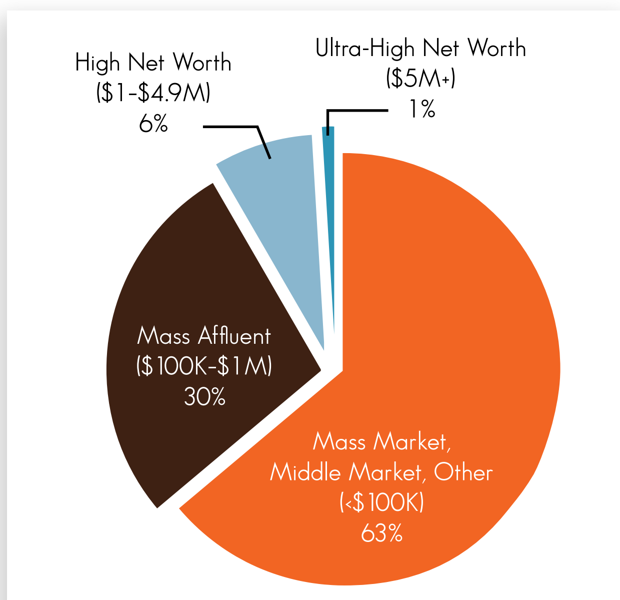

Figure 1.
Wealth Groups in the United States

5 Frankel, 2015.
6 Skinner, 2015.
7 FA Magazine, 2014.
8 Insured Retirement Institute, 2013.
9 Hewlitt & Moffit, 2014.
10 Skinner, 2015.
11 Davis & Sinegal, 2013; PWC, 2013; Vanguard, 2014.

The most obvious observation from the division of households into these groups is the limited number of households in the top 7%. While many companies compete for a small group of customers, other companies—particularly those that incorporate technologies into their offerings—recognize the value of having a broader approach, specifically related to the mass affluent. We estimate that approximately 30% of the 134,000,000[12] households in the United States may be categorized as mass affluent. This market includes high volume, accessible clients for financial services; individuals in the mass affluent group are typically thought of as less expensive to attract and retain as clients.[13] Unlike the ultra-high net worth and high net worth groups, institutions view the mass affluent group as one that is reachable and plentiful. Individuals within this group typically want low cost, high-value services and are more likely to use technology and do-it-yourself, low-cost providers.

According to a study by Booz Allen Hamilton,[14] customers in the mass affluent group are six to ten more times as profitable as customers outside of this group (particularly true for banks). Customers in the mass affluent group generate 60 to 70% of the total profits for retail banks, but only make up 20 to 30% of their customers. Likewise, the mass affluent hold approximately one-third of all retail investments.[15] However, in order to make profitable inroads with the mass affluent, firms must use automation: Products and services must be technologically-enabled and scalable, while also demonstrating a differentiated value to the clients. As Morningstar puts it: "We think that the market serving [mass affluent investors] will be intensely competitive, as it is difficult for firms to offer personal advice at this asset level and packaged products are easily copied. However, technological advances are making this niche more affordable to service electronically, and there may be significant rewards available for firms that are able to differentiate themselves."[16] Advisors should consider how best to appeal to the mass affluent group.

THE LIMITATIONS OF DIVISION BY NET WORTH

Grouping clients into the groups mentioned above should only be one consideration of how someone can build and maintain wealth over time. Why? Because focusing on group membership (particularly around net worth but also age, income, and gender groups) masks the nuances of behaviors that can ultimately impact one's financial success.

An approach that relies on demographic categories suffers from the following shortcomings because it:

a. Focuses on the current, in some cases unchangeable, status of clients versus future potential.

b. Places clients into broad groups (e.g., women between 40-49 with net worth over $1M) without behavioral-based guidance for how they can ultimately improve their financial position.

c. Does not predict future financial success in a way that can allow for improvement in the behaviors that impact that success.

d. Leaves advisors, particularly those just starting out or set in their ways, to continue to use worn-out stereotypes about particular groups.

For example, one challenge in creating products and services for the mass affluent is that for many firms and advisors, this group does not meet a minimum asset level or some other demographic criteria. Firms are left with the same dividing line between prospective clients, without focusing on how the clients who do not meet the minimums today could turn in to valuable clients tomorrow.

12 US Census Bureau, 2016.
13 Hyde, Ashish, & Lyman, 2013.
14 Hyde, Jain, & Lyman, 2013.
15 Schwartz, 2012.
16 Davis & Sinegal, 2013.

Likewise, heirs who receive a windfall from relatives may instantly meet some minimum level of assets but exhibit behaviors that will ultimately lead to financial ruin. While advisors may recognize this challenge in advance, providing proactive coaching could alter the financial path for both the heir and the firm.

BEHAVIORAL FACTORS THAT DRIVE WEALTH

Forty years ago, financial services institutions were convinced that the way to find the next generation of clients was to examine conspicuous signs of wealth: They assumed millionaires and other ultra-high net worth individuals drove luxury sedans, shopped at high-end stores, and wore Rolex watches. That was before Dr. Thomas J. Stanley's research into how self-made, financially independent individuals became wealthy.[17]

What we know from Dr. Stanley's groundbreaking research spanning four decades is that there are certain sets of behaviors that drive financial success. Once measured reliably, we can statistically relate the behaviors to outcomes such as net worth and other financial success measures. Likewise, we can statistically control for the effects of age, income, and percentage of wealth that has been inherited when we examine the relationship between *successful wealth behaviors* and net worth.

How? The variation in behaviors spans demographic groups. In other words, regardless of one's age, income, net worth, and other related variables, behaviors transcend group membership. These experiences and behavior can provide a rich view of one's propensity to build wealth and create a *pattern of wealth-building* over time. Past behavior and experiences are among the best predictors of future performance when a firm selects new advisors; the same is true in the prediction of success on the job of household financial management. In this case, unlike in the world of human resources, everyone has the job of financial management (even if only partially). We call these groups of critical behaviors and life experiences *Wealth Factors*.

Research has shown that by *altering the behaviors of investors*, firms can add on average 150 basis points to clients' annual returns, and this number increases if behaviors can be altered during extremely volatile periods.[18] By developing sound investing behaviors, including maintaining a long-term focus and investing systematically, clients can change how successfully they invest.

Wealth Factors: **Sets of behaviors and experiences that have been shown to relate to net worth, regardless of age, income and percentage of wealth that has been received through gifts or inheritance.**

Likewise, developing critical behaviors in other financial areas can have the same benefits. Savvy firms and individual advisors are increasingly using their own *assessment of behavior* to differentiate clients. They understand that in order to coach and develop their clients to enhance their ability to build and maintain wealth, they must focus on critical areas of behavior, areas that cannot be assessed when only considering demographic categories.

17 Stanley & Danko, 1996; Stanley, 2000.
18 Skinner, 2014.

WHAT IS WEALTH POTENTIAL?

Wealth Potential is an indicator of one's propensity to build and maintain wealth over time, measured by combining sets of Wealth Factors. These sets of behaviors and experiences are scientifically related to net worth, holding constant the impact of age, income, and percentage of net worth that has been inherited or received as a gift. Wealth Potential is *scientific* in that the measurement of these behaviors have been proven to *relate to* net worth statistically and independently of other demographic factors.

Wealth Potential: **An overall indication of one's propensity to build or maintain wealth over time, based on behaviors and experiences.**

Wealth Potential can be used instead of net worth as an indicator of how well someone manages or will manage their financial affairs. It is related to net worth but adds to its prediction. Because each question is related to net worth, the overall Wealth Potential score serves as a method to *predict the ability* to both build net worth and maintain wealth over time. It can be used with clients who are just beginning their financial management responsibilities or those who have built considerable wealth to help pinpoint areas that can be improved to ensure wealth is maintained.

