

INVESTMENTS & WEALTH REVIEW

A reprinted article from
MARCH / APRIL 2025

Elevating the Practice of the Advice Professional

The Evolution of Advice: From Transactional to Generational

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INVESTMENTS & WEALTH INSTITUTE[®]

The Evolution of Advice

FROM TRANSACTIONAL TO GENERATIONAL

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THIS ARTICLE EXPLORES the evolving landscape of the financial advising profession—particularly for those serving high- and ultra-high-net-worth clients—and outlines key considerations for advisors who aim to remain relevant and valuable in the future. By first examining perceptions of the value of advice, and then exploring the history of the profession, and noting a few pitfalls of wealth accumulation over time, the concept of a generational wealth advisor is put forward as a potential strategy. It emphasizes centering a practice on human potential, health, purpose, and belonging, to help clients document their lineage, define their vision, and support the ability of each family member to carry out a legacy over many years.

Generational Wealth Advisors

As wealth managers we are always morphing, responding to the needs of our clients and our need to grow our businesses, and among the latest iterations of our profession is the “generational wealth advisor.”

The job description calls for advisors who can excel at investment management for several generations of a family with a high degree of influence, some of them yet to come—in other words, a financial manager for a family of families, present and future.

It’s a tall order. It’s more than one person alone can handle. It requires a team approach.

But the demand for generational wealth advisors hasn’t materialized out of nowhere. This job is a product of the joint evolution of family wealth and investment management. It traces its roots to the days when wealthy individuals needed stockbrokers to make

their market trades. As shown in figure 1, it includes all the skills that have since been developed and applied to investing and more.

Stockbrokers: The Original Access to Markets

For the wealth management profession, the stockbroker represents the first version of the licensed financial professional, hired to execute trades as the intermediary between markets and their clients. The New York Stock Exchange (NYSE) was founded with the Buttonwood Agreement, signed on May 17, 1792, by 24 stockbrokers.¹ Access initially was highly restricted but gradually expanded over time. Investors could not access markets without a broker, and this transactional relationship was the only way to invest. Now, thanks to technology, investors can choose to access the market using a digital broker on a user-driven platform and expect to pay very little for the transaction.

Investment Managers: A Crucial Building Block

As access to the market expanded and new investments were developed, the needs of clients changed and so did the role of the financial professional.

The ability to invest in baskets of securities and trade across asset classes created an opportunity for management across investments. This led to pooled investments, access to new asset classes, and the need for financial professionals to design strategies focused on diversification, risk management, and asset allocation.

