City National Rochdale®
AN RBC/CITY NATIONAL COMPANY

Understanding the Needs of the Working Wealthy

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Introduction

When we examine the characteristics of the high-net-worth space, we find that clients have either saved a pool of financial capital during their working years, inherited their assets, developed their wealth in real estate, or sold their business (this is an area where we are seeing a lot of new client growth). Understanding these factors can help financial advisors, accountants, and other professionals attract and retain these clients whom we call the "working wealthy."

The working wealthy typically want high-touch, personalized, and comprehensive planning services. They are often very busy, as highly successful people usually are. As a result, these clients need shortcuts and very efficient ways to come up with the answers to all the detailed questions that they may have. Most wealthy people have done things well all their lives to get to that point, and they just want to continue doing the right thing. They want to make sure that their trusted advisor—their guide—has a team backing him or her and the resources to provide top-notch investment management, legal, accounting, and tax services.

When trusted advisors and their clients come to us, typically they are looking for investment management that can address four concerns: Taxes, Return, Income, and Preservation.

Taxes

Most high-net-worth clients have a need to reduce current tax liabilities, avoid unrealized taxes, and prioritize tax-advantaged assets. It's important to understand the full picture of a client's investment assets and take a personalized approach to building a tax-efficient investment portfolio. Do you currently address tax sensitivity with your clients?

We recommend the following process:

Tax analysis on existing assets → Discuss and develop a tax budget → Map out a multi-staged transition plan → Asset location → Ongoing tax-loss harvesting plan → Year-end and quarterly reviews

What follows is a case study illustrating how City National Rochdale was able to significantly reduce a client's tax liability.

TAX-SENSITIVE PORTFOLIO ALLOCATION AND TRANSITION

A client portfolio had approximately $3.3M in total assets with embedded, unrealized capital gains of over $1.3M. An imminent tax burden was preventing necessary reallocation and diversification, so City National Rochdale created a plan to stage the exit of the existing portfolio.

As a result, **a $269,000 tax consequence was reduced to approximately $51,000**.

Current Portfolio

Number of Positions	227
Market Value as of 5/2/2014	$3,324,173
Total Cost	$1,976,753
Unrealized G/L as of 5/2/2014	$1,347,421
Estimated Capital Gains Tax at 20%	**$269,484**

Customized New Portfolio

Recommendation	Cost Basis	Market Value	Tax Implications
Securities to Hold	$250,618	$533,536	
Securities to Hold for now	$900,585	$1,709,418	
Securities to Sell this year	$825,550	$1,081,220	$51,134
Total	$1,976,753	$3,324,174	**$51,134**

FOR ILLUSTRATIVE PURPOSES ONLY. Actual results will vary.

Following a strategic and disciplined process may help reduce a client's tax burden and increase a portfolio's long-term value. This approach may allow advisors to win the business of those who have the significant tax burdens that often characterize the working wealthy, as well as retain them with ongoing tax loss harvesting, asset location, and asset prioritization strategies.

For more information about how City National Rochdale can help reduce a client's tax burden, please see our white paper, *Tax Alpha: Enhancing Returns Through Active Management*.

Return

Every client wants a portfolio that provides a healthy return relative to the risk taken. However, advisors and investment managers cannot take a "one size fits all" approach, especially for the high-net-worth client. The unique needs and expectations of each individual client factors into his or her personal benchmark for a successful measure of return.

That's why it's important to design a portfolio allocation built on the client's tolerance for risk and volatility, personal situation and goals, time horizon, and cash flow requirements. In the background of this is the current economic and financial landscape. When taken into consideration together, a personal investment policy is created to outline and formalize the optimal portfolio allocation that seeks to achieve a client's personal benchmark return.

Income

For high-net-worth clients, especially those in retirement, income generation is often a critical need. It's important for advisors to have a strategy to deliver consistent and predictable cash flow.