This approach allows firms to:

- Understand the potential at the start of a client relationship, regardless of the client's current status (Millennial, high-income, etc.).
- Identify factors of behavior that they can help coach and develop in a consistent and objective fashion.
- Anticipate or predict the future behavior of clients, thereby improving the nature and the type of advice given throughout the relationship.
- Assess potential in a scalable, technology-enabled manner.

About the Report

BACKGROUND AND METHODOLOGY

In September 2015, 494 individuals responsible or jointly responsible for their finances were asked to participate in a study on financial management practices. This sample was selected from a crowdsourcing site and was screened to include only those who were 25 or older, had at least $25,000 a year in total household income, a base level of financial acumen, and had some responsibility for the financial management of their household.

Of those who participated, 310 were categorized as mass market, 160 were categorized as emerging or mass affluent, and 21 were categorized as high net worth. The sample was evenly split in terms of gender (49.7% female; 50.3% male). The majority of respondents were working full time (70.9%), owned their own home (61.9%), and were married or remarried (58.3%). Other characteristics of the sample are described in the table and figures below.

	Mean	Standard Deviation	Median
Age	37	10	34
Income	$82,257.64	$63,601.35	$70,000.00
Net Worth	$150,941.40	$350,601.85	$35,000.00

Table 1.
Age, Income, and Net Worth

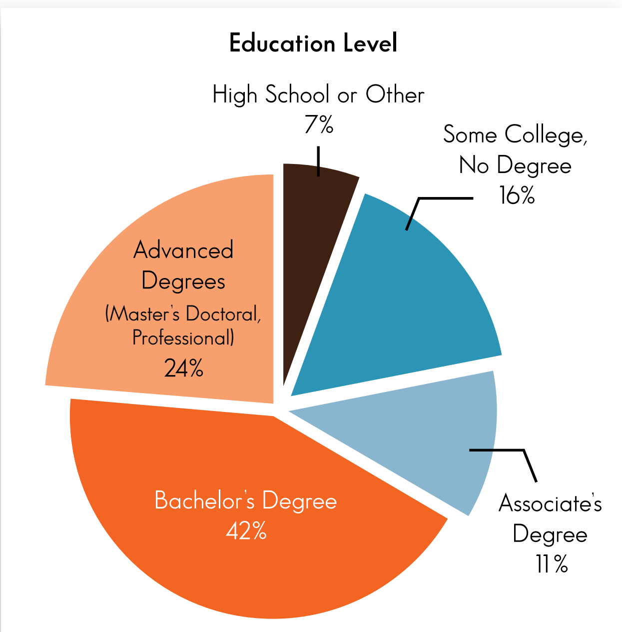

Figure 2.
Education Level

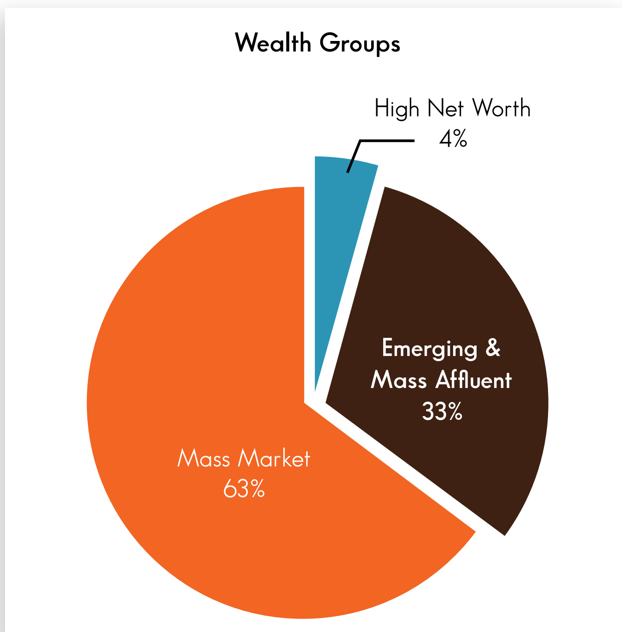

Figure 3.
The Sample in Wealth Groups

MEASURES

The respondents were asked to complete the Data Points Building Wealth™ assessment and other demographic questions in exchange for compensation. A short version of the Building Wealth assessment was used in the study and included four Wealth Factors: Confidence, Frugality, Responsibility, and Social Indifference.

Additionally, respondents answered questions about their use of financial services, satisfaction, and other financial management actions including the use or planned use of financial services, relationships with professional advisors, and basic actions related to planning, budgeting and investing.

Wealth Factor	Definition	Example Item / Question
Confidence	Attitude, experiences and behaviors regarding relative abilities and expertise in financial management and investing as compared to others, including other professional advisors. Life experiences demonstrating a balanced self-concept in relationship to gathering and utilizing advice and mentoring from others.	*How often have you felt you had the skills and ability to build or maintain wealth?*
Frugality	Experiences and behaviors related to spending in relationship to income. Spending below one's means.	*How often have you purchased an expensive item you knew would be difficult to afford?*
Responsibility	Experiences and behaviors related to taking responsibility for one's own financial management and outcomes of decisions made within a household.	*I take responsibility for the financial outcomes of my household.*
Social Indifference	Behaviors and attitudes related to the spending behaviors and material possessions of others, as well as trends in consumer goods and services.	*I enjoy wearing the latest styles and fashions in clothing and accessories.*

Table 2.
Wealth Factor Descriptions of the Short Building Wealth Assessment

Study Results

WEALTH POTENTIAL BY NET WORTH, AGE, AND INCOME

Each respondent received a score on each Wealth Factor, along with an overall Wealth Potential score. Based on Data Points' normative database, respondents in the study were grouped into low, medium and high potential groups based on their overall Wealth Potential score.

Data Points' research consistently shows that net worth is strongly influenced by one's income and age (not surprisingly). The higher one's income, the more potential he or she has to build wealth. The older one is, the longer the opportunity to build wealth has been. Similarly, a higher percentage of the mass affluent and high net worth samples were categorized as high potential compared to the mass market group. However, because Wealth Potential adds to the prediction above and beyond age and income, high potential respondents exist within each wealth group. In other words, regardless of one's net worth, behavioral-based assessment of Wealth Potential can further differentiate individuals.

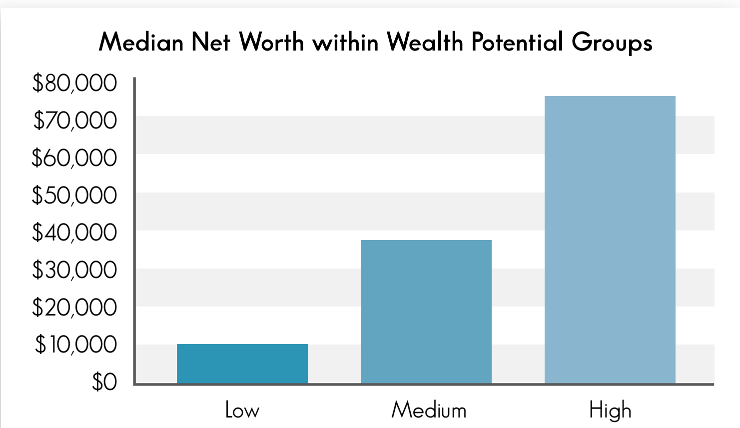

Figure 4.
Median Net Worth by Potential Groups

WHAT IS A HIGH POTENTIAL CLIENT?

