

IMCA[®]

investment management consultants association

Defining Wealth Management: Serving High-Net-Worth Clients with a Distinct Body of Knowledge

Summary of a Wealth Management Job Analysis

Job Analysis conducted by:

KRYTERION[™]

CPWA[®]
CERTIFIED PRIVATE WEALTH ADVISOR[®]

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Overview

As a not-for-profit certification body, Investment Management Consultants Association® (IMCA®) has administered the **Certified Private Wealth Advisor® (CPWA®)** certification since 2007. Before that, the program had been operated by IMCA as a certificate program since 2004. The phrase “wealth management” has been in use since the early 1990s to describe a comprehensive service model akin to financial planning, and more recently it has been applied to comprehensive investment advisory services for high-net-worth clients. The term has even been taken up by estate planning attorneys, accountants, and some insurance specialists.

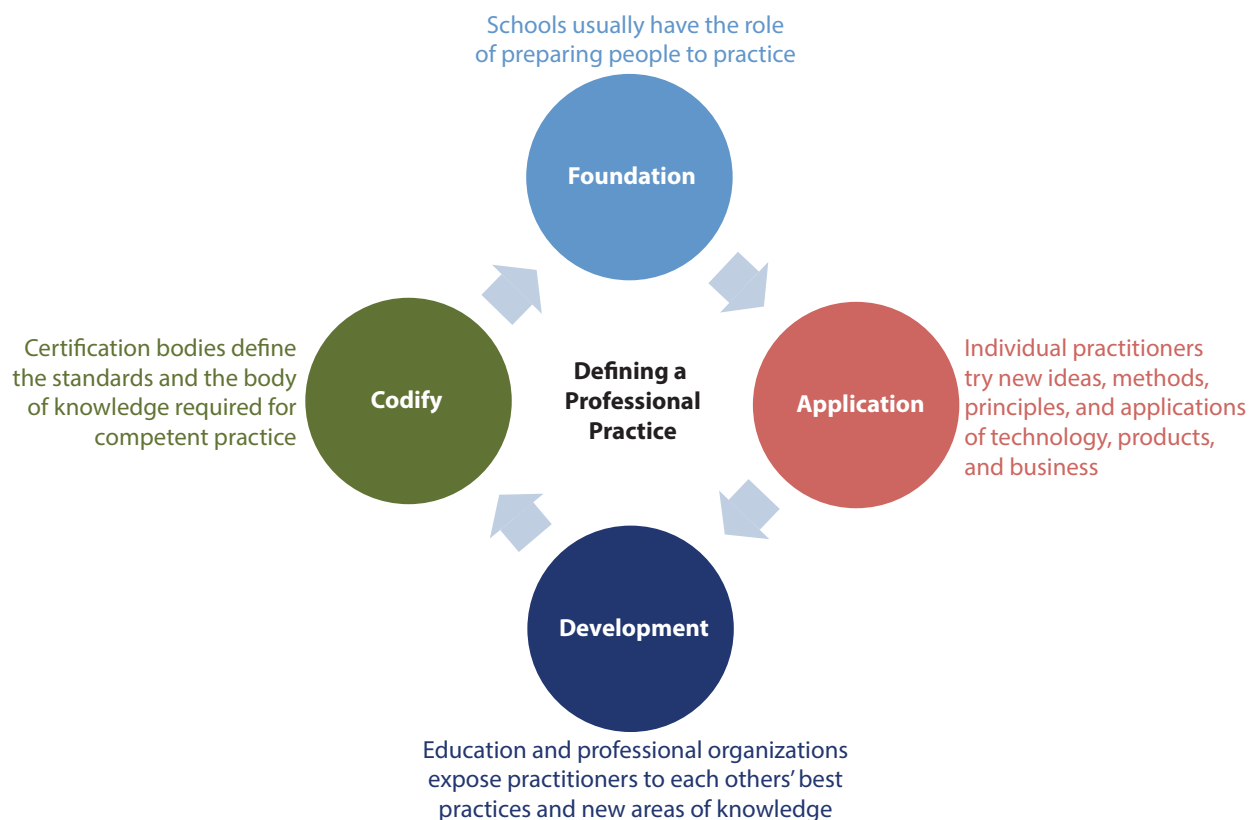
As a result, there is no real consensus on the professional tasks, knowledge, and skills that should be associated with delivery of wealth management, whether at a fundamental level or an advanced or “mastery” level.

