ONE PERCENTER?

The Truth About *One-Percenters*

As we all know too painfully well it's election season again. And whenever we are in the presidential election cycle the term "one-percenter" gets tossed around to make a dramatic point of emphasis. We have all heard the phrase repeated ad nauseam "one percent has the same wealth as the remaining ninety-nine percent".

This same, exact phrase was brought up day in and day out when I was in college back in 1984 by a professor whose class I could not wait to finish and move on with. It's been kicked around for over 30 years and probably been getting kicked around before FDR and even Teddy Roosevelt. It's easy to pick on the one-percent when you are safely in the top-twenty percent as many of these college professors, academics, and politicians are situated. It's also a deceptive argument that is not as simplistic as professors would lead you to believe.

As someone who has directly worked with these so called one-percenters for over 25 years … and continues to do so on a daily basis … I felt it necessary to speak up and provide at a minimum, a different viewpoint than the made-for-TV one-liners, quips and stingers.

As the head of an executive search practice which caters to higher end executives, primarily in the insurance industry, I have worked with people whose net worth has ranged from the tens through hundreds of millions of dollars. These individuals often manage companies that are in the hundreds of billions in annual revenue. They include CEOs, Presidents, and Chairmen of companies they have either founded on their own, built, staffed, inherited, or were hired to run and expand. Some are family dynasties and others were built by driven entrepreneurs.

They would meet the definition of the much maligned top-tier wealthiest if perhaps just a tad shy of the actual one percent, certainly within the two or three percent range and the same principals I'm about to discuss apply.

I also work with High Net Worth insurance producers, agents and account executives. These are sometimes referred to as Premier Services Specialists or "private client services" and are often specialty divisions of brokers as well as large insurance conglomerates. I have also

worked with executives in the exotic and classic/collectible car insurance industry. All of these people dealing of course, with high net worth clients including the one-percent wealthiest.

By working with the producers that service HNW accounts, as well as HNW clientele themselves, I have a perspective that qualifies me to speak up from a unique vantage point.

The 2 Myths & Distortions

There are 2 myths promulgated when politicians and college professors (sometimes they look like one in the same) put forth the one-percent argument. Those 2 falsehoods are:

1. The wealthy one-percent is a static group from one decade to the next
2. Their money is hiding away in some inaccessible vault

Let's discuss each of the above.

The Myth of Static Wealth

For anyone that's ever read Fortune, Forbes or any other publication such as Barrons or Wall Street Journal you'd know that the wealthiest 1% is a group that is in constant fluctuation and change.

Some of that wealth is fresh and new such as Mark Zuckerburg while other is inherited such as the descendants of Sam Walton (once the wealthiest about two decades ago).

It's no mystery who the wealthiest one-percent are. The list of the Forbes 400 tope wealthiest is published for the public (willing to buy a copy of the magazine or look up a past issue online) to see and read.

If you follow the Forbes 400 every 4-5 years or so you will notice the top 50 and top 100 wealthiest of one year will not be the same the following year. After 4-5 years quite a few have changed. Ten or twenty years later the list changes dramatically.

Contrary to the perception created by some politicians and academics, the wealthiest are in constant flux. They pass away. Leave inheritance (or debt if you have been following the sad stories of some Hollywood A-listers of late). They can and often do experience significant loss (have you followed Sears' stock? Guess who the primary looser of wealth was? I'll let you Google that one). Some make poor investment decisions (billionaires were among those that invested in Bernie Madoff's hedge fund) … Others spent their wealth very unwisely causing huge problems for their descendants. You should get the idea by now.

Whitney Houston, Michael Jackson, Casey Kasem, B.B. King are just some of the former one-percent club that left behind debts and complex estate issues upon passing.

Have you watched Sharktank© on CNBC? The billionaires today include women, minorities, young and old and come in all different shapes and sizes.