High potential clients can be found at any net worth level and within any age group. We define high potential as a client who has consistently demonstrated sound financial behaviors in the past.

Specifically, high potential clients:

- Demonstrate good spending and savings behaviors, as measured by questions related to frugality.
- Demonstrate an appropriate level of confidence in their financial management behaviors and decisions.
- Take responsibility for the financial outcomes of their household.
- Demonstrate an indifference to marketing advertisements, trends, and social media.

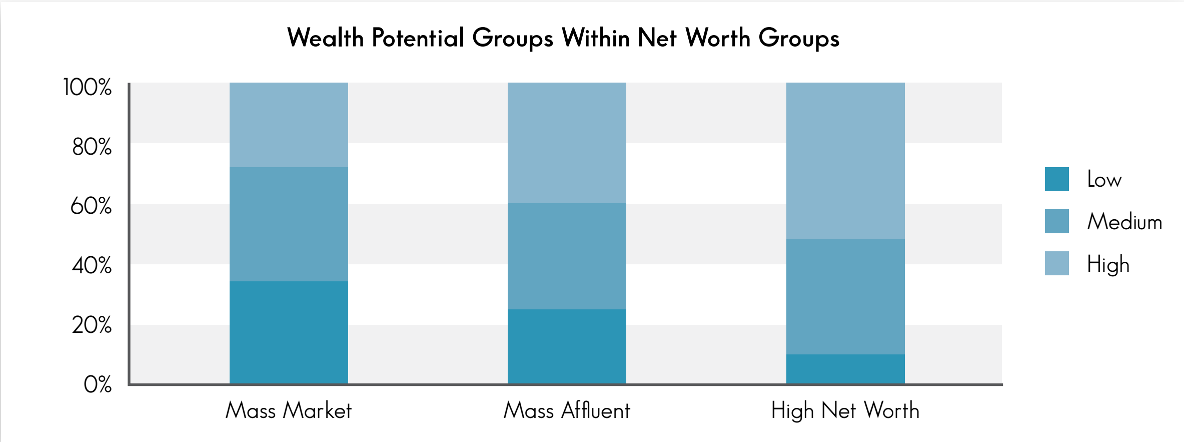

Figure 5.
Percentage of Potential Groups by Net Worth Groups

Age and Income

When we examine Wealth Potential by age, we find that the differences between Wealth Potential groups are not significant. In short, the potential for building wealth can transcend age groups. This is important because it calls into question the reliance on age for product and marketing initiatives for anything other than life events (e.g., marriage, birth of a child, retirement and estate planning). In other words, it is more appropriate to think of one's potential to build wealth over time versus focusing solely on one's age when creating products and services that are intended to change behaviors. If advisors or firms are focused on coaching and developing clients to build wealth over time, this can be enhanced by assessing behavior. Likewise, for firms interested in reaching Millennials and/or the next generation of clients, including the heirs and other family members of ultra-high net worth clients, Wealth Potential allows a common language to be used and adds objectivity in terms of how well clients are performing on financial behaviors.

While income and net worth are related, using current income level limits the client and the advisor when it comes to assisting in the improvement of critical financial management behaviors; by focusing on the importance of income; essentially the only coaching one can receive is to make more money. However, by measuring and developing Wealth Factors in clients, advisors and clients can focus on improving behavior in key areas that will help clients build and maintain wealth over time. These behavioral changes will transcend fluctuations in income and allow firms to demonstrate the value of coaching. In the figure below, the percentage of individuals within different potential groups did not differ significantly across age groups.

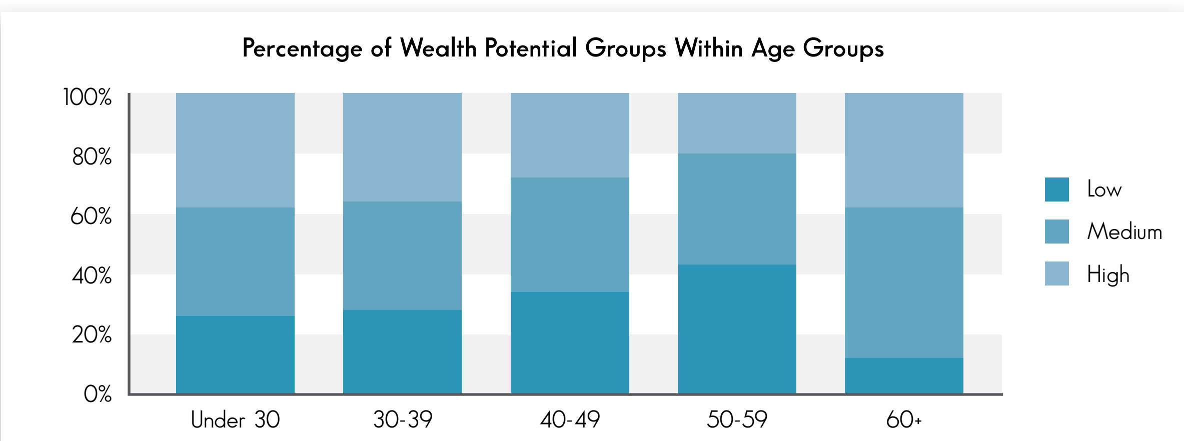

Figure 6.
Percentage of Potential Groups by Age Groups

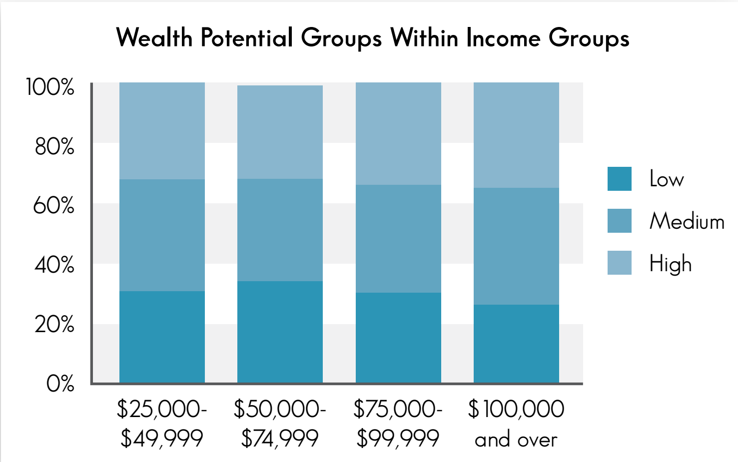

Figure 7.
Percentage of Potential Groups by Income Groups

Summary

The key finding when examining Wealth Potential by groups is that there is variation in wealth building behaviors and experiences within each age, income, and net worth group. While Wealth Potential may be greater in some groups than others, there are still individuals who could benefit from coaching and development within all traditional net worth groups. Likewise, high potential clients span age, income, and net worth groups as well.

HOW DID THE WEALTHY GET THAT WAY?

In the introduction to *The Millionaire Next Door*, a question is asked in the voice of the reader:

"How come I am not wealthy?"

The authors respond:

"Many people ask this question of themselves all the time. Often they are hard-working, well-educated, high-income people. Why, then, are so few affluent?"

Despite the work in The Millionaire Next Door and evidence-based financial planning principles, many individuals continue to ask this question. Thankfully, a path to wealth accumulation, the one taken by the millionaire-next-door types, has been documented quite clearly:

"They did it slowly, steadily, without signing a multimillion-dollar contract with the Yankees, without winning the lottery, without becoming the next Mick Jagger."

This slow and steady solution applies to many of life's challenges: learning a new skill, getting or staying in shape, raising children, or starting a new business. Achieving a challenging goal, including becoming financially independent, is a journey that takes disciplined action over time.