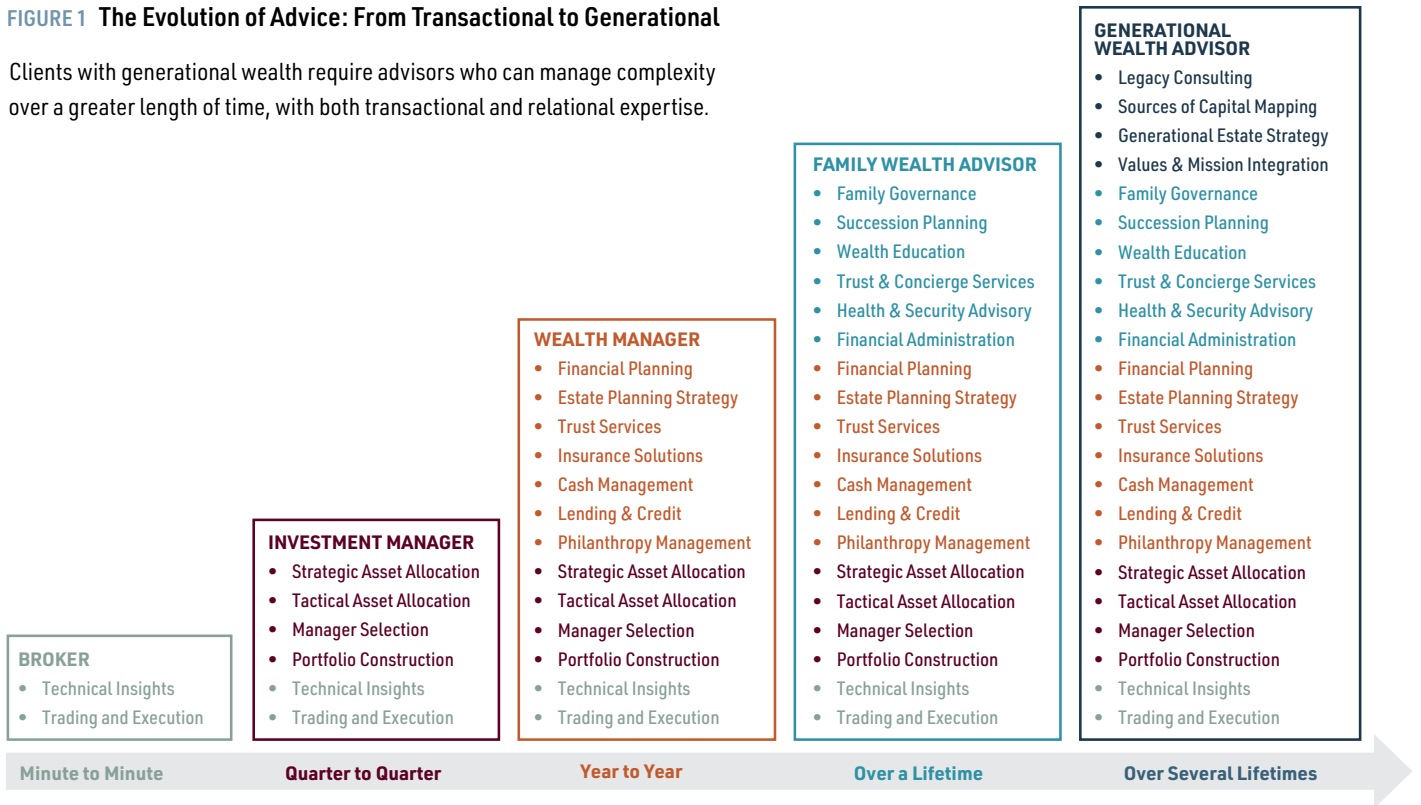
Now the investment manager was able to lengthen the timeframe and discuss longer-term target outcomes with clients. The outcomes no longer were based on day-to-day financial goals but rather quarter-to-quarter or year-to-year objectives. This shift to longer-term goals broadened and deepened the financial professionals’ approach. Less transactional and immediate than stockbrokers, investment managers often charge an asset-based or advisory fee and aim to demonstrate how they help clients to achieve agreed-upon financial objectives. Indeed, becoming an investment manager can be considered a building block for wealth management professionals, which is why advanced training that is industry-specific continues to be popular for practitioners.

Wealth Managers: A Custom Approach

With greater wealth, greater complexities resulted, leading to the next evolution of the profession: the wealth manager. In addition to all the skills required of stockbrokers and investment managers, wealth managers are expected to offer financial planning, estate planning strategies, tax efficiency strategies, insurance solutions, cash management, lending and liability management, and counsel on philanthropic strategies. As the expectations for wealth managers have grown, so has the desire for personalized and integrated services. Recent reports produced by McKinsey show that in 2023, 47 percent of clients wanted integrated services that encompass various financial needs, up from 29 percent

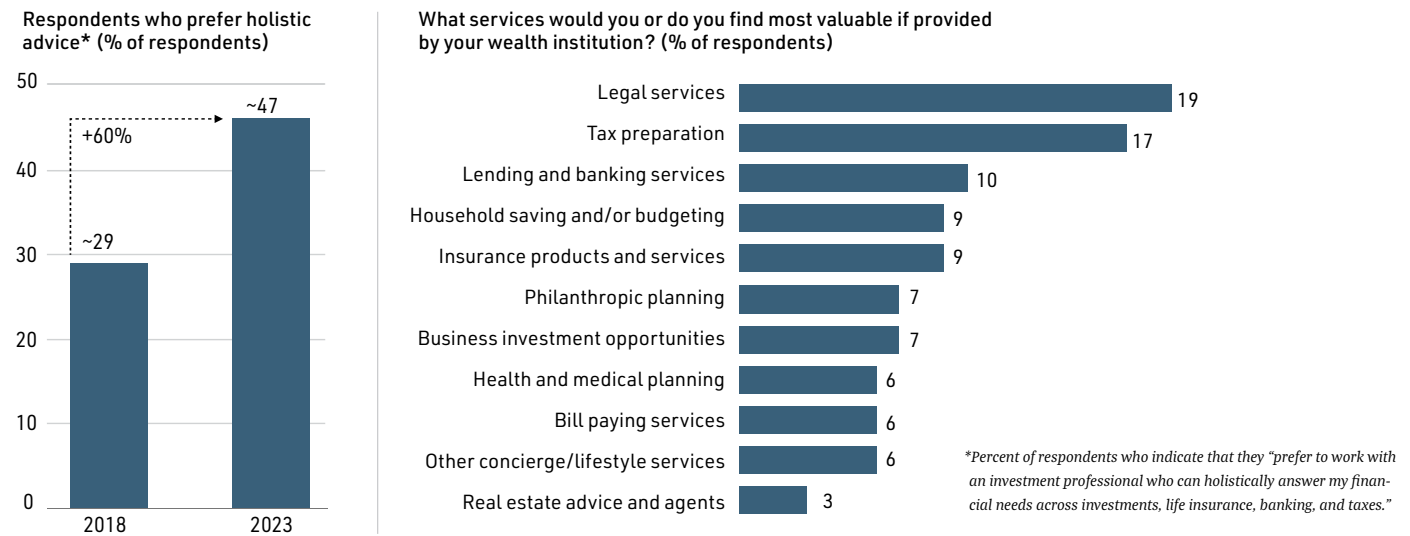
FIGURE 1 The Evolution of Advice: From Transactional to Generational