Defined professions, such as those of lawyers, physicians, or nurses, all have migrated into specialized fields of

practice. The definition of professional areas of practice occurs in many ways. The most common, and arguably the most effective, definition occurs when an intellectual discipline (such as finance) evolves through new technologies, processes, and applications. Professional organizations develop new best practices through conferences, communities, and other media, but the final stage in the emergence of a new field of practice usually is administered by a certification body that codifies a body of knowledge and qualifies practitioners through a certification process (*see figure 1*).

Wealth management has evolved in this manner throughout the past 20 years. Starting in December 2011, IMCA conducted a comprehensive job analysis to define the role of a private wealth advisor, and to provide content validity evidence to ensure that the CPWA certification program measures content that is currently relevant for competent performance in the job role. This paper summarizes the findings and key implications of the study.

FIGURE 1: Defining a Professional Practice



CPWA Job Analysis Study: Purpose, Process, and Profile of Respondents

Purpose of the Job Analysis Study for Certification Programs

All personnel certifications benefit from a clear understanding of the nature of the profession or practice that is being certified. Certification programs also must have a sound basis for associated educational curricula and examinations that lead to certification. When certification programs take the time and effort to conduct business in this manner, it ensures consumers, employers, and professional peers that they can expect a competent service at a given level from professionals who meet the certification requirements.

IMCA® commissioned Kryterion Test Services, a professional certification test development and delivery company, to conduct a three-phase job analysis study, the results of which are being used by IMCA to refine experience, education, examination, and ethics requirements for the CPWA® certification program.

Research Process and Methodology

The procedures used in the CPWA job analysis study complied with all relevant technical and legal standards for professional certification and licensure as well as the requirements for accreditation by the National Commission for Certifying Agencies (NCCA) and the American National Standards Institute (ANSI).¹

Phase #1. Subject matter experts in a variety of wealth management related fields met in Denver December 8–10, 2011, to develop a list of tasks that may be performed as part of the private wealth advisor job and a set of knowledge and skills that may be required to perform those tasks.

Phase #2. A survey instrument was compiled and distributed to more than 43,000 financial professionals from various sources to identify qualified professionals in various roles in the wealth management field. The survey was available from March 21 to May 7, 2012. Nearly 400 respondents completed the survey in its entirety, which met the minimum statistical sampling requirements for a population of this size.

Phase #3. Finally, a separate group of volunteer subject matter experts gathered in Chicago July 21–22, 2012,

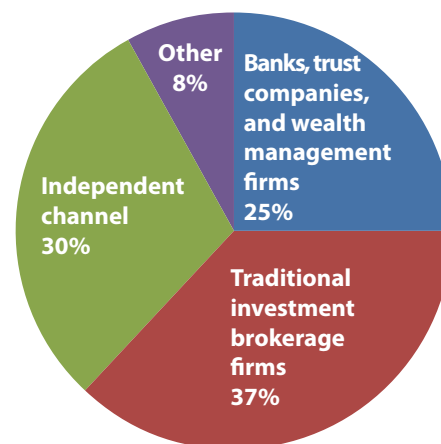
to review and analyze data from the survey with the guidance of a psychometrician from Kryterion. From this analysis of survey results a systematic definition of tasks, knowledge, and skills was approved, outlining what is necessary to perform the duties of a private wealth advisor at an advanced competency level.

In order to develop criteria for advanced professionals, data for more than 100 respondents were removed from the final data set including those professionals with less than five years of experience, professionals with more than half of their clients having less than \$1 million of net worth, and respondents whose responses did not meet other acceptable response criteria.

Profile of Private Wealth Advisors

Approximately 250 responses were validated, with roughly 37 percent of the respondents coming from traditional investment brokerage firms; 30 percent coming from an independent channel; 25 percent coming from banks, trust companies, and wealth management firms; and the remaining 8 percent coming from other areas of industry (see figure 2).

FIGURE 2: Profile of Job Analysis Respondents by Firm Type



Approximately 60 percent of the respondents have 20 or more years of applicable experience serving high-net-worth clients and 36 percent have 10–19 years of experience. Forty-four percent of respondents reported holding a graduate-level or doctoral degree. Almost 90

percent of respondents reported holding at least one professional designation, with approximately 33 percent reporting they hold the CFP® designation and 10 percent reporting they hold either the CFA® or CAIA designation.

Most respondents reported offering a range of services to their clients including portfolio management, financial/wealth planning, retirement planning, tax planning, charitable and estate planning, multi-generational legacy planning, and/or specialized services for executives and closely held business owners.