THE USE OF FINANCIAL SERVICES AND WEALTH POTENTIAL

Using Wealth Potential to define groups while focusing on the value of the assessment of behaviors versus traditional demographics, we examine the differences between potential groups as well as their use of different types of financial services (and their plans to use services in the future).

Current Use and Plans for Future Use of Financial Services

We asked respondents about their plans to use four broad areas of financial services: financial planning, investment management, and two technologies (financial management technology and automated investment services, also known as robo-advisors).

Currently Use or Plan to Use	Low	Medium	High
Financial planner?	45%	37%	39%
Investment manager?	37%	35%	31%
Robo-advisor?	16%	24%	18%
Personal financial management technology?	54%	55%	52%

Table 3.
Financial Services and Use/Plans to Use by Potential Group

The Wealth Potential groups were roughly the same in terms of their use or plans to use the four broad categories of financial services. More than 50% of each group indicated that they currently use or are planning to use some type of fintech application to help manage their personal finances (between 52% and 55%).

Approximately 45% of low potential respondents indicated that they use or are planning to use a financial planner, which is higher than the medium (37%) and high (39%) groups. This finding should demonstrate the value of understanding a client's behavioral tendencies and clearly demonstrate the value of the *coaching and mentoring* that advisors can provide. By assessing the behavioral factors that impact net worth, advisors can assist this group in improving behaviors that will allow them to build and maintain wealth over time.

When considering investment management, 37% of the low potential group indicated using or planning to use this service, whereas just over 30% of high potential respondents indicated the same. The low potential group may recognize their need for such services and therefore be more likely to use them.

Those in the middle of the Wealth Potential continuum were the most likely to indicate using or planning to use robo-advisors (24%) compared to the low (16%) and high (18%) groups. This particular group may recognize the need for and/or benefits of automation in investing, perhaps recognizing the need for assistance with allocation while also recognizing that they need assistance in investment planning.

One implication of the above results for those in advisory services or investment management services is that those with higher potential for building wealth do not use or plan to use advisors or investment managers as much as those with lower potential. For the fintech companies offering personal financial management and/or investment solutions, while not significantly different, those that were on the middle of the Wealth Potential scale appeared to either use or plan to use fintech solutions more so than their low or high counterparts.

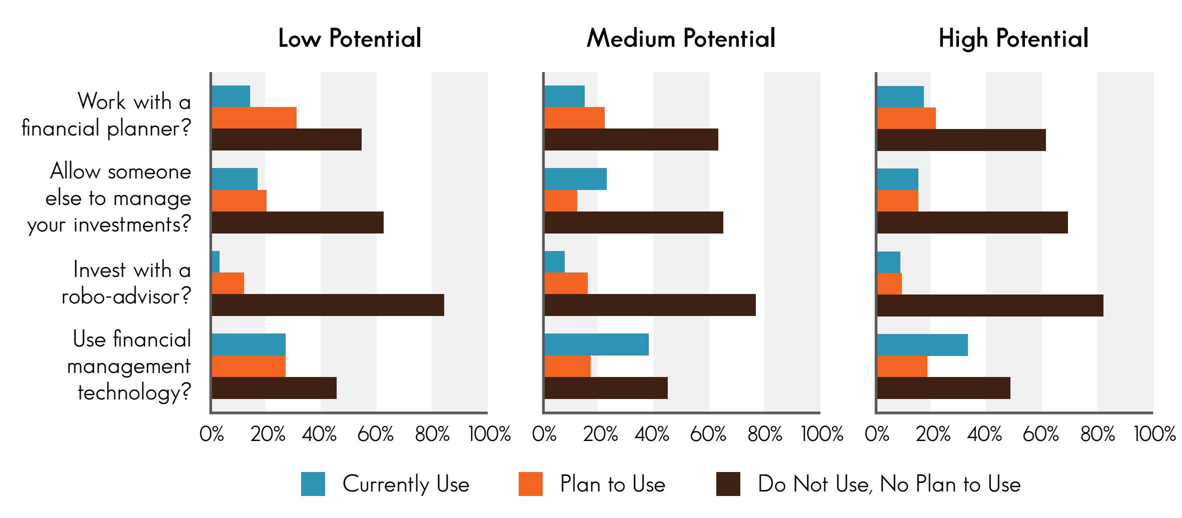

Figure 8.
Potential Group Plans to Use Financial Services

Use of Financial Services and/or Financial Planning Tools

When we examined specific areas of financial services, we uncovered differences between Wealth Potential groups. For example, while most respondents in the study owned some type of investment and life insurance (78% and 68% respectively), there were some significant differences between potential groups.

Likewise, medium and high potential respondents (39% and 46% respectively) were more likely to use discount brokerage firms than their low counterparts (29%). This difference most likely reflects the ownership of investments to begin with.

The overall sample in this study used financial management website or apps (37%) more than personal management software (30%). There were small differences between the potential groups with regards to the use of such technologies.

On the other hand, one-fifth of the medium potential group indicated subscribing to financial newsletters or research services.

Taken together, there are many opportunities to help coach clients within each potential group related to basic financial management practices such as having life insurance and investing. Indeed, some respondents within each of the three potential groups have room to improve in these areas.

	POTENTIAL GROUP		
Financial Service	Low	Medium	High
Own any investments?	70%	80%	83%
Have life insurance?	68%	66%	72%
Work with a discount brokerage firm?	29%	39%	46%
Use a financial management/tracking website or app?	35%	40%	37%
Use personal financial management software?	26%	33%	29%
Subscribe to financial newsletters or research services?	12%	20%	17%

Table 4.
Use of Financial Services by Wealth Potential Group

POTENTIAL AND SATISFACTION

Part of the current study examined how respondents in each potential group viewed their own financial management performance as well as their satisfaction with their current and future financial situations.

Financial Responsibilities: How Do Potential Groups Perform?

We asked respondents to rate their performance related to their financial management duties in terms of how they might compare to others. Note again that this particular sample indicated that they were either solely responsible or jointly responsible for financial management within their household (as opposed to having someone else be responsible, for example, a spouse). The low potential group views themselves about the same or worse in the performance of their financial duties compared to others. In essence, they are rating themselves lower than their medium and high potential counterparts. Conversely, 86% of high potential respondents view themselves as better or much better than their peers. Thus, the challenge in working with this particular group is to demonstrate the *value* of personalized advisory services and/or automated services since they view their management significantly as better than the other respondents.

For advisory firms and advisors themselves, the challenge presented in these findings is to demonstrate the value of a particular financial service in light of the inherent belief and reality that high potential clients exhibit excellent financial management behaviors. Low potential group members may already recognize the need for coaching and advice.

For firms in the fintech industry and financial services firms that are developing products, ensuring that product development and messaging incorporates the target market's inherent beliefs about their own performance can help ensure the products are designed and marketed based on accurate levels of financial management skills.

