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ADVISOR INSIGHT

5 ways to win over Gen X investors

COMMENTARY

Cam Marston, Special to CNBC.com
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Members of Generation X are product stalkers. They research everything they buy, from toasters to blue jeans to cars. It stands to reason that they should be great at managing their own retirement savings. It's in their blood, or so they think.

In truth, though, the only thing Gen X has proved adept at is spending, racking up debt and doing little to prepare for the future.

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While some members of Gen X—the 45 million Americans born between 1965 and 1980—have become successful do-it-yourself investors, most are dabblers. They bring an attitude of "I'll figure this out someday when I have time, and then I'll make some smart decisions that will catch me up." But they won't.

It is time this generation of renegades and loners starts looking to financial experts for help. Additionally, it's key for financial advisors to understand how increasingly important Gen X investors are to the continued success of their firms.

To be sure, competition for Gen X clients' future wealth might be fierce. Various industry studies conclude that the baby boomer generation will pass along $30 trillion of their life savings over the next few decades.

So what's an advisor to do to make sure he or she can win over these new, picky clients? Here are five steps for dealing with Gen Xers who think they can go it alone:

1. Offer your financial research as a means to test their hunches. Don't be a yes man. Be the "go guy" that brings an alternative point of view to their ideas. Show them the complexities they aren't aware of, and offer your insights into alternative plans. Do the hard work, show your results and then say, "What do you think?" and "Can I offer an idea?"

2. Reveal tales of failure. These stories get the attention of the do-it-yourself investor, especially if they involve people like them. Most people think, "I'm better than them," but when you paint a picture of real stories of DIYs who couldn't master the complexities or relied on their hunches to time the market and ended up worse off, your client may yield some control.

3. Get them to commit to a measurement tool for their success. Do they want to mirror the S&P 500? Whatever it is, make them commit to a measurement of success so that they will know if they're succeeding or not. And hold them to it.

4. Don't antagonize. Encourage and cheer and celebrate victories. It's not you against them, it's them against their own expectations and capabilities. Be ready to high-five the wins. And don't wag your finger if they fail.

5. Keep them involved in the decision-making process. It's important to keep them in the loop and ask for their buy-in along the way.

To be sure, Gen Xers face a distinct conundrum: They should be building assets at the very same time as they are spending them—all while keeping a keen eye on retirement. In other words, investing poorly today is a mistake Gen X will pay for a long way down the road.

A 2014 study on the retirement readiness of Gen X by the Insured Retirement Institute painted a picture about the disconnect between what this generation thinks it can accomplish and what is actually happening. According to the report:

- The median amount saved for retirement by Gen Xers who work with a financial planner is $90,400, which is twice the amount saved by Gen Xers who do not work with a financial planner.
- Fewer Gen Xers are working with financial planners than two years ago. Currently, 77 percent of Gen Xers say they are not consulting a financial planner to help them plan for their retirement, compared to 63 percent two years ago.

For a generation aiming for self-sufficiency—financially as well as emotionally—the DIY model is not the best approach.

This is a generation often characterized as disillusioned, cynical, selfish and a bit argumentative. The reasons why are fairly clear.

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They came of age at a time when many of the world's institutions faltered. Marriage became less permanent as divorce rates skyrocketed. Government was plagued by scandals. Churches were the target of accusations of child abuse. Product recalls escalated. Historically stable institutions broke this generation's trust and led them to become disillusioned about everything but themselves.

Survey results confirm that Gen Xers and their younger millennial peers are significantly more likely than older generations to engage in "self-directed" investing decisions.

While nearly 38 percent of millennials report working with a business professional, only 29 percent actually work with an advisor, and nearly half are using word of mouth to gain information.

Additionally, a recent Cogent Research report reveals that 57 percent of Gen Xers feel that their financial advisor is working in their best interest. These ratings are in stark contrast to relatively older investors, who report much higher levels of trust, likely due to longer working relationships and more focused attention from their advisors

Not surprisingly, these younger investors also allocate the lowest proportion of their assets to a primary advisor, highlighting an opportunity for financial advisors to increase the relationship with those in Gen X and potentially capture greater wallet share.

–By Cam Marston, president of Generational Insights and author of "Motivating the 'What's In It for Me?' Workforce" and "Generational Insights."