Approximately 80 percent of respondents regularly work with clients with a net worth of \$5 million or more, 50 percent reported working with clients with a net worth of \$25 million or more, and 30 percent of the respondents reported working with clients with a net worth of \$100 million or more (see figure 3).

The study defined wealth management as “a distinct field of practice through which qualified professionals help **high-net-worth clients** achieve their goals and objectives related to the accumulation, protection, and distribution of wealth by applying a set of **specialized knowledge and skills**.”

According to the job analysis study, the two highlighted components of the description above are the primary defining characteristics of wealth management.

Defining the Private Wealth

Advisor: High-Net-Worth Clients

Understanding the Consumer Landscape and the Wealth Management Universe

There are more than 300 million households in the United States alone. Though each client household is unique, general categories of financial decisions, based on economic circumstances, can be identified. For example, consumers with minimal savings and low annual income are unlikely to benefit from advice on the limitations of income tax deductions for charitable donations. That advice, on the other hand, likely would be important and valuable for many high-net-worth clients.

The CPWA job analysis study asked practitioners, “In your opinion, what is the minimum net worth that a client must have to be considered a high-net-worth client?” The survey allowed respondents to write in a number, rather than providing a forced response set. By far, the most-common response was \$5 million in client net worth, with 43 percent of respondents writing in that number (see figure 4).

Private wealth advisors have a finite potential client base to draw from in the United States. Spectrum Group’s *Affluent Market Insights 2012* report found that there are an estimated 1.1 million households with a net worth of \$5 million or more and 8.6 million households with a net worth of \$1 million or more.²

FIGURE 3: Private Wealth Advisor Client Breakdown by Net Worth

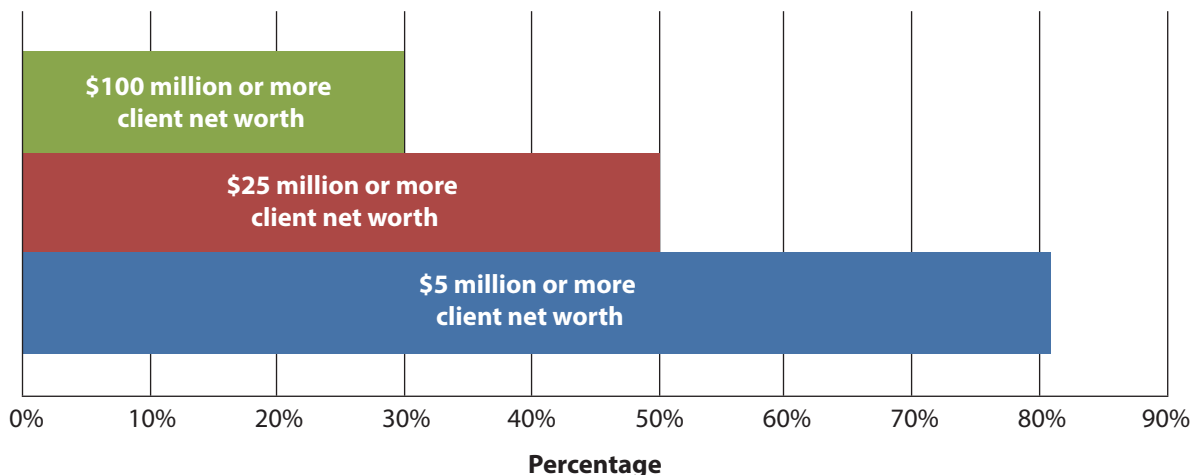


FIGURE 4: Where Does “Wealth Management” Start?