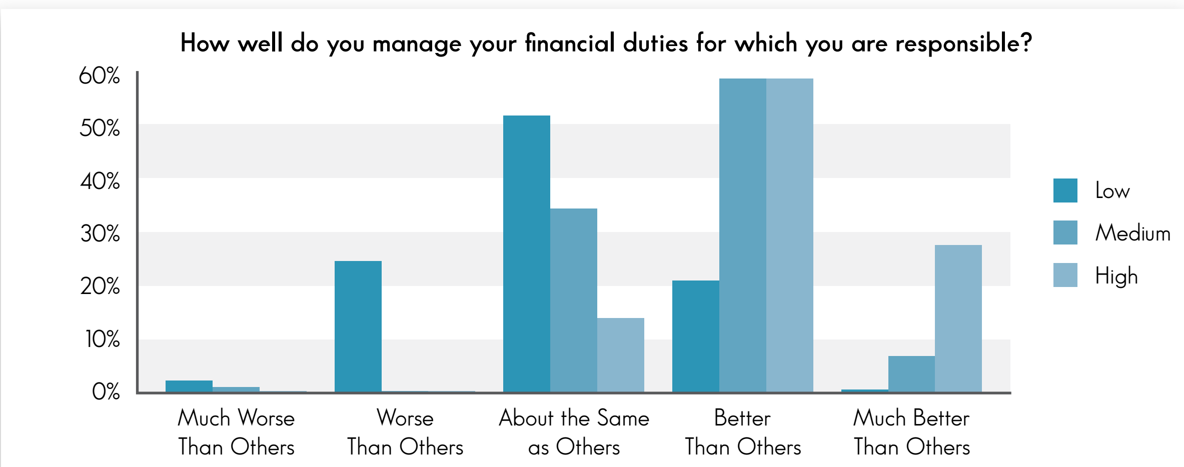

Figure 9.
Self-reported Performance of Financial Management Duties Compared to Others by Potential Group

Satisfaction with Financial Situation and Management

Wealth Potential groups differed in terms of their ratings of satisfaction with how their households manage their finances. Specifically, over 80% of high potential respondents indicated they felt satisfied or very satisfied with their household management, while just under one-fourth of low potential respondents indicated so.

Similarly, Wealth Potential groups differed in terms of their satisfaction with both their current and future financial situations. Specifically, while over 60% of high potential respondents were satisfied with their current financial situation, only 18% of low potential respondents felt the same way. Likewise, nearly 80% of high potential respondents indicated being satisfied with their future financial situations, while only 27% of low potential respondents indicated the same.

There are clear differences in terms of current satisfaction with one's financial situation depending on potential gro up, perhaps driven by current income or net worth. However, because potential groups are defined by behaviors—behaviors that transcend wealth groups—some of these differences may indicate a recognition of challenges with financial behaviors in general. For example, one of the Wealth Factors included in the assessment of Wealth Potential is frugality. This particular factor measures behaviors related to spending above one's means, and spending more than a budget would allow. This factor is significantly related to net worth, independent of age and income. Spending consistently above one's means may lead to increased stress and the need to take drastic measures to pay bills, etc.

With the exception of the medium potential group, the low and high groups view their future financial situations as brighter than their current situation. The medium potential group has perhaps a more cautious view of the future.

Advisory firms that are focused on improving clients' financial management knowledge and skills, as well as on their portfolios, may see demonstrable changes in satisfaction from such efforts. The challenge of high potential clients, clients who already have a sunny outlook on their skills and financial situations, is that firms and technologies will have to demonstrate the additional value of their products and services to clients who already feel they are managing their finances effectively.

INVESTING WITH TOO MUCH CONFIDENCE?

Overconfidence can be quite detrimental in investing: It has been related to unsuccessful decisions regarding one's investments, including frequent trading, overestimates in a security's value, and poor selection of mutual funds. In fact, in one large-scale study regarding investor overconfidence, the authors conclude:

"We believe that there is a simple and powerful explanation for the high levels of counterproductive trading in financial markets: overconfidence."*

Data Points measures confidence in a way that includes a touch of humility and realism about one's abilities and skills as they relate to investing and managing finances in general. In essence, a higher score is a more moderate view, while medium scores indicate overconfidence.

In developing skills in financial management and investing, the aim should not be for extreme levels of confidence, but for confidence that is balanced with a realistic perspective about one's competencies.

*Barber & Odean, 2001.

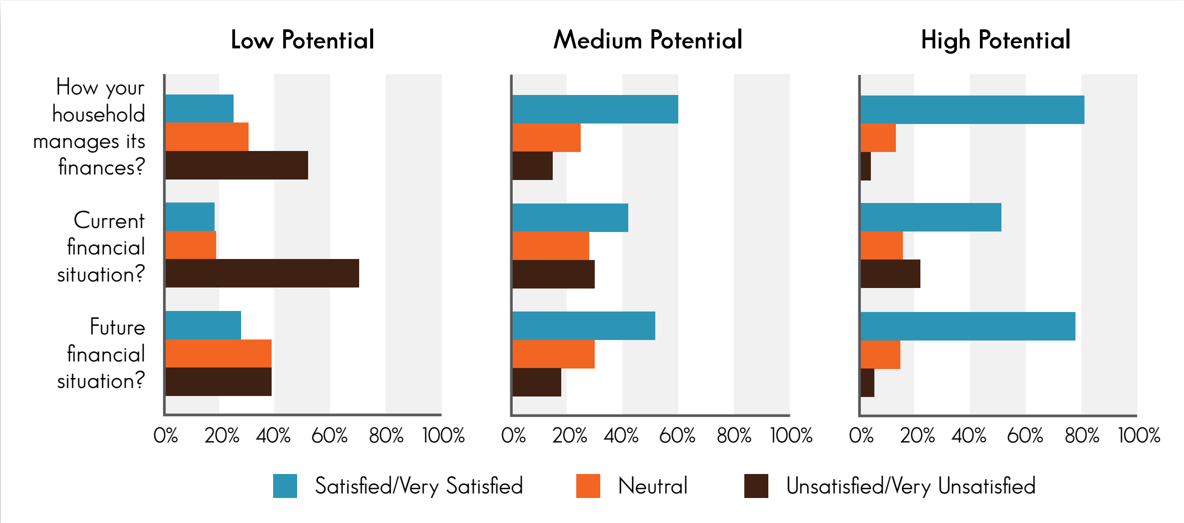

Figure 10.
Self-reported Ratings of Financial Management Performance and Satisfaction by Potential Groups

RECOMMENDATIONS AND RELATIONSHIPS WITH PROFESSIONALS

To maintain and grow a business, most companies rely heavily on referrals and recommendations. Part of examining the usefulness of Wealth Potential was to also examine how groups differed in terms of recommending products and services in general, recommendations when satisfied with the service received, and how easy Wealth Potential groups found it to end professional relationships when excellent service was not received.

First, 55% of the sample said that they sometimes recommend products and services in general. When we examine Wealth Potential groups, high and medium potential respondents were less likely to provide recommendations in general compared to their low potential counterparts.

How often do you recommend services, products, or professional to friends/family members?	Low	Medium	High
Never/Rarely	18%	28%	29%
Sometimes	60%	54%	53%
Often/Very Often/Always	23%	18%	18%

Table 5.
Frequency of Recommendations by Potential Group

Next we looked at recommendations when excellent service had been received. We saw few differences between potential groups: If the professional is providing excellent service, 56% indicated that they would recommend the professional without hesitation, while nearly 40% indicated they sometimes recommended the professional. Six percent of respondents indicated not recommending the professional, even when they received excellent service.

The high potential group was most likely to recommend without hesitation (63%), followed by the low (59%) and medium (56%) groups.

When you have been satisfied with the work someone has done for you, which of the following best describes you?*	Low	Medium	High
I do not recommend them, but might use them again.	5%	6%	2%
I sometimes recommend them.	36%	38%	35%
I recommend them to others without hesitation.	60%	56%	63%

Table 6.
Recommendations Given for Excellent Service by Potential Group
*Only those who reported receiving excellent service at some point were included.