You should never think of the billionaires as a static group that is the same in 1885, 1985, or 2015. Think of the one-percenters as the lava flowing in a lava lamp. The lava balls rise as it heats up and expands, reaches the top, and eventually cools off and drops back down again. Sometimes to the very bottom (except for Kevin O'Leary).

Myth Number 2: The Money Is Stashed away in a Secret Vault

You'd think by the way politicians talk … especially career politicians who have spent way-too-many decades in politics and would most likely get fired in a real for-profit line of employment … that a wealthy person's money is all tightly bundled up like rows of rectangular bales of hay locked away in an underground cement vault. Right?

Even the graphic charts used by think tanks and certain academics push this visual, linear line of two-dimensional thinking. The charts often show a low, straight horizontal line at the botton for 99%, and sharp upward spike on the far right for the 1% that is taller than the chart line is in horizontal length.

They must have amassed all this wealth, and have it in hiding somewhere like a pack rat and keeping the rest of us poor peasants from getting our hands on it. At least that's how they make it to appear both visually, in chart and graphs and in sound bites.

Well it's a bogus and highly distorted myth. In fact the wealth is in plain sight and often requires 100s of professional services and business people to maintain. It's invested in primary homes, merchandise, company stock and all that means money that went to home builders, trades-people, mortgage servicing professionals, and corporate capital used for capital investment (more tradespeople and subcontractors) and salaries. Millions of employees are paid salaries by the wealthiest 1%.

A typical one-percenter, or multi-millionaire/billionaire may have wealth spread out in the form of the following assets:

1. Primary House/Estate
2. Primary car(s)
3. Fine art collection
4. Exotic/collectible or sport car collection
5. Vacation home(s)
6. Company Stock/Business/equity
7. Company office building(s)
8. 401K, Mutual Funds, other stock holdings outside primary employer, Bonds, Annuities, Notes, REITS, private placements, etc.
9. Salary/wages/Dividends/Capital Gains
10. Trademark/Copyrights/Patents/intellectual assets

This is not a complete list but you get the idea.

Now let's zoom in on just what happens with the *primary house*. To maintain a luxury home requires the following necessary services:

Weekly/Monthly Services

- Lawn service
- Security Service
- Gardening Service
- Housekeeping/Cleaning Staff (most likely a large crew once per week)
- Newspaper electronic subscriptions/delivery
- Food & delivery services
- Water/Gas/Electric/Utilities
- Mortgage servicing (payment)
- Other staff

Quarterly Services

- Irrigation
- Plumbing
- Electrical
- Alarm/CCTV/Wifi Camera maintenance
- Security Services
- Landscaping
- Painting
- Tiles
- HVAC
- Audio/Video Sound System
- Delivery Services
- Auto maintenance
- Termite/Pesticide Service
- Insurance for all of the above (sometimes paid quarterly or annually)
- Mobile Dog Grooming
- Mobile Car Washing/Waxing/Detailing
- Country Club/Golf dues
- HOA Dues …. Etc.

In fact just one luxury, primary home upkeep alone … and that's not even considering property taxes, sales taxes, personal cooks, house staff, etc … is enough to keep an army of independently owned businesses from the surrounding geographic area afloat. Most likely *dozens of area businesses* receive payment for such services provided.

And that's just for the main residence!

In addition the family residents of that main house probably:

- Eat out at restaurants in the local area
- Attend local churches/temples (and most likely donate)
- Participates in area fundraisers and charity events

I know of one insurance agent who bills out millions of dollars in one year for one High Net Worth client's *insurance coverages alone.* Someone is earning a living just managing the *insurance and risk* of a wealthy high net-worth residence.

Multiply all of those services required above by the vacation home and you will conclude that armies of small businesses are being supported by the high end market. Those businesses probably have other affluent clientele as well as more mid-market customers.

The money in other words, is not hiding in bundled up bales of hay or stored like corn tucked away in a silo in the middle of Iowa, it's actually being *redistributed* to the surrounding community businesses each and every day for routine goods and services. Imagine that! Free market redistribution instead of government coerced tax-based distribution.

