Leading The Charge: Engaging The Next Generation Of Investors

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"The more things change, the more they stay the same." That memorable epigram penned in 1849 by Jean-Baptiste Alphonse Karr seems eerily insightful even in today's "disruptive" world of technological advances. Much has been written about how technology is shaping the manner in which investment services may be offered and delivered in the future. Further, the differing communications preferences and technological expectations of Gen Xers and millennials have given rise to entirely new offerings such as robo-advising, passive investment solutions and web-based financial planning.

Yes, change has been a constant, but the challenge for advisors to find ways to effectively serve and communicate with their clients has remained. Further, notwithstanding the proliferation of information and tools available, it is also clear from Dalbar's latest survey findings that individual investment returns have not meaningfully improved. Investors still underperform the broad market by a wide margin, and investor behavior remains the primary culprit with fees following second. Today's "on demand" consumer with 24/7 access to news, entertainment, shopping, etc. has seen their impulsive behavior amplified to the detriment of investment performance, so much so that advisors have begun to turn to behavioral economics and comprehensive financial planning in an effort to keep their clients focused on their long-term plan and not be swayed by the relentless short-term gyrations of the headlines and markets.

In a survey of financial advisors conducted this spring at a conference in Seattle, Wash., we asked advisors how they were adapting their businesses in response to changing investor preferences and new technologies. We also asked them where they were focusing their business development efforts. Not surprisingly, 53 percent of the advisors surveyed indicated that are still primarily looking to attract baby boomers—their traditional audience who has investable assets to manage—as future clients. Roughly one-third of those surveyed said that they are primarily looking to attract Gen Xers as new clients and only 2 percent say they are primarily focused on attracting millennials. At first blush it may seem that advisors are deliberately ignoring or overlooking millennials, but that would clearly be misleading. In practice, advisors continue to focus their primary attention on those clients and prospects that not only have investable assets but also best understand and value the financial advice and experience they offer. Baby boomers, for example, are facing increasingly complex financial challenges such as the rising costs of healthcare, caring for aging parents and developing retirement income in a low interest rate environment. In contrast, millennials are just getting started in their professional careers, are starting families later and are not yet focused on retirement as low enrollment rates of this demographic in company 401(k) plans reveals. In fact, nearly two-thirds surveyed said that younger generations are likely not working with advisors because they think they do not have enough investable assets.

Do advisors see Gen X and millennials as meaningful markets of the future? Without a doubt, but many of those future clients have not yet arrived to the point in their lives that they desire or even recognize the need for a personalized advisory relationship. While different for every investor, that time may come when they're too busy in their own careers to effectively monitor their investments or when the size of their savings is greater than their self-confidence to manage it or perhaps when their marital status changes or their family status changes. Realizing this, advisors must increasingly find ways to creatively market to these demographics so they are seen as relevant when that investor's circumstances change. Some advisors share a new practice of "multigenerational family review meetings" in which future beneficiaries are intentionally brought into the circle of investment planning by their parents or grandparents. As comprehensive wealth management is increasingly being sought by clients, advisors are counseling the importance not just of articulating the overall strategy and plan across the family line but also the importance of continuity and coordination of that plan and its advisors. Just as the success of any continuity plan depends upon clear articulation and expert execution, the same holds true with family investment plans. The opportunity is ripe for advisors to quarterback those gatherings and in the process demonstrate their relevance and value to the next generations who might not yet understand the full scope of what that experience brings. In a future world of driverless cars they may actually be expecting to have an advisor-less plan, so it's incumbent upon advisors today to clarify and demonstrate the value they can and do offer.

So in our always-connected world, how are advisors interacting with their clients today? Half of those surveyed say the best way to engage with clients is still through in-person meetings, while 41 percent believe that Gen Xers prefer to be communicated with via text and e-mail. Online offerings and apps from most financial services firms enable clients to obtain quick answers to questions around the clock without even needing to contact their advisor directly, but for planning and review meetings, face-to-face remains the most effective method according to those surveyed. For many clients, “the update call” has been replaced by a text or an email or even a brief Facetime “virtual” meeting, however, the advisor’s challenge of educating and reassuring through a personal touch has not vanished. At least for now, the most effective handholding is in person, not through instant messaging.

While it’s natural to maintain a focus on boomers, as generational wealth begins to shift and millennials become the country’s largest demographic, it is increasingly important for advisors to consider the evolution of the industry. While the more things change, the more they stay the same—being aware of changes that can significantly impact your practice will allow for ongoing success in the future.

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