From the results above, it appears that the Wealth Potential groups are somewhat similar to each other in terms of whether they provide recommendations specifically when they are satisfied with services. However, Wealth Potential groups differed from one another in terms of leaving relationships with professionals who are not providing excellent service. High potential respondents reported that it has been easy for them to leave relationships with professionals more so than their medium and low counterparts; they have easily left professional relationships when the service provider was not providing excellent service.

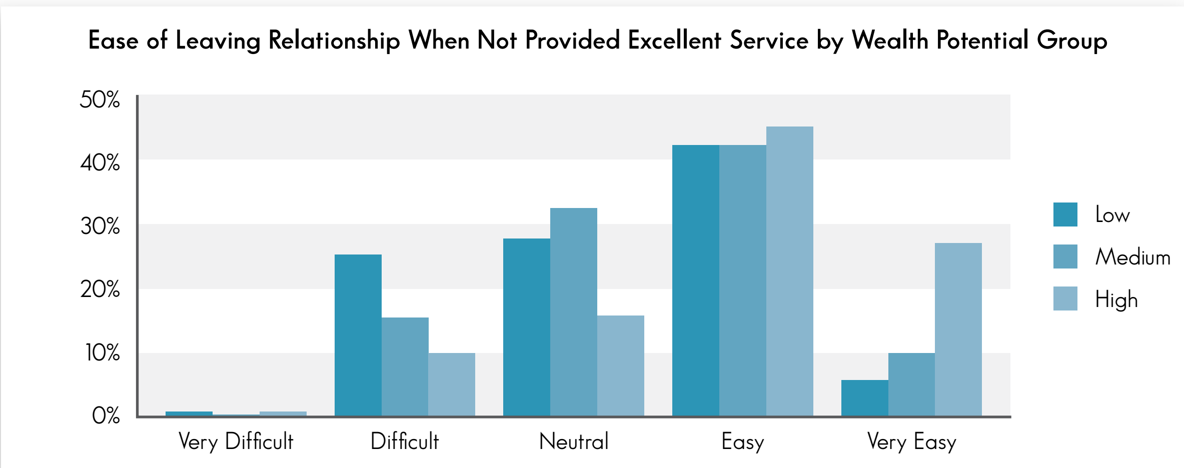

Figure 11.
Ease of Leaving Relationship with Professional When Excellent Service Was not Provided by Potential Group

Taken together, we see that excellent service from professional advisors can lead to a universal level of recommendations from all types of Wealth Potential clients. However, when the professional is not providing excellent service, the low likelihood of keeping high potential clients may be dramatic for a firm. This finding highlights the importance of effective hiring and training of professional advisors to ensure the services provided are exceptional regardless of the client's Wealth Potential.

FINANCIAL MANAGEMENT BEHAVIORS AND POTENTIAL GROUPS

If Wealth Potential aids financial services firms and clients in anticipating and developing effective financial management behaviors, then it is important to understand how potential groups might differ in terms of critical financial actions outside of what is measured by Wealth Potential. Specifically, we examined the following critical financial management behaviors in relationship to Wealth Potential:

a. Tracking spending on budget categories
b. Tracking expenses and receipts
c. Time spent on financial planning
d. Withdrawing cash from savings
e. Investing behavior during downturn of market

From these analyses, we consistently found that Wealth Potential groups differ in terms of their behaviors and self-reported experiences related to financial management. High potential respondents reported engaging in what could be considered more positive financial behaviors and experiences than did their low and medium counterparts. The data also indicates that Wealth Potential can be used to help determine how clients might behave in certain economic periods as well as when faced with personal financial challenges.

Specifically, while over 60% of our sample indicated that they know how much their household spends each year on food, clothing, and shelter, there are differences in the level of knowledge between Wealth Potential groups: A larger percentage of high potential respondents (82%), versus their low and medium counterparts (41% and 65% respectively), indicated knowing how much they or their household spends each year on major budget items.

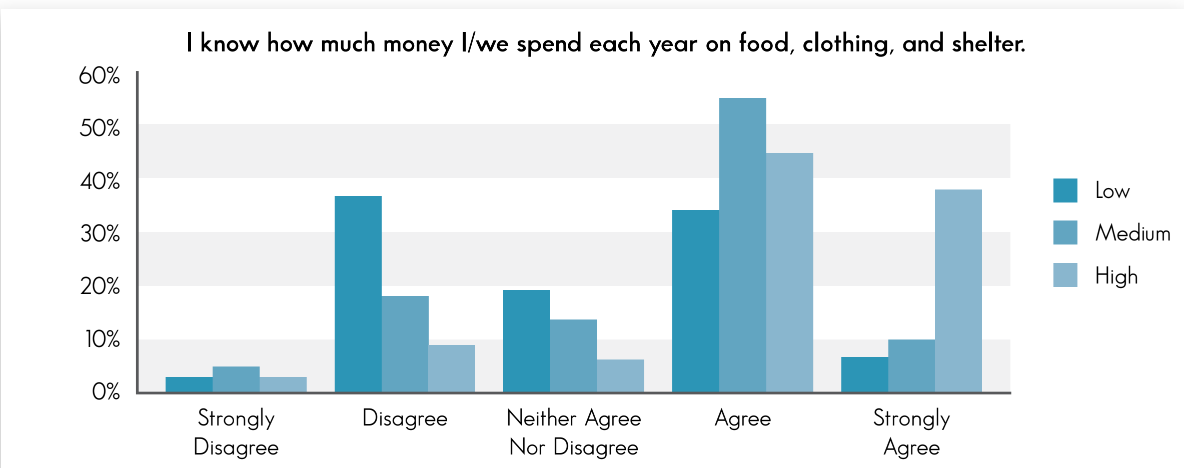

Figure 12.
Knowledge of Spending by Potential Group

Additionally, high and medium potential individuals indicated that they have easily tracked personal expenses and receipts compared to the low potential group. Whereas 87% of high potential respondents indicated it was easy or very easy to track, just over one-third of low potential respondents indicated the same. These findings should demonstrate to companies who offer automated technologies for financial services that there are key differences in how effective and potentially impactful their products could be for those that have struggled in the past to manage expenses and budgets. Understanding Wealth Potential will allow these firms to differentiate their product development and marketing efforts to address needs based on behaviors.

Likewise, advisors that either recommend or provide a technology-based solution for low potential clients may see an increase in their clients' satisfaction with their current situations but should also build confidence in their abilities to manage finances in the future.