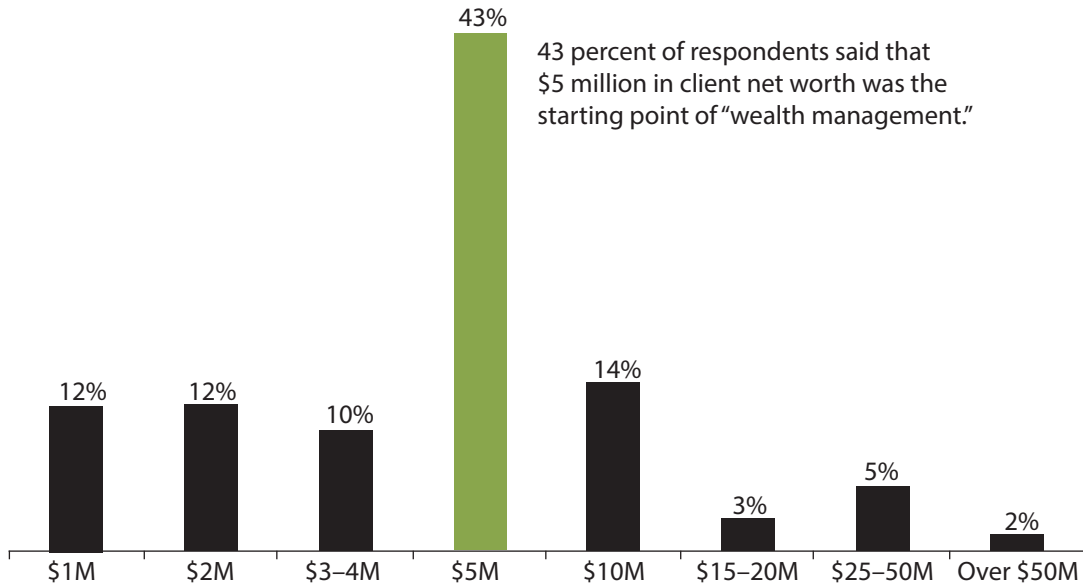
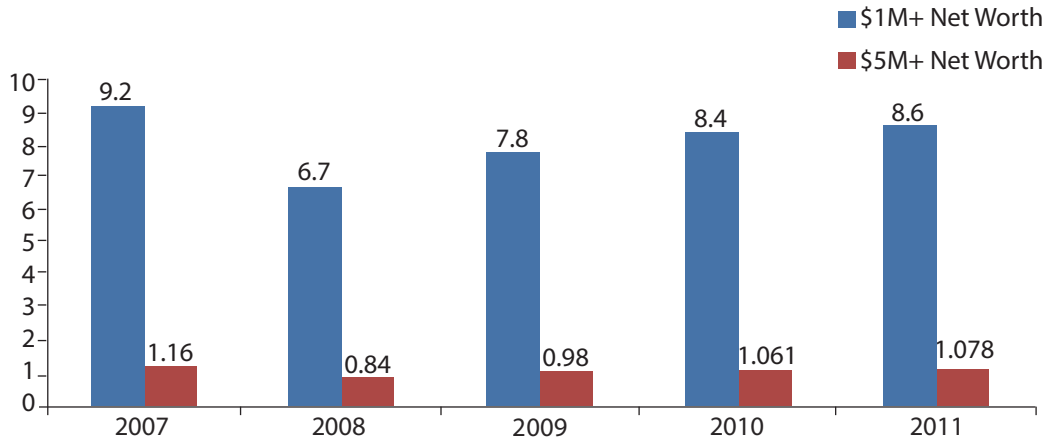


FIGURE 5: Number of High-Net-Worth Households in the United States (in millions)



Source: Spectrem Group

Another company, Capgemini, defined high-net-worth individuals as those with investable assets of USD \$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables, and it reported 3.1 million high-net-worth consumers in the United States in 2010.³ The Survey of Consumer Finances, published by the Federal Reserve, reported that the wealthiest 10 percent of U.S. households (about 11.4 million households) have a median net worth of approximately \$1.9 million.³ Figure 5

reflects Spectrem Group’s estimate of the number of high-net-worth households in the United States.

Whether you look at total net worth, investable assets, or the wealthiest 1 percent of the U. S. population, the conclusion is the same: A significant number of high-net-worth consumers are viable prospects for financial advisory services, but the supply of advisors who want to serve this distinctive group exceeds the demand.

According to Cerulli Associates, the total number of advisors from all advisory channels was 316,000 in 2011.⁵ Assuming just 50 clients per advisor, just 6 percent of this advisor total (approximately 20,000 advisors) could serve all the clients with a net worth of at least \$5 million.

Defining the Private Wealth Advisor: Specialized Knowledge and Skills

In any profession, understanding the scope of the position and its typical tasks is fundamental to successful practice. By obtaining the necessary skills to accomplish key tasks, individuals can equip themselves to better serve clients or customers as well as develop successful practices and contribute to their profession.

