

FIRST-WORLD PROBLEMS | REAL-WORLD RISKS

What the high net worth often overlook

INTRODUCTION

One person might claim to crave another's problems, but everything's relative. **This paper isn't aimed at everyone.** It's specifically written for high net worth (HNW) people, or those on the path towards it, who are finding that, while money can close the door to some problems, it can open the door to others.

We share a risk framework from our experience working with the HNW and invite you to compare yourself to our average HNW client before we began working with them to see if you might have any gaps in your financial structure.

We also raise some scenarios that, if considered, might just save you more money than your investments make you, and help you secure more of the one thing money can't buy.

RISK MINDSET

Perhaps it was at a somewhat arbitrary number like when you hit £5m net worth, or it might have been when you had your house paid off, pension solid, and kids' education sorted, but at some stage in your journey your **mindset began to shift from wealth accumulation to wealth preservation.**

The question is no longer, "*Am I going to be ok?*", but rather, "*How do I ensure my family remains ok and am I missing a trick along the way?*".

This is the **change of focus from returns to risk.** Risk is the most important element of everyone's financial structure – it can just appear in different forms for the HNW. We can package risk into a *Rumsfeld* matrix and outline each type.



KK RISKS – WHAT YOU SHOULDN'T WORRY ABOUT

The financial advice industry has a terrible habit of being on a different wavelength to their clients when it comes to risk. Far too often, the pitch and conversation is one-sided and quantitative – from the advisor and about their fund returns. Totally wrong! **It should be from the client and about their life.**

Risks are most commonly discussed through the lens of investing. But this isn't the risk you should care so much about, as it's basically a solved problem. In order:

1. **Remove the chance of your investments blowing up** through diligence, design, diversification, and discipline;
2. **Align your asset allocation** to your needs and goals and update as they change;
3. Ensure your financial structure is **tax-efficient and relatively low cost**;
4. **Take advantage of risk premiums** in a systematic way to tilt the odds of higher returns in your favour.

We have a century of data from stock markets, and, with that, a strong understanding of where returns come from. Known known risks are ones we are both aware of and understand. If you can **AVOID**, **PROTECT**, and **CAPTURE** as outlined below, you have addressed and managed all the investment risks you can.

What remains is the residual risk that can't be eliminated. This risk, in the form of volatility, is the necessary price you pay for returns from assets that do better for you than your savings account.

AVOID CATASTROPHE

The best way to avoid disaster is removing it as a possibility by sacrificing the chance of a lottery trade.

Pitfall	Avoid this by
Timing	Staying invested
Picking	Maintaining diversification
Key-person risk	Investing in passive or systematic funds
Complexity	Sticking with public, liquid, low-cost funds
Sequence risk	Aligning your asset allocation to your goals
FOMO	Resisting the urge or allocating to a separate pot

PROTECT DOWNSIDE

Manage the non-catastrophic risks by understanding and accepting how markets work.

Downside	Protect yourself by
Downside volatility	Ignoring it via a well-structured asset allocation
Black swan events	Staying diversified and invested
A badly-timed drawdown	Holding the appropriate asset allocation
Unforeseen life events	Staying liquid and buying sufficient protection
Unqualified deviations	Having a passive or systematic approach
Unnecessary complications	Sticking to what works – the basics done well

CAPTURE UPSIDE

A handful of days (0.35%) and stocks (3.72%) drive all the market's returns – it's *essential* you capture these.

Upside	Capture this by
Upside volatility	Never panicking
White swan events	Accepting the black swans
The essential mega stocks	Staying diversified and invested
The essential mega days	Staying diversified and invested
Market bouncebacks	Deploying some dry powder
Risk premiums	Systematic rebalancing

The only risk of catastrophe is you intervening with the system and making an emotional decision. And this risk can be removed completely, with the stresses of investing outsourced to a professional for, what should be, a reasonable fee. To give you an idea, the average cost for this in the UK (financial advice + funds + custody) is 1.89% (according to *NextWealth*).

To give you a better idea, Biograph's max all-in fee is 1.41% (tiering down with asset size to 1.09% at £10m, for example). We can charge well below average because we don't use expensive (and typically worse) actively managed funds, we're independent and

therefore beholden only to our clients instead of private equity or shareholders, and we are nimble and efficient with our technology and expenses.

How it works in real life is that if you were a client with £5m with Biograph in an all-equity portfolio, your gross return last year was 11.84% and, after all fees, your net worth increased by 10.59%, or £529,500. The fees come off your gross returns, not in the form of direct debits so you don't really feel them.

