



Study: Fund Firms Neglecting the Mass Affluent

By [Suzanne McCoy](#)

Fund firms are largely ignoring a huge segment of up-and-coming investors, namely the mass affluent. So says a new study by research firm **Spectrem Group**.

Most of those investors, defined as households with between \$250,000 and \$500,000 in net worth aside from their primary residence, don't think they need a separate account, the study says. But they do want more service and guidance from their fund firm.

Spectrem decided to focus on this demographic for the first time this year because it is such a fast-growing market segment, says Tom Wynn, a Spectrem senior consultant and one of the authors of the study.

"The mass affluent see the wealthy getting attention, and they want some, too," says Wynn. "They're feeling like the stepchild nobody really wants."

The study's figures bear that out. Only 13% of study participants said that mutual fund firms offer outstanding service, while only 11% said fund firms know their customers.

The study says that these investors use advisors only on a limited basis, but 81% of them say they'd like to get all their investment needs met at one firm.

Both of those facts differentiate the mass affluent market from ultra-wealthy clients, who typically eschew funds for separate accounts and other investment vehicles. That also means that the mass affluent represent a prime segment of potential growth for the fund industry, says Wynn.

"This market is young and very upwardly mobile," says Wynn. "If mutual fund companies took more of an interest in them, they have the potential to be very loyal clients."

But funds haven't captivated their attention thus far. In all, 16% of the mass affluent investors surveyed said they invested in equity funds. For those who did go into equity funds, the average balance was \$34,400. That compares with a 31% usage of individual stocks, with an average \$44,600 balance, and 27% in money market accounts, with an average \$21,400 balance.

The study says that these investors don't need, or want, their hand held during every investment decision. But they do want some guidance, and a recognized representative at the firm.

"This group generally defines personalized attention similar to what they get from retail providers (i.e., L. L. Bean, Lands' End, etc.). They do not expect a 'walk the dog' level of service as may be expected by higher segments of the wealth market," the study explains.

Many in the industry agree that this is a prime market segment. But tailoring investment vehicles and services to their needs has proven difficult. One of the easiest roads to the market is for fund firms with affiliated brokerages.

One example is **Quick & Reilly**, the brokerage arm of **FleetBoston**. Marty Courage, senior vice president and regional director for Quick & Reilly's Northeast region, says he focuses most on investors with between \$100,000 to \$1 million in investable assets. Courage says he offers the full lineup of Fleet's **Columbia** funds, which gives the funds a direct pipeline to that market.

That said, the study points out that the mass affluent view the services and products of full-service brokers as being too expensive.

One way fund firms might go after the mass affluent is with a separate asset class designated specifically for it, says John Picard of **Picard & Co.**

There is evidence of this trend throughout the industry. For example, **Vanguard** offers the Admiral class, which features reduced fees for shareholders with large accounts.

Picard also cites 401(k) programs with online advice services as yet another way of offering advice and client services directly to the mass affluent market.

Still, many firms say they don't have offerings directed toward this market yet. For example, **Janus** has acquired a former Berger subsidiary that offers funds and accounts to the mass affluent. But Janus does not have products specifically geared toward the mass affluent demographic, says spokeswoman Shelley Peterson.

"We're not actively targeting that market, but that's not to say we won't expand our efforts in the future," says Peterson. "I think there are a lot of unanswered questions there."

Meanwhile, Picard says, firms should use marketing messages targeted at these investors. He refers to the Maslow hierarchy of needs, saying that these people have moved beyond food and housing, and, for the most part, their retirement is taken care of.

"You'd want to say 'We know where you want to go. We know what money means to you,'" Picard says.