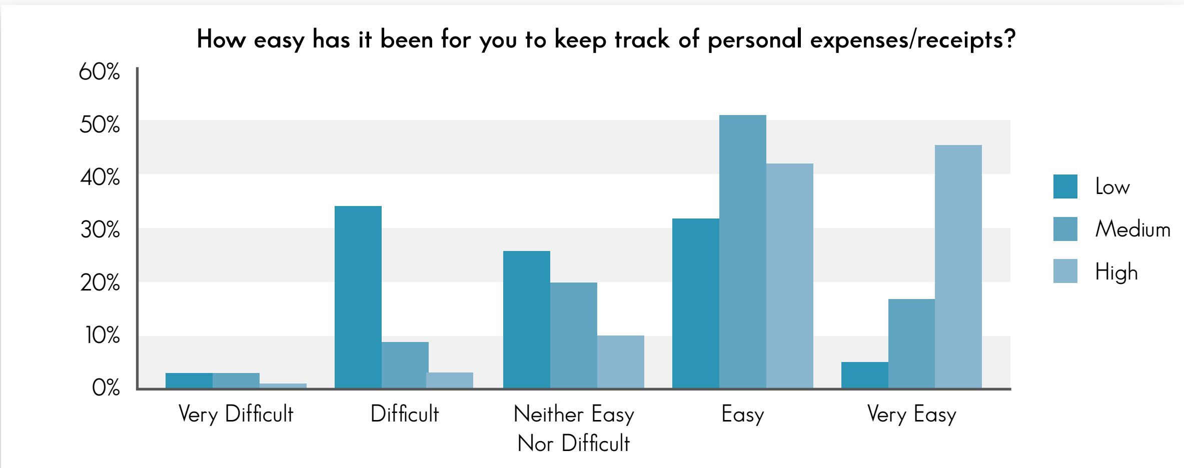

Figure 13.
Ease of Tracking Receipts and Expenses by Potential Group

A fundamental principle of personal financial management is that monthly expenses should be covered by monthly income and any positive difference should be saved for the future. Although lower than expected, 85% high potential respondents indicated rarely or never taking money out of savings to pay monthly bills, while 59% of medium and 32% of low potential respondents never or rarely did so. Being able to predict this action in the future may help advisors coach clients to ensure their budgeting and saving are adequate and adhered to. For companies offering fintech solutions to their clients, ensuring the use of automated alerts and reminders related to budgets could be designed and enhanced by focusing on the clients for whom those alerts will be the most beneficial: those with a lower propensity to build wealth over time.

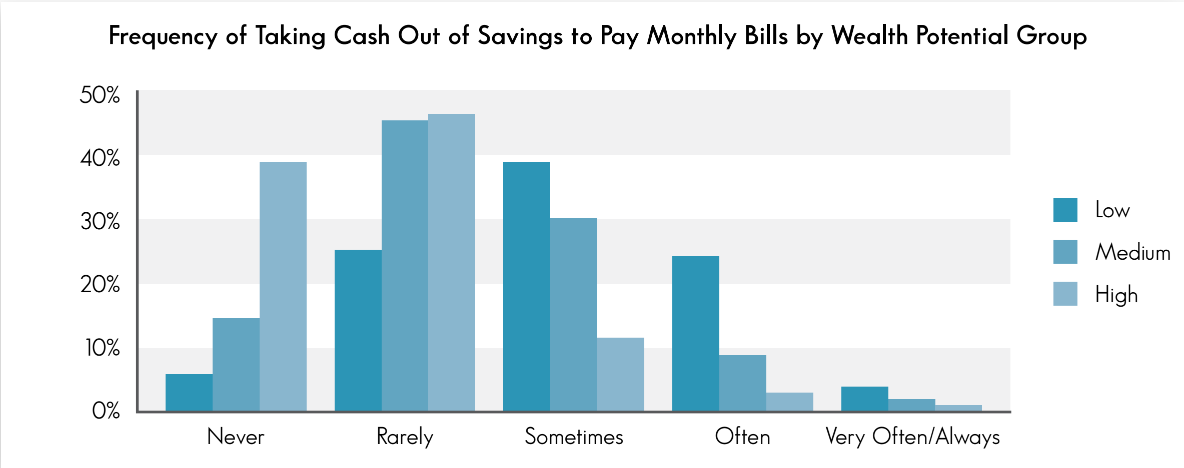

Figure 14.
Withdrawal of Cash to Pay Monthly Expenses by Wealth Potential Group

One key behavior found throughout the work of Thomas J. Stanley was that self-made, affluent individuals spent significantly more time on financial planning than those who were not prodigious at accumulating wealth. In the current study, we asked respondents about time spent on financial planning and found similar results: High potential respondents are either making time for financial planning through a disciplined approach to time management or are feeling that whatever time they do have is being used effectively. In other words, high potential respondents *find* the time or use the time wisely.

For advisors, who are your high potential clients that do not have enough time to plan? Likewise, for clients in the low potential group, how can you coach them to devote time to an important task? Understanding their potential can help craft a plan for developing sound financial behaviors and habits in the future.

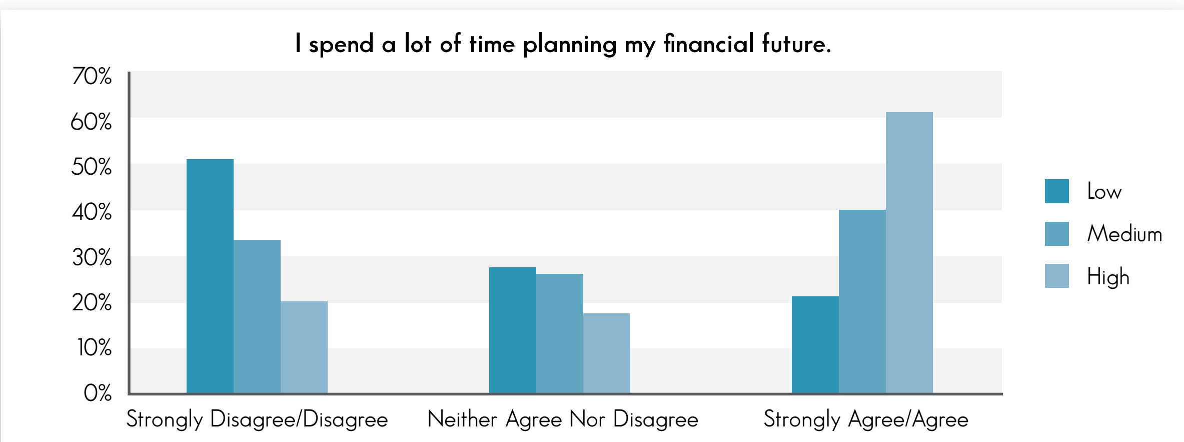

Figure 15.
Time to Plan for Financial Future by Potential Group

For the investors included in the sample who were aware of the downturn in the stock market in early September 2015 (n = 377), we asked them to indicate what action they took in relationship to the downturn. Over 70% of the sample took no action, and 5% took money out of the market. However, nearly a quarter of respondents (24%) indicated putting money into the market during the downturn. In fact, 31% of the high potential group, and 26% of the medium potential group indicated putting money into the market during the downturn, while only 10% of low potential respondents did so. These actions were a significant difference between the Wealth Potential groups.

According to Dalbar, the worst gap between market and investor performance in the past 30 years was in October 2008 when, as the report states, the S&P 500 index lost 16.8% but investors lost a little over 24%.[19] Behavioral assessment of Wealth Potential can help firms identify the way to approach clients given their predicted behaviors.

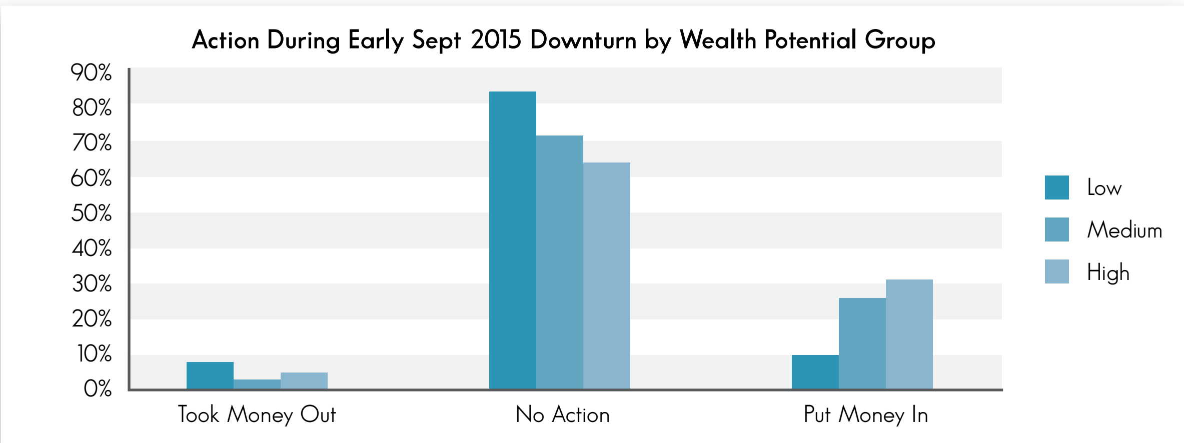

Figure 16.
Actions Taken During September 2015 Downturn in Market by Potential Group
Note: This sample only included those who owned investments.