We work with advisors to conduct a detailed analysis of a prospect's existing portfolio focusing on the effect taxes will have. Based on an in-depth analysis of a client's current portfolio, we identify ways to optimize a client's newly designed personalized portfolio for cash flow and tax liabilities. We strive to derive as much of our return as possible from more predictable sources of return (than asset appreciation), such as interest income, dividends, and coupons.

The case study below illustrates the positive potential that an in-depth portfolio review can have on income generation.

PORTFOLIO DESIGNED FOR INCOME GENERATION

A client wanted to increase predictable cash flow in a tax-advantaged manner. The portfolio was a model allocation, and the client's former advisor was not meeting income needs. City National Rochdale completed a portfolio analysis and identified opportunities to structure a high-net-worth custom portfolio to optimize cash flow and minimize tax liabilities.

As a result, **projected after-tax income increased 94%, an incremental $88,000 per year**.

Current Model Portfolio Allocation	
Dividend Income	$29,860
Taxable Interest Income	$11,630
Tax-Free Interest Income	$51,967
Total Income	$93,457

After-Tax Yield = 1.99%

Personalized Portfolio Allocation	
Dividend Income	$103,745
Taxable Interest Income	$0
Tax-Free Interest Income	$77,803
Total Income	$181,548

After-Tax Yield = 3.87%

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Preservation

High-net-worth clients typically dislike losses more than they like gains. Generally speaking, older and usually wealthier clients can have less time and/or ability to recover from losses. After the financial crisis of 2008, we believe that capital preservation and active risk management became top of mind for many. Clients want to protect their wealth and at the same time accomplish many different goals.

Market volatility is a big concern for many clients, particularly as the current expansion matures. During major market moves, it's natural for investors to question their investment strategy, but one of the benefits of professional management is decision-making based on facts, not emotions.

Providing active risk management techniques such as strategic asset allocation, rebalancing, and downside loss controls can greatly help assuage these concerns. At City National Rochdale, we implement three levels of portfolio risk management specifically.

PORTFOLIO DESIGN. We undertake an extensive review of each portfolio's holdings at the portfolio design level and determine how they may fit within an overall target portfolio, which stocks or funds to hold or sell, and how to manage the tax impact.

DYNAMIC ASSET ALLOCATION. We leverage fundamental and economic research to establish dynamic risk management parameters to reduce equity exposure when necessary. Utilizing our proprietary capital markets outlook with economic and financial models, we tactically adjust financial allocations and exposure to mitigate and manage risk. Most investment managers stop here.

PERSONALIZED DOWNSIDE RISK MANAGEMENT. City National Rochdale takes risk management a step further by understanding a client's risk tolerance, which establishes an individual client's downside limits or risk "budget." In times of abnormal negative market activity, these circuit breakers are activated to reduce exposure to risky assets, such as certain stocks. We actively continue communication with the client and continually evaluate whether the risk of each portfolio is consistent with the client's risk tolerance and determine if additional steps are required.

High-net-worth clients have come to expect sophisticated risk management with their investment portfolios. A forward-thinking investment manager uncovers a client's full range of exposure and evaluates it based on the client's personal tolerance for risk. Because these types of risk management techniques can help a client mitigate losses during severe market turndowns, the cash raised as a recession precaution can then be reinvested when risk subsides. Note that there is no guarantee that these techniques will prevent loss of investment capital.

Key Takeaways

The working wealthy have unique needs when it comes to investment management. Addressing these common needs can help you attract and retain high-net-worth clients. For investment management, it is important to partner with a firm that can provide the high-touch and personalized approach to building a dynamic client portfolio that takes into consideration a holistic view of client goals and objectives, volatility threshold, return expectations, income requirements, and tax sensitivity.

City National Rochdale's refined experience can help advisors attract new high-net-worth clients and better serve existing ones. We work in close coordination with financial advisors and provide resources to help enable advisor success, including webinars, market insights, logistical support, and more.

Important Disclosures

The information presented does not involve the rendering of personalized investment, financial, legal, or tax advice. This presentation is not an offer to buy or sell, or a solicitation of any offer to buy or sell, any of the securities mentioned herein.

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