In this case, the 1.25% fee **added value** (important) and **subtracted stress, admin, risks** (more important) and, we would strongly argue, represents **money well spent**. The removal of investment risks are arguably worth the fees alone but there is, or should be, a lot more to your relationship with your advisor than fund returns.

Before we look at what this entails, here's your first exercise: see where you land on the spectrum of your investment spectrum, and compare against the X which represents our average HNW client before working with us.

PLACE YOURSELF ON THE INVESTMENT SPECTRUM

Over the years, I have accumulated several pensions from different jobs. I think they're in the default fund options and I have no idea what the fund or admin costs are. I don't know whether they're actively or passively managed. I don't know how my various funds are performing or what my overall asset allocation is, but I know my RSUs have my risk profile highly tilted. I also have no idea how much annual income I should expect from my investments when I retire.



My investments are well-structured, diversified without overlap, and I know how active they are. I have done my due diligence on the funds and managers I'm invested with. I know my current overall split across asset classes and how much each fund costs. I rebalance and review any fund changes annually. I know how I've performed against a simple index benchmark over the past 1, 5, and 10 years. I am never tempted to make changes or time markets and there's no way I could suffer a catastrophic and irrecoverable loss.



KU RISKS – WHAT YOU MIGHT WORRY ABOUT

Known Unknown risks are those you know about but don't really understand. We're not all experts in personal finance. That's ok. We're also not all personal trainers, or lawyers, or air traffic controllers.

At Biograph, we have found these financial risks tend to be the ones the HNW have avoided or repeatedly promised themselves they'll get around to next week.

There can also be an **element of embarrassment around their own financial situation**, often given to their sophistication in their field.

Perhaps this real-world example resonates: *a senior portfolio manager for a large asset manager is reluctant to talk to a financial advisor as she feels she should have (1) more in the bank, (2) more in her pension, (3) kids already sorted, (4) way fewer funds and a coherent portfolio, (5) retirement plans in place, and (6) taxes completely in order.*

This woman's 9-5 for the past 16 years was portfolio management. Yet a look at her own portfolio showed she was the lung surgeon having a smoke after a twelve-hour operation.

I get it – “*do as I say not as I do*” is a cliché for a reason. But any embarrassment was unwarranted. Firstly, we have combined decades of experience with every prospective client portfolio you could imagine at Biograph – **we've seen everything**. Secondly, we **don't judge, just support**. Thirdly, getting your financial affairs in order takes a bit of **courage, time, and effort** but, once the heavy lifting is done (by you and your advisor) and a robust structure is in place, you'll **physically feel a weight lifted from your shoulders, permanently**.

Investment risks shouldn't concern you once they're married with the financial risks by your advisor. The output – your financial plan – is the car that gets you to your destination; the funds are just the fuel.

You don't handle that root canal yourself. The risks (and resulting stress) of your personal financial situation that you're aware of, but don't have the knowledge or capacity to handle can, once again, be outsourced to a professional. If you can handle the self-imposed humiliation and the advisor-imposed fees, **these are risks you might worry about today, but don't need to tomorrow.**

PLACE YOURSELF ON THE FINANCIAL SPECTRUM

I don't really know how much I have in my pension, my bank, or my brokerage accounts. I know that I can afford my lifestyle but haven't planned out what would happen if my illiquid investments crashed or had to be sold for emergency reasons. I don't think I'm being as tax efficient as I could be. My will needs to be done or updated, and I haven't done any detailed estate planning.



I have my financial life nicely mapped out. I know my balance sheet (assets and liabilities), my income statement (salary, bonus, dividends, rent, expenditure), and my cash flow statement (how much money I have left over every month and how efficient I'm being with my cash). I know how much of each type of tax I need to pay, how to take advantage of all available tax efficiencies, how and when to gift to my family, and the lifestyle I'll have in retirement.



UK RISKS – WHAT YOU DO WORRY ABOUT

You've put yourself in a super position. Between your human capital (earnings) and your financial capital (savings and investments) you're on the path to an early and comfortable retirement, with more than enough left over for amazing experiences, gifting, and perhaps even some philanthropy.

But in the back of your mind you understand that **external forces can scupper the best-laid plans**. You know that you should probably take some action to protect against them, but you haven't gotten around to it, you aren't sure how, with whom, or how much it should cost.

These are the *Unknown Known* risks; those you don't know much about, but you know others do. These are particularly frustrating risks as you get **occasional waves of panic about them**, but they can be complex, a real administrative pain, and costly to address – with money you hope is never recouped.

What would be great would be a central source to manage this. Someone who knows your specific situation, exactly what protection is needed to mitigate each risk, and **a trusted expert in each area so you get the best policies without getting ripped off**.