The study identified 47 tasks that are organized into five task domains that define a process of providing wealth management advice to high-net-worth clients:

- 1. Evaluating client needs:** Understanding the client and client relationships, gathering key documents, and understanding the various wealth vehicles and holdings of the client.
- 2. Analyzing, evaluating, and developing recommendations:** Analysis of the client's various financial statements, holdings, and strategies, including interactions with the client's advisors and other professionals as needed.
- 3. Advising, explaining, and implementing:** Presenting and discussing recommendations including relevant issues and assessment of client knowledge.
- 4. Monitoring and adjusting:** Keeping abreast of different aspects of environmental or situational impacts on a client and making adjustments where prudent to better accomplish the client's goals and objectives.
- 5. Professional responsibility:** Compliance with regulations including appropriate registrations, adherence to an ethical code that is applied to product decisions as well as client service, appropriate team management, and continued technical education.

The body of knowledge and skills necessary to provide competent wealth management at an advanced level to high-net-worth clients incorporates 169 topics organized into four knowledge domains and eleven sections.

CPWA Certification Knowledge Domains

Wealth Management Body of Knowledge

Domain I: Human Dynamics

- Section 1: Ethics
- Section 2: Applied Behavioral Finance
- Section 3: Family Dynamics

Domain II: Wealth Management Strategies

- Section 4: Tax Strategies and Planning
- Section 5: Portfolio Management
- Section 6: Risk Management and Asset Protection

Domain III: Client Specialization

- Section 7: Client Focus—Executives
- Section 8: Client Focus—Closely Held Business Owners
- Section 9: Client Focus—Retirement

Domain IV: Legacy Planning

- Section 10: Charitable Giving
- Section 11: Estate Planning and Wealth Transfer

As with financial planning, however, the breadth of knowledge necessary for private wealth advisors is substantially more comprehensive than investment advice, accounting, or estate planning. Regardless, the study found substantial differences between the knowledge and skills necessary for private wealth advisors compared to financial planning. For example, when comparing experienced private wealth advisors⁶ in the study to financial planners⁷ in the study, some insights surface and convey the importance of specialized education and skills for individuals who work with high-net-worth clients.

TABLE 1: Comparison of Wealth Management and Financial Planning Topics

Many topics covered in financial planning programs are too foundational for CPWA certification	Many topics covered by financial planning programs will be covered at a <i>more advanced level</i> within the CPWA certification program
<p>Examples of Foundational Topics</p> <ul style="list-style-type: none"> • Personal financial statements • Time value of money • Fundamental economic, money, and banking concepts • Principles of communication and counseling • Principles of risk and insurance • Fundamental asset allocation and portfolio diversification • Social Security benefits 	<p>Examples of Generic topics</p> <ul style="list-style-type: none"> • Family dynamics • Succession planning • Applied behavioral finance • Alternative minimum tax (AMT) • Multi-year tax modeling • Portfolio risk management • Alternative investments • Taxation of the sale of a business • Estate planning strategies

Examples of core topics within CPWA certification that are *NOT* covered in most financial planning programs

Examples of Advanced Wealth Management Topics

- | | |
|---|--|
| <ul style="list-style-type: none"> • Complex partnership structures and taxation • Taxation from the sale of business transactions • Tax-aware investing for high-net-worth clients • Asset-protection strategies and structures (offshore) | <ul style="list-style-type: none"> • Multi-trust structures and taxation • Advanced stock option planning and strategies • Endowments and foundations • Legacy and succession planning for multi-generations |
|---|--|

IMCA education staff compared the topic lists from the CFP Board of Standards and the exam blueprint from the CPWA job analysis study and described overlap in table 1. Based on this analysis, only 20 percent overlap exists between the knowledge and skills required for most financial planning education programs and the CPWA certification program.

What does this mean? In order to effectively serve clients, advisors who meet advanced competency standards in wealth management must demonstrate specialized knowledge and skills in a number of areas, outlined in detail in the sections below.

Four Knowledge Domains

Domain I: Human Dynamics

Most experienced financial advisors understand that personal characteristics of the client, whether conscious or unconscious, play a key role in shaping the role of the advisor. This study identified key knowledge and skill areas in human dynamics that differ from financial planning or other financial advisor roles as follows (*see table 2*):

TABLE 2: Domain I—Human Dynamics

Knowledge and Skill Areas of Importance for Private Wealth Advisors

- Direct multi-generational wealth transfer
- Identify various family dynamics
- Develop family capital: human, financial, intellectual, and social
- Understand family office services and structures
- Effectively manage cognitive and emotional biases
- Establish appropriate family governance and structures

Section 1: Ethics

Ethical responsibilities are a key component of many professions, and the highest-rated knowledge or skills within this section were those related to understanding how private wealth advisors act solely in the best interest of the client, perform duties according to a professional code of conduct, and pursue continuing education to maintain competency. Additional key responsibilities include disclosing compensation and conflicts of interest combined with ensuring compliance with the statutory and regulatory requirements imposed on financial advice providers.