The interest paid on the mortgage alone, collected by the bank, creates income that pays salaries for loan service personnel and processing personnel at the banks and lending institutions.

Now let's look at another affluent asset class: Fine Art.

Art Collections

It is not uncommon for the ultra-wealthy to own fine art. The fine art itself can be in the millions of dollars appraisal value.

Just one multi-million dollar fine art collection is helping support:

- Watercolor artists
- Oil Artists
- Tapestry/Carpetry professionals
- Mixed-media artists
- Sculptors of stone, metals that include
    - Indoor sculptures
    - Outdoor sculptures
    - Water Garden Sculptures
    - Pool Sculptures and monuments

In fact one such household is quite likely supporting artists, sculptors, designers of various notorieties throughout the state and region.

Without the high end client market these artists would be unable to stretch the boundaries of their art and innovate. In essence their talent is subsidized by the wealthy so that their creations can be enjoyed by all others as well.

The insurance risks alone on one high net worth house is generating revenue for a cadre of specialty insurance agents allowing them to enjoy a good income with the commissions paid on the various insurance risks. Just the *insurance expenditures* can be millions and include:

- Fine art insurance
- Classic/Collectible Car Insurance
- Primary and Umbrella personal lines (property and casualty)
- Special riders for Antiques and Oriental Carpets ….

Perhaps by now you can see that the wealthy must hire, retain, and employee an enormous array of goods, services, financial and insurance products as part of the regular upkeep on a

house and its contents. Their wealth is actually in constant circulation in the general economy. It is not stored in corn silos.

And for the sake of brevity I won't even bother getting into the obvious which is the millions of salaries and jobs provided to the workers at Tesla, Microsoft, Facebook, Cisco Systems, Walmart, etc. etc.

The wealth is *not hidden*. It's sitting right out on the street in the form of a house and most likely driving by in the form of an Audi R8 or Lamborghini Huracán (although many ultra-wealthy choose to not flaunt their wealth).

If you still have an issue with the one-percenters then don't buy a Jay Z or Beyonce ticket. Stop buying Kanye West's albums. Get off of Facebook. Cancel your subscription with Google and Ebay. Stop using Amazon. While you are at it don't buy an iPhone, iTablet or any product or service that contributes to the wealthiest one percent.

Which by the way … would mean not using most of your favorite products or services.

The truth is if all the money from the one-percenters was confiscated as some grumpy, narrow-minded, populist-frenzy-stirring politicians allude to, it still would be nothing but a drop in the bucket of our embarrassingly enormous national debt. What's really embarrassing and much larger of an issue is our national debt which on that visual chart I described, would be several times taller spike than all the money owned by the wealthiest.

Summary

Yes it's true, some of the executives of some companies treat their employees less than fairly. Sometimes horribly. I have seen that aspect of human behavior in my executive search practice. I've personally witnessed cases where a CEO worth 100s of millions of dollars brought low-waged individuals to tears just because they wanted a modest salary increase that would have equated to less than what they lose in one afternoon of day trading.

I've seen a $65K year employee have to borrow on her 401K for her daughter's wedding because she never received a modest raise or the bonus she was expecting that year.

It's true that some hedge fund managers who take active control in a company they have purchased have no interest in the body count of firings that will come from breaking or restructuring the company for bottom line profits.

But to say all one-percenters are of the same ilk is using too broad a paint brush and we must be careful with our words and vocabulary when inciting during political campaigns. We must also stop treating the American public as ignorant buffoons with these deceptive charts, graphics, quips and zingers which highlight one issue, the wealth of one-percent, but deceptively hide the looming larger issue: The world's largest national debt ever recorded by any country.

Author

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He spent 6 years on the NJ Department of Labor advisory board, a position appointed by the Christine Todd Whitman government administration at the time.

He has lectured and spoken throughout the country on careers, recruiting, and executive search.