Place yourself on the **PROTECTION SPECTRUM**

I'm somewhat aware that if anything were to happen me or my earnings, my family could be in trouble fairly quickly. I'm not sure of the financial impact on me if I got divorced. I have some insurance through work, I think. I sure I'm covered in case I get sued for specific reasons, but not for any reason and I'm not sure if my personal assets would be on the line as well. I have no backup plans in case tax policies change dramatically. There's an outside chance the taxman will come knocking one day.



I feel fully protected. I have private health insurance so I don't have to worry about massive bills or queues. I also have income protection and critical illness cover to protect my earnings. I have full professional indemnity insurance and know for sure that my own assets are ringfenced. I even pay £100 a year for tax investigation insurance in case my accountant or I make a mistake with HMRC filings. I hope it doesn't ever happen but there would be no financial alarms or surprises were we to divorce.



UU RISKS – WHAT YOU SHOULD WORRY ABOUT

We can control investment risks through our *AVOID, PROTECT, CAPTURE* framework. Additional risks you probably care more about can be addressed and managed professionally through a deep understanding your specific situation and goals and layering in appropriate tax, planning, and protection strategies.

What remain are the *Unknown Unknowns* – the risks you don't even know about, let alone understand.

So let's scrap the spectrum and outline some scenarios across key categories that act as ***blind spots*** – risks you might not have yet considered, but probably should. These are real-world cases from experience. If any of them sound somewhat familiar, this might be a trigger point into action.

BLIND SPOTS

LIFESTYLE

1. Between inflation, policy changes like VAT on private education, and spending creep, your lifestyle is getting more and more expensive and **your earnings will soon dry up**. You're fine, as long as everything stays as-is.
2. You haven't looked into **long-term care** at all as it's too morbid. You're not alone here – this is a huge blind spot in the UK and Ireland, and can drastically alter gifting and inheritance plans.
3. Mindsets are hard to change. You might not feel rich because of your upbringing or keeping up with the Joneses, so you don't spend like you could. You strive to build wealth with no real end goal, and you miss opportunities to **use what you've accumulated in meaningful ways**. Experiences compound over time and the stories from them make you who you are. You're concerned you'll be left with a pile of money and regret in your old age. (Again, you wouldn't be alone – giving “permission” to spend is an extremely valuable part of annual meetings for some of our clients.)
4. You have background feelings of **guilt** about your wealth that you can't shake and it's limiting your enjoyment of it.
5. You're accumulating more stuff and it's becoming a **burden**. You broadly know the actual costs of maintaining, managing, and insuring your property, cars, and collections, but not the hidden costs, which seem to be sapping huge amounts of your mental energy, and are actually decreasing your sense of freedom.

CONTROL

1. You've built an amazing business but are worried whether the **next generation** will run it or ruin it. If you decide to sell, you're worried about the **timing risk** in such a cyclical industry and the size of the tax bill.
2. Your **property** portfolio is getting more complex and if values falls significantly, or reliefs, policies, or tenants change, you're not sure you have enough liquidity to avoid a fire sale.
3. The biggest portion of your wealth, stock-based compensation, is fairly illiquid and bears a huge **concentration risk**. You're happy with regular share distributions but you're not in control of the risk or tax situation. You worry about an AI bubble and that, overnight, you'll no longer be a paper millionaire.
4. Your entire life – warts, passwords, and all – is on your laptop and/or the cloud and you're completely under-prepared for a **cyber-attack**, let alone a *wrench attack* (associated with crypto millionaires).
5. Your finances feel all over the place and you're not sure who exactly is **responsible** for making sure everything works together.

FAMILY

1. You're worried your children won't have the **values** that were instilled in you: integrity, respect, wisdom, and work ethic. Some of their friends in school are spoiled and are setting bad examples. You want to give yours "*enough to do anything, but not enough to do everything*", but aren't sure what this means practically. You're honestly not sure if a large lump sum would improve or damage their lives.
2. You've considered the impact of **divorce**, but haven't moved to second-order actions. You fear your son will fall for a gold digger and they divorce. How can you protect half of the money you plan to leave him?
3. You've lived in different countries throughout your career and have quite a complex **domicile** status. You're not sure which laws govern your assets, where or on what you owe tax, and whether you're entitled to multiple state pensions.
4. There's no single **source of truth** in case something happens to you. Your family wouldn't know where to start with financial arrangements and you'd probably be leaving a painful administrative burden behind for them instead of what you want – memories and money.
5. You and your family's privacy is paramount to you but you're relatively visible in your world. Your reputation being damaged by an unfriendly story in the **press**, by association or otherwise, is a nightmare scenario.