Section 2: Applied Behavioral Finance

Experienced financial advisors understand that money plays tremendous tricks on human emotions. The relationship between individuals and money becomes even more complex and emotional when clients have an average net worth of \$10 million or more. Numerous aspects of behavioral finance take on increased significance, and knowledge and skills in that area become more essential.

The study showed that, in general, understanding the adaptive market hypothesis and emotional and cognitive biases are important for the private wealth advisor.

The final stage in the emergence of a new field of practice usually is administered by a certification body that codifies a body of knowledge and qualifies practitioners through a certification process.

Survey respondents also indicated that in addition to understanding the evolution of behavioral finance and its relevance, private wealth advisors need to know how personality types and behavioral biases may impact client decision-making. Skills in analyzing the potential impact of behavioral finance on a client's decision and applying a client-appropriate process were rated highly.

Section 3: Family Dynamics

Financial education for the next generation, legacy planning challenges including family business interests, establishing a family mission statement, and creating a plan to ensure wealth will survive for multiple generations all were rated as important skills for advanced private wealth advisors.

Advanced practitioners serving wealthy families also gave high marks to the skills needed to identify family conflicts and dynamics, understand the values, goals, and objectives of individual family members, and develop plans that align individuals with appropriate roles including understanding how those roles play out with family organizations, trusts, and structures. In addition, the survey results show that private wealth advisors should possess the skills necessary to develop legacy/

wealth transfer plans, incorporate needed infrastructure, and create a family education plan to meet the family's objectives while accounting for individual learning styles and financial literacy needs.

Domain II: Wealth Management Strategies

As the name of this domain suggests, it contains the technical knowledge and skill areas that private wealth advisors should possess to effectively serve high-net-worth clients (*see table 3*). The complexity and scope of tax, investment, and insurance products and strategies available provide this area with many specialized skill and knowledge areas. Even experienced advisors may find themselves out of their depth when asked to collaborate with tax or estate planning experts. Wealthy clients use multi-disciplinary teams, and private wealth advisors from the study placed great importance on technical competence in navigating these sophisticated issues on behalf of clients.

TABLE 3: Domain II—Wealth Management Strategies

Knowledge and Skill Areas of Importance for Private Wealth Advisors

- Develop intra-family income-shifting and tax-planning strategies
- Understand tax implications for trust entities
- Work with multiple pass-through entities
- Minimize the impact of the alternative minimum tax
- Engage in multi-year tax modeling
- Implement tax-aware investment strategies
- Manage alternative investments
- Effectively manage portfolio risk
- Recommend directors and officers/errors and omissions insurance
- Understand offshore strategies
- Discuss multiple domestic trust structures and strategies
- Avoid fraudulent conveyance
- Understand family limited partnerships
- Recommend property and casualty insurance for high-dollar and unique assets

Section 4: Tax Strategies and Planning

Because tax planning becomes more complex as client income, type and number of applicable taxes, and variety of expenditures increase, private wealth advisors must maintain a strong level of competency across a broad set of skills and knowledge areas. Compared to financial planners or investment advisors working with mass-affluent clients, private wealth advisors need to possess additional skills and specialized knowledge in the following areas: incentive stock options taxation, charitable-giving strategies and rules, intra-family income-shifting and tax-planning strategies, tax implications for trust entities, pass-through entity tax liabilities, deductions on passive business activities, like-kind exchange taxation, and nonqualified stock options.

The alternative minimum tax (AMT) also plays a significant role, because private wealth advisors need to understand how it is determined and its corresponding implications.

Section 5: Portfolio Management

The study found that the CPWA program needs to place additional emphasis on tax-aware investment strategies, alternative investments, managing portfolio risk (including hedging), and leveraging. These areas prove statistically more important for advisors who want to work with high-net-worth clients and warrant additional education to ensure client needs and expectations are met.

Section 6: Risk Management and Asset Protection

The protection and preservation of assets is a priority for high-net-worth clients. Compared to financial planners and other advisors, it is more important for private wealth advisors to understand and be able to utilize strategies for unique risks including directors and officers/errors and omissions insurance, offshore asset-protection strategies and structures, numerous domestic trust types, the concept and acts of fraudulent conveyance, and property and casualty insurance for high-dollar assets.