Clients with generational wealth require advisors who can manage complexity over a greater length of time, with both transactional and relational expertise.



Source: Author

FIGURE 2 Client Preference for Holistic Advice Continues to Increase, Rising About 60 Percent Since 2018



Source: 2023 McKinsey Affluent and High-Net-Worth Consumer Insights Survey (n = ~7,000)

in 2018.² In addition, clients were once satisfied with model solutions, but as shown in figure 2, McKinsey shows that clients want wealth managers to provide tailored solutions that address their unique financial situations.³

Family Wealth Advisors: Centering the Family in Wealth Management

Recognizing the desire for a more human-centered, tailored approach, the profession next broadened its mandate to include

families and set out to acquire the additional and more-complex skills required to serve them in the present. In this version, the financial professional must build on skills required for wealth management and add knowledge

in family governance, succession planning, wealth education, trust and concierge services, health and security advising, and overall family financial administration. Family wealth advising requires enhanced social-relational skills and the self-awareness required to know when to connect clients with other professionals who can help families develop each member's purpose and potential.

As family wealth grows, so can the complexity of an estate and entities where assets are held, as well as the number of family members associated with the wealth. Very rarely is the health of the family members addressed with as much focus as the family's financial assets. But without incorporating a human-centered approach to wealth management, the wealth of a family can turn from being a resource that provides opportunity, health, and abundance to a source of toxicity and distrust that can lead to great family dysfunction.

For this reason, family wealth advisors often seek out the skills that can help families work toward healthy wealth transfer. The family and the advisor then collaborate to define the family's legacy and develop each family member's agency. In this way, every family member gains a sense of identity grounded in family history and personal capability rather than an identity of family wealth. Centering the actions and values of the people within the family, and the potential contributions of family members to come, builds a narrative that can support a healthy wealth transfer. Without this work, families can fall victim to any number of psychological or emotional issues related to wealth.

Dealing with Wealth's Dark Side

"Affluenza," which combines "affluence" and "influenza," describes the negative psychological or behavioral effects associated with wealth and excessive materialism.⁴ Affluenza isn't a formally recognized medical diagnosis, but research has explored the potential impacts of affluence on individuals, particularly youth.

For example, a recent study documented increased rates of depression and anxiety, as well as higher rates of substance abuse, for children of affluent families.⁵ The researchers noted that these behaviors might stem from excessive pressure to excel and a lack of parental supervision. These factors can result in mental health challenges and maladaptive coping mechanisms, such as substance abuse.

"Money dysmorphia" describes individuals who experience significant financial obsession or anxiety. This condition involves distorted perceptions of one's financial situation, leading to obsessive worries about wealth even amid financial stability.⁶ Indeed, money can affect individual psychological well-being as well as how individuals relate to others. Research suggests that wealth can influence moral judgment, potentially leading to a decreased ability to empathize with others.⁷ Similarly, other studies suggest that excessive focus on material wealth can limit the attainment of other rewards critical for well-being, such as close relationships. This emphasis on financial success may lead to feelings of isolation and decreased life satisfaction.⁸ There is also evidence of a correlation between materialism and decreased happiness. An excessive focus on material gains may detract from overall happiness and can be amplified by social media.⁹ It's important for all financial professionals—and especially family wealth advisors—to understand that wealth can lead to negative issues for clients. Wealth professionals especially may need to further develop and shape their practices to match with clients' best interests, which includes prioritizing clients' overall health and non-material needs.