IDENTITY

1. You've worked so hard for so many years that you're not at all sure how you'll **adjust to life after retiring**. Your entire social circle is tied to your professional status and invitations to industry events have dried up. You don't have board roles, part-time or pro bono work, charitable ventures, or even hobbies and bucket lists lined up.
2. You've sold your business but you're still young. You've been the dog chasing the car, but now you've caught it, you find yourself in a new bracket where you're the poorest person in the room. To compound matters, your kids have left the family home, all your friends still work, and you're **feeling isolated and lacking motivation and purpose**. You're moving beyond "*I have money*" to "*Who am I without the pursuit of it?*"
3. You know you've placed too much importance on your net worth figure but still find it hard to jump off the hedonic treadmill. The **goalposts keep shifting** and you find yourself no more satisfied with your mansion than you were with your apartment. You've lost the joy of scarcity. When you can afford everything, nothing feels special.
4. You've spent decades being the provider and the ultimate decision-maker. You're scared that if you stop managing the family wealth yourself and bring in a financial advisor, you'll lose your **authority and relevance** within your own family. You equate being needed with being loved, so you cling to control even when it's time to let go, creating friction with the very people you're trying to provide for.
5. Maintaining the image of the successful, *have-it-all* family has become an exhausting performance. You feel you can't be honest about your struggles – mental health and family issues – because they don't fit the **brand of success** you've built. You're living in a gilded cage of your own making, where the need to appear invulnerable is preventing you from seeking the support you actually need.

DECISION TIME

General stress comes when four hormones aren't in balance. If a successful life is defined by happiness levels, then the secret to success is:

DOPAMINE (COMPLETE A TASK) + **OXYTOCIN** (HELP OTHERS)

+ **SEROTONIN** (WALK IN NATURE) + **ENDORPHIN** (EXERCISE)

Financial stress comes when four risks aren't in balance. If a successful financial life is defined by stress levels, then the secret to financial success is:

INVESTMENT RISKS (DISCIPLINE) + **FINANCIAL PLANNING RISKS** (STRUCTURE)

+ **PROTECTION RISKS** (INSURANCE) + **UNFORESEEN RISKS** (PROFESSIONAL PARTNERSHIP)

The vast majority of the financial stresses the HNW deal with aren't about markets – they're about structure, tax, and the impact to, and of, wealth over time.

Overall, a good framework is **for you to focus on making and spending the money, and the advisor to focus on building and protecting it.**

This is the trick to gaining more of that precious and always-dwindling resource that some jarring statement such as one below can really highlight:

- 75% of the total time you will ever spend with your kids is when they're under 12
- You might only see your parents 30 more times
- You probably spend around 75% of your time in work, commuting, or sleeping
- You will watch 12 more World Cups

You want more time. But time is exactly what it takes to build and maintain a robust financial structure to protect and grow what you've made.

It can all be a bit overwhelming. **You want someone you can trust, won't rip you off, and will be around to manage your families wealth over the long run.**

We said advisory fees are probably justified by the value added through building and sticking to a plan. That's fair. But the fees are probably valued more due to the:

- Sense of security and peace of mind
- Reduction of stresses big and small
- Removal of ongoing life admin
- Central port of call in a team of A-list professionals (personal finance, investments, tax, accountancy, estate planning, law, insurance, mortgages)

Place yourself on the overall **RISK SPECTRUM**

I could benefit from working with professionals who have removed and reduced risks and stresses for people like me.



I'm a D.I.Y. kinda person and, unlike most people, I actually D.I. I'm comfortable bearing the risks and responsibilities myself.

If it's anywhere left of centre, it might be worth dropping us a line. An initial overview or a second opinion – we'd be happy to chat over a coffee to understand your situation and outline the support we could offer.

The worst possible outcome would be a bad coffee and a waste of your time.

The best would be a perfect flat white and an **enduring and valuable partnership that makes your life less stressful and more meaningful.**

You focus on what you need and want to; we'll work relentlessly to ensure your personal matrix looks like this...



...so your personal spectrum looks like this:

I spend my time worried about
what could go wrong.



I spend my time doing what
matters to me.

Risk Warning

The value of units can fall as well as rise, and you may not get back all of your original investment.

A protection plan will have no cash in value at any time and will cease at the end of the term. If premiums are not maintained, then cover will lapse.

Tax planning advice, including inheritance tax planning advice, is not regulated by the Financial Conduct Authority.

The information and opinions expressed in this article are for general informational purposes only and do not constitute financial advice. You should seek independent financial advice tailored to your individual circumstances before making any financial decisions.

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BOOKSHELF

If you don't want to work with a financial advisor and want to take it all on yourself, check out some suggestions on our bookshelf that might be useful to help you structure things and consider further blind spots that others will miss. Each book is hyperlinked.