Private wealth advisors also value the need to understand the scope of available products and strategies for a variety of insurance options, asset-protection strategies, and creditor-protection strategies. In addition, they need the skill to compare policies, understand the implications of different strategies, and clearly communicate relevant information to clients.

Domain III: Client Specialization

Many high-net-worth individuals are executives and face unique situations and challenges including the receipt, taxation, and choice of various compensations and benefits. Closely held businesses also face complex scenarios and challenges, along with additional complexity in retirement income distributions. As a result, private wealth advisors need to be equipped with the knowledge and skills necessary to deal with the demands of these unique situations (*see table 4*).

TABLE 4: Domain III—Client Specialization

Knowledge and Skill Areas of Importance for Private Wealth Advisors

- Analyze complex executive compensation plans
- Develop plans for executive stock options and concentrated stock positions
- Calculate the taxation of executive compensation
- Determine closely held business owner entity selection
- Discuss family issues and legacy planning for closely held business owners
- Calculate the taxation of gains from income and sale of a closely held business
- Determine the valuation of closely held businesses
- Discuss sale structures and techniques for the sale of closely held businesses
- Calculate the taxation of income distributions
- Develop income distribution strategies and techniques
- Discuss stretch individual retirement account planning
- Understand net unrealized appreciation and other tax-minimizing techniques
- Calculate required minimum distributions

Section 7: Client Focus—Executives

The study identified a large number of topics within the “Client Focus—Executives” section. This section also represents a significant area of difference for private wealth advisors compared to financial planners or other advisors. One key difference lies in the private wealth advisor’s ability to manage risk across all aspects of an executive’s compensation and benefit package.

Section 8: Client Focus—Closely Held Business Owners

A significant portion of planning for closely held business owners revolves around the sale and succession strategy of the business. This includes understanding everything from the funding strategies to valuation methods and buy-sell agreements. Private wealth advisors should be equipped to guide a client through the buy-sell agreement, decisions on sales structure, and understanding the tax implications of a sale for various business entity structures. Arching over every aspect of planning for closely held business owners is the skill and knowledge necessary for private wealth advisors to help clients navigate family conflicts and initiate family conversations around succession planning for the business.

Advisors participating in the study also prioritized knowledge topics such as understanding structure, formation requirements, governance, and taxation for the different types of business entity structures. Private wealth advisors should possess the knowledge necessary to understand the business lifecycle and the financing issues a business faces at different stages.

Section 9: Client Focus—Retirement

High-net-worth clients have more-complicated distribution-planning needs than other types of clients. Understanding the taxation of distributions, as well as various distribution strategies and techniques is important for private wealth advisors. In addition, knowledge of stretch individual retirement account (IRA) planning, recognizing unique opportunities such as net unrealized appreciation, and observing required minimum distributions are components that play a larger role when dealing with high-net-worth clients.

Domain IV: Legacy Planning

Clients of private wealth advisors have amassed significant wealth. Consequently, they place significant priority on the impact of their wealth and the legacy they will leave upon death. Charitable planning and estate planning have complicated rules, tax implications, and strategies that require a comprehensive set of knowledge and skills (*see table 5*).

TABLE 5: Domain IV—Legacy Planning

Knowledge and Skill Areas of Importance for Private Wealth Advisors

- Determine the most-effective strategy for giving gifts to charities
- Tax impact of gifts made to public and private charities
- Develop charitable-planning strategies using charitable lead and charitable remainder trusts
- Review estate and gift tax returns
- Evaluate valuation discounts
- Recommend intra-family transactions
- Discuss the impact of partnerships, business interests, and illiquid assets in the estate
- Understand various grantor and nongrantor trusts
- Develop a comprehensive multi-generational estate plan

Section 10: Charitable Giving

Practically every aspect of charitable planning takes on additional importance for private wealth advisors. This is primarily due to the increased amount of charitable giving via cash and unique asset donations. The tax impact of gifts made to public and private charities, tax ramifications for cash and assets that have appreciated, and charitable-planning strategies using charitable lead and charitable remainder trusts are all rated as important by private wealth advisors.

An advisor needs to guide the discovery process on a client’s charitable and legacy goals, be able to determine which vehicle(s) are most appropriate, and plan contributions in a fashion that maximizes deductions within the client’s goals. The advisor also needs to understand the rules and tax implications for contributions to and distributions from charitable remainder trusts, charitable lead trusts, and net income with makeup charitable remainder trusts (NIMCRUTs). Knowledge of private versus public charities as well as knowledge of private foundations, donor-advised funds, property donations, and unrelated business taxable

Based on this analysis, only 20 percent overlap exists between the knowledge and skills required for most financial planning education programs and the CPWA certification program.

income (UBTI) within the operation or investments of a private foundation is essential.