Should Wealth Accumulation Be the Goal?

When we learn about affluenza, money dysmorphia, the loss of empathy and compassion, isolation, and other negative effects of wealth, the entire premise of wealth accumulation is called into question.

What's the point of acquiring wealth if it can jeopardize a client's well-being as well as the well-being of loved ones?

How can a family grow and manage wealth in a way that offers the resources needed to thrive but also avoids the dark side? The most recent evolution of the profession answers this call with all the transactional, practical, and relational expertise required to guide families over multiple generations.

Generational Wealth Advisors: Now and the Future

To safeguard the well-being of a family, the generational wealth advisor must be able to build upon the skills of family wealth management and extend this lens over several future generations. Generational wealth management begins by clarifying sources of wealth, not just in the current generation but also in past and future generations.

A family's wealth may influence society over decades or centuries. A generational wealth advisor needs to be aware of this influence to help the family connect the dots when providing advice across their personal, philanthropic, and social capital.

Generational wealth advisors also work with estate planning attorneys who can plan across multiple generations with the flexibility necessary to empower future generations. This contrasts with the excessive control that can limit human development. Generational wealth advisors also may work with philanthropic advisors who can assist with family investments in communities and causes that align with family values and legacy.

Lastly, the generational wealth advisor, often in coordination with other hired professionals, can assist with the development of a family narrative that centers the values of the family along with the talents and work of the members of the family. Knowing that isolation, pressure, and materialism can lead to negative effects, generational wealth advisors can help families consistently focus on the abilities and actions of their family members, reinforcing connection, familial bonds,

and work ethic, to help reduce the risk of affluenza and psychological issues.

Building the Human-Centered Team

Generational wealth advising requires a team approach. A family's trusted advisors often will include wealth management professionals (financial advisor, investment manager, wealth advisor, family wealth advisor, insurance agent), tax professionals (CPA, bookkeeper, controller), and legal professionals (estate planning attorneys, business attorneys, tax attorneys). Families with larger estates and more complicated assets typically hire staff to manage the day-to-day maintenance of property, childcare, and other vital functions. It is also becoming increasingly more common for clients to hire professionals, regardless of their income level or asset level, who are outside of this normal list.

As the wealth management profession evolves to focus on each individual within a family and the health of the family unit itself, learning about and coordinating other professionals with expertise in amplifying, supporting, and bringing together human capital is key. Consider learning more about the following professionals:

HEALTHCARE NAVIGATORS. When clients are looking for counsel to assist with aging parents or a critical diagnosis, healthcare navigators (also known as patient navigators) can guide clients through their decisions. Healthcare navigators usually help clients with health insurance enrollment assistance, patient advocacy and support, finding the right healthcare provider, and community and public health navigations.¹⁰

CERTIFIED COACHES. When faced with a change in employment, a pivot to a new profession, or unforeseen crossroads in life, many clients benefit from working with a certified coach. These professionals offer structured guidance, accountability, and support to help individuals achieve personal and professional goals. They use coaching techniques backed by formal training and certifications from accredited organizations such as the

International Coaching Federation, the Center for Credentialing & Education, and others.

PHILANTHROPIC ADVISORS. For clients with a focus on philanthropy, hiring a philanthropic advisor can be extremely beneficial. The act of giving money to charity is not always a simple task, and there can be a great opportunity to amplify family values through a philanthropic strategy. Many sophisticated groups and individuals bring together donors and organizations for specific initiatives to maximize the impact of giving.

These are just a few of the human-centered professionals that can help families, as groups or individuals, navigate non-financial aspects of wealth. Listening to clients about who has helped them through challenges and crossroads can be the best way to learn more about how to help others like them.

Centering Human Potential and Purpose is Key

Generational wealth advisors are the newest evolution of wealth management. By centering their practices on human potential, health, purpose, and belonging, they differentiate themselves from family wealth professionals. Embarking on a practice as a generational wealth advisor requires advisors to have a deep understanding of their own practices, who they serve, and how they want to serve their clients and help them plan for future generations. By developing the skills and techniques required to manage assets across multiple generations and helping clients document their lineage, define their vision, and support the abilities of each family member, wealth management professionals can evolve their practices. ●

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ENDNOTES

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