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Summary and Recommendations

The current report examined how Wealth Potential, or the scientific measure of behaviors and experiences that are related to net worth, can help clients, firms, and fintech companies improve the financial outlook for their clients. By examining clients' Wealth Potential, both at the individual and aggregate level, financial services firms and fintech companies can differentiate their products, marketing, and services to help their clients improve behaviors that will ultimately help them build wealth over time.

UNDERSTANDING LOW POTENTIAL

Those who exhibit behaviors that are not conducive to building wealth span net worth, age, and income groups. Compared to their medium and high peers, low potential respondents were more likely to indicate using or planning to use financial planners and/or investment advisors. They were less likely to own investments and therefore less likely to indicate using discount brokerage firms or subscribe to investment research services.

Not surprisingly, given obvious differences in net worth, the low potential group was much more unsatisfied with their current financial situation. Low potential respondents were less likely to have knowledge of their yearly spending on major expense categories (food, clothing or shelter) than their high and medium counterparts. Likewise, they were less likely to easily track receipts and expenses and were more likely to take money out of savings to pay bills or monthly expenses. For low potential investors, this group was less likely to put money into the market during a downturn than their medium or high peers.

A group of considerable import to firms and advisors is those who are *low potential* and *high net worth*. These clients are in need of financial coaching and development and can afford personalized services. Likewise, the transfer of wealth that could occur within the families of these clients supports the need for assessing wealth potential of spouses and heirs to not only identify and develop their propensity to maintain a potential inheritance, but also to further demonstrate the value of working with an advisor that is able to serve as a financial mentor versus simply someone who manages investments for the family.

Coupled with their higher planned and current use of financial planners or investment managers, this is an opportunity area for demonstrating the *value* of advisory services. This group necessarily has more areas where they can improve in terms of their behavior, and they are inclined to work or want to work with financial advisors more so than the other groups. Demonstrating value to this group can be accomplished not only through investment returns, but also through ongoing measurement of ratings of satisfaction and performance in areas that have shown to be related to building and maintaining wealth.

COACHING CLIENTS WHO CARE ABOUT THE JONESES

If clients are to increase the likelihood of becoming wealthy, they have to understand and change how they behave with respect to areas that are, perhaps, a little more personal.

Clients that focus intently on what others buy and consistently want the latest and greatest in possessions (such as technology or accessories) are less likely to build wealth over time. *Social Indifference* predicts net worth regardless of age, income, or how much wealth one inherits or is given. Like the prodigious accumulators of wealth in *The Millionaire Next Door*, those high on Social Indifference (i.e., those uninterested in what others buy or trends in general) have a higher likelihood of building wealth over time.

Coaching in this particular area is tricky but objective advice might be a way to open up the conversation. Likewise, for clients who do not think they are focused on the buying patterns of others, perhaps demonstrating their Social Indifference scores relative to others may highlight the need for improvement in this area.

MEDIUM POTENTIAL CLIENTS

Respondents who were categorized as medium potential were the most likely to report using or planning to use robo-advisors. Likewise, they had a balanced view of their future financial situation, perhaps understanding the limitations of their own behavior—limitations that could impact the future. They were less likely to recommend excellent service without hesitation than their high potential counterparts.

To add value to these clients, advisory firms and advisors can work to improve the areas in which their scores were low, while using strengths to capitalize on the clients' wealth-building capabilities. Because Wealth Potential is measured using a variety of behavioral factors, discussions surrounding strengths and developmental areas will be perhaps easier than with low potential clients (again because this group will be high in some areas and lower in others).

HIGH POTENTIAL CLIENTS

High potential respondents had a higher net worth than the other groups and have the highest potential to build and maintain wealth over time. This particular group already believes they are doing a good job managing their financial affairs, and this belief is supported by their actual behaviors, including knowing household spending on major expense categories, being able to easily track receipts and expenses, and having time for financial planning. Likewise, high potential investors were the most likely to put money into the market during a downturn.

This group is quite satisfied with both their current and future financial situations, making this particular group more challenging for firms to demonstrate the value of advisory services. Likewise, this group finds it quite easy to leave professional relationships when the service is not excellent.

To add value to these clients that currently have a high income and perhaps high net worth, addressing key behaviors that are not conducive to maintaining that level of wealth will ultimately help the client and the firm. The Wealth Factor categories can provide guidance on suggesting beneficial changes in or confirmation of behavior for high potential clients. This is particularly true for those who may inherit wealth in the future. As is often the case, those who create wealth for a family may leave it to heirs who may not have the same financial behaviors as those who built a family business or saved fastidiously for retirement. By assessing Wealth Potential of family members, advisors and firms can provide personalized coaching and advice to ensure a windfall is preserved and ultimately grows.

THE APPLICATION OF POTENTIAL

While financial services firms continue to debate and focus on the Millennial generation, wealth groups, and other groups defined by demographics, savvy firms are recognizing the importance of focusing on potential. The potential for building wealth spans age, income, and net worth groups—in other words, by grouping individuals by their behaviors and experiences related to financial management, firms can not only identify those that have high potential to build wealth, but also coach and develop those that are not currently exhibiting solid financial management behaviors.

For firms struggling to address or find younger clients, considering potential instead of current investable assets will allow them to consider those that are clearly on the path to financial independence. Firms can then take a risk with these clients—a risk based on the scientific measurement of their Wealth Factors.

Advisors that are attempting to address tough and potentially detrimental financial behaviors with their clients have added support through the objective measurement of such behaviors, thus allowing the numbers (that is, scores on Wealth Factors) to guide the conversation.

Firms can consider lowering minimum asset levels based on the Wealth Potential assessment, a tool that can be scaled across the entire organization, as opposed to relying on the judgment of individual advisors. Those working with multi-generational accounts can use the assessment of Wealth Potential to help develop potential heirs' ability to maintain a windfall.

Conclusion

Where are the millionaire next door types? Using behavioral analytics, versus current financial or demographic status, they appear in every age group and across all income and net worth levels. Likewise, behavioral analytics provides a roadmap to help develop the behaviors of clients to help them on their path to financial independence.

Wealth Potential, or the measurement of behavioral Wealth Factors, allows financial services firms and advisors to better identify clients with the propensity to build wealth and help all clients improve their potential for becoming financially independent.

By grouping respondents into behavioral-based Wealth Potential groups, the financial services industry is better able to understand and predict behavior, as well as provide evidence-based coaching and mentoring to clients. Likewise, financial management and investment firms can build products, services, and training that address differences within traditional client segments, ultimately improving the way in which organizations and individuals build wealth.

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About Data Points

The science of predicting wealth.™

Data Points links real life experiences and behaviors to a person's ability to build wealth. Our solution combines the latest assessment methods with behavioral factors identified from nearly 40 years of research on the wealthy that fueled the *New York Times* best-selling books *The Millionaire Next Door* and *The Millionaire Mind*. The Predicting Wealth system from Data Points gives financial firms powerful insight into client behaviors and Wealth Potential. Our patent-pending technology delivers electronic assessments, performs analysis, and generates feedback to drive wealth and financial management success.