Section 11: Estate Planning and Wealth Transfer

Wealth management clients have significantly larger taxable estates so it's important that private wealth advisors possess skills and knowledge regarding estate planning and wealth transfer. In fact, knowledge of estate and gift tax returns, understanding valuation discounts, intra-family transactions, and understanding the impact of partnerships, business interests, and illiquid assets in the estate are all important competencies.

The foundation of estate planning lies in discovering the client's planning goals and objectives, having the knowledge necessary to understand estate-planning documents and strategies, an ability to incorporate appropriate products including insurance into the plan, the skill to review estate and gift tax returns, and the tax and legal implications other areas have on estate planning.

Conclusion

A Distinctive Service Tailored to High-Net-Worth Clients

The 2012 Wealth Management Job Analysis was facilitated by IMCA but designed, developed, and analyzed by experienced financial advisory practitioners from a variety of professions and all types of business models. The data overwhelmingly identified wealth management as a distinct practice that serves a unique client type with a specialized set of knowledge and skills.

Advanced competency in wealth management is a practice, not a profession. Private wealth advisors work as tax professionals, estate planning professionals, financial planning professionals, or investment professionals.

Not surprisingly, wealth advisors and financial planners use similar processes in working with clients. The fundamental tasks of establishing the relationship, gathering relevant information, and then using the information to develop, execute, and monitor appropriate strategies is a process that can be repeated for many professions including law, medicine, and many positions that provide financial advice.

The process for working with clients may be similar for investment advisors, financial planners, and private wealth advisors, but the study identified an advanced and unique set of knowledge and skills needed to effectively serve high-net-worth clients.

Endnotes

- ¹ Kryterion Testing Services (2012).
- ² See Spectrem Group (2012) and Reyneri (2012).
- ³ See Capgemini (2011).
- ⁴ Bricker et al. (2012, p. 17).
- ⁵ Cerulli Associates, (2011). www.cerulli.com.
- ⁶ This includes private wealth advisors who have 10 or more years of experience with clients who have a net worth of \$10 million or more and also hold one of the following designations: CPWA®, CFP®, and/or PFS.
- ⁷ Includes 132 individuals who provided financial planning services for at least five years to a majority of their clients but have fewer than 10 years of experience providing financial planning services to clients with a net worth of \$10 million or more.

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Acknowledgements

IMCA would like to acknowledge the volunteers and subject matter experts below who devoted hundreds of hours to this project, and the 379 financial advisors who participated in the wealth management job analysis:

- Dorothy Bossung, Lowery Asset Consulting
- Stephanie Bruno, Cascade Financial Management
- Keith Clemens, Merrill Lynch
- Mark Harbour, Morgan Stanley
- Jim Harvey, Opus III Group
- Michael Kitces, Pinnacle Advisory Group
- David Koulish, Northern Trust
- Kristi Kuechler, Lattice Strategies LLC
- Desiree Maldonado, Banco Popular de Puerto Rico
- John Nersesian, Nuveen Investments
- Betsy Piper/Bach, NADA Retirement Administrators, Inc.
- Bob Seaburg, Morgan Stanley
- Jay Shein, Compass Financial Group, Inc.
- Matt Sommer, Janus Capital Group
- Sue van der Linden, Morgan Stanley
- Deidre Waltz, Northern Trust

About IMCA (www.IMCA.org)

Established in 1985, IMCA is a nonprofit professional association and credentialing organization with more than 8,700 individual members. IMCA members collectively manage more than \$1.6 trillion on behalf of 1.3 million clients, providing investment consulting and wealth management services to individual and institutional clients. Since 1988, IMCA has offered the CIMA® certification, which earned accreditation by the American National Standards Institute (ANSI) in April 2011, making it the first financial services credential in the United States to meet international standards (ISO 17024) for personnel certification. In 2011, IMCA conferences and workshops hosted more than 4,000 attendees.

The Certified Private Wealth Advisor® (CPWA®) certification program is an advanced credential created specifically for wealth managers who work with these clients, focusing on the life cycle of wealth: accumulation, preservation, and distribution. Candidates who earn the certification learn to identify and analyze challenges that high-net-worth individuals face, and understand how to develop specific strategies to minimize taxes, monetize and protect assets, maximize growth, and transfer wealth.

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