GENERATIONAL SELLING TACTICS
Cam Marston

Cajoling Gen X to get their feet wet

How to get investors in their prime earning years to take an aggressive, long-term approach

Generation X has a reputation for cautious investing, often to the point of absurdity. Now in their prime earning years — their 30s and 40s — they should be putting money into the stock market through vehicles such as 401(k)s, simplified employee pension plans or individual retirement accounts. But they are cynical, skeptical and reluctant to put their money at any risk. Their cash- and bond-based portfolios are putting them on a course to depend on Social Security, even though they say they don't believe in that, either.

They are wary. They fear a 2008-like crash or a Madoff-like scheme.

Their reluctance is unfortunate and has the potential to be financially devastating, according to Janet Hayes. Her firm, Leavell Investment Management Inc., has been managing portfolios across a broad spectrum of investment goals since 1979.

According to Ms. Hayes, the risk of not investing is simple. Not accumulating wealth in one's productive years results in predictable outcomes: You will not be able to retire, or you will be dependent on the government or a third party to provide for you.

There is a distinct difference between saving and investing. It is virtually impossible to save enough for retirement. Conventional savings accounts have little or no risk, but little or no resulting return. Current savings account returns are below inflation rates, meaning those saved dollars will purchase less in the future than they do today.

Investments, on the other hand, always carry risk. Professionals, however, have multiple ways of mitigating those risks. Done properly, the results over longer periods of time have always resulted in positive returns. So, according to Ms. Hayes, Gen Xers have the one attribute that most likely will aid a professional in attaining positive results for them — time. Every day that passes without accumulating wealth and making investments, people move closer to those unpalatable outcomes.

STEPS FOR BREAKING THROUGH

So how do you overcome Generation X's fear of the stock market?

Charts and graphs explain how the market works and predict how it will grow. Scenarios can illustrate how $100 invested today will grow in 20 years — or what the cost of living will be in 2035 and how stock investments will best earn enough to cover it. This is all a logical, left-brain approach to the problem. But the right brain — the emotional half — also needs attention and cajoling. How do you engage both?

Follow these steps:

First, "paper the file" — the left-brain argument. Provide data and scenarios to your Gen X client, saying: "You've seen all this info before, but I want you to have it to review if you need to. Don't throw it away. Set it aside. You know how the market works. Just keep this around to look at specific scenarios."

Next, engage the emotions of parenthood. Many Gen Xers are parents by this point. Tell them: "You may or may not want to leave something behind for your children to help them out. The likelihood of your having something to give them upon your passing decreases every day you stay in cash or only invest in bonds. They don't keep up with inflation. You'll need to save much more than stock investors to make it."

Step three, compare their behavior to a misconception by someone who's still learning: "Would you ever tell your child that learning to read up to a fourth-grade level is enough? Of course not. You want your child to continue to accomplish more and become more proficient. The same holds true for you stopping short of entering the market. You're settling for a level below what you're capable of."

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Step four, explain that the market has risky investments, and safe ones. Start by placing them in the safer ones, such as an index fund. Then explain the value of buying stocks "on sale" when the market is down; that it's actually a way to leap forward into their retirement goals.

Step five, cajole a minimum, comfortable amount from your clients for an inexpensive, safe starter fund that they can monitor. Tell them not to look at it every day. They will look at it anyway, so provide comments that explain the fluctuations. Continue providing the broad perspective and the full picture, and remind them that minor fluctuations are distractions.

Finally, get them to agree to add a small amount to the stock portfolio each month. You likely won't eliminate the bonds or certificates of deposit they already have, but their stock investments can increase with their comfort level, a little at a time. Respect their feelings, educate them and get them to stick their toe in the water. Whatever the outcome, interpret each step forward as a success.

Cam Marston is an author, blogger and lecturer on generational buying trends.