

## Understanding Generational Differences and Their Potential Impact On Your Firm's Future

Communicating effectively with investors of all ages may help you attract the right kinds of clients to grow your assets under management

The times, they are a-changin'.

Bob Dylan certainly put his finger on it in this baby boomer anthem of 1963. Fifty turbulent years later, the boomer generation – the wealthiest ever – now anchors most advisors' books of business. But now that, too, has begun to change as more of the nation's 76 million boomers retire, drawing down billions of dollars in assets to pay for Caribbean cruises, hip replacement surgery, down payments to help their children buy a home, or gifts for their grandkids.

With billions of dollars in baby boomer assets scheduled to pass on to younger heirs in the near future, it is becoming increasingly important for advisors to consider establishing relationships with clients' children and grandchildren, who, in addition to potentially inheriting assets, are also generating their own savings and wealth. At the same time, younger advisors who are looking to grow their book of business may want to find ways to establish credibility with baby boomers.

This article, the first in a series, will examine ideas to help you understand what makes investors of all ages tick and how you can potentially tailor your communications to meet each generation's unique needs. Whether you are an older advisor looking to establish relationships with your clients' children, or a junior advisor looking to convince older clients that you have what it takes to manage their wealth, this series will provide insights designed to help you communicate more effectively with investors of all ages.

### The Generations (and Their Gaps)

"Everyone sees the world through his or her own generational filter," says Cam Marston, author of *The Gen-Savvy Financial Advisor: Advising the Generations in the New Age of Uncertainty*. The founder of Generational Insights in Mobile, Ala., Marston has studied differences between the generations for 15 years. He is a leading expert on understanding how these differences influence the workplace and the marketplace.

The dramatic differences between baby boomers, Generation X, and Millennials (also called Generation Y) may be most useful for advisors to know, although Matures (age 68 or older) and iGens (12 or under) also populate Marston's generational universe. With the caveat that not all clients will exhibit the characteristics of the cohort they're born into, Marston outlines the various generational profiles in his e-book, *The Gen-Savvy Financial Advisor*:

#### Baby Boomers (49 to 67 years old)

Boomers were born during the postwar population explosion between 1946 and 1964. With approximately 72 million members alive today, this generation has made a dramatic impact on American culture. Boomers typically have "always had a sense of their generation's uniqueness and importance," says Marston. Having grown up amid moon landings and bull markets, many are known for their optimism, self-confidence, and ambition.

### Key Takeaways:

- To appeal to the unique preferences of each generation, consider ways to tailor your communications strategy accordingly.
- More than \$18 billion will soon transfer from baby boomers to younger generations. Advisors need a strategy to retain or capture those assets when they pass to heirs.<sup>2</sup>
- Consider acting now to establish relationships with your older clients' children and grandchildren.

### Generation X (34 to 48 years old)

People of this generation, born between 1965 and 1979, were often raised by parents who both worked or were divorced, says Marston. Scandals, inflation, world crises, and recessions heightened many Gen Xers' feelings of insecurity during the '70s and '80s. Compared to boomers, Marston says the 45 million or so Gen Xers are typically "more skeptical, cynical, and pessimistic." On the positive side, he says they are usually accustomed to taking responsibility for their own well-being and are very much at home with digital technology.

### Millennials (Generation Y—13 to 33 years old)

Born between 1980 and 2000 to boomer parents (whose generation they now outnumber at 85 million), many Millennials spent most of their youth in relative affluence, says Marston. Their optimism tends to be colored by a sense of personal entitlement; they are the generation who, as Marston has experienced with his own children, receive ribbons for finishing 11th in a swim meet. They typically remain close to their often-doting parents, follow the example of their friends and trendsetters, and feel completely at ease with social media.

### A Potentially Significant Revenue Opportunity

Many advisors target affluent clients who either are near retirement or already retired. While it may make economic sense to focus on clients who have higher asset levels, focusing exclusively on this age cohort could pose a risk when these clients start to pass away.

That's because many younger investors do not retain their parents' advisor when they inherit their assets, according to Marston. If you have not taken steps to establish solid working relationships with your clients' children, you may be at risk of losing large chunks of your assets under management in the not-too-distant future.

It's often assumed that younger generations don't have much money to invest, but studies show that this is radically changing. In 2012, people who were 50 or younger made up more than a third (34%) of American households with investable assets of \$100,000 or more.<sup>1</sup> That's an astonishing leap since 2010, when they were only 21% of this affluent group,

according to Cogent Research. By contrast, boomers – nearly half (48%) of the affluent market in 2010 – dwindled to a 44% share over the same period<sup>1</sup>.



Cam Marston of  
Generational Insights

All told, investors in their 20s, 30s, and 40s represent an underserved \$18.6 billion revenue opportunity for advisors, according to a 2011 Cisco Solutions survey of 1,000 wealthy investors<sup>2</sup>. Building relationships now with this group may prove even more productive when they inherit their parents' wealth. Over the next 30 years, that could add up to a generational legacy estimated at \$30 trillion, according to a recent Accenture study<sup>3</sup>.

### Not Your Father's Investors

In many ways, the clients of the future won't be like the clients you serve today. You may find yourself working with investors who care more about doing good with their money than growing it, or who scoff at the idea that the market always rewards sound long-term investing strategies. In this evolving landscape, staying on the path to high performance may require a different marketing communications approach for an audience that is years away from receiving their first AARP card.

"Sending the wrong signals can significantly alienate younger clients," says Marston. "You need to understand each generation's experiences, expectations, and attitudes, as well as any anxieties and concerns that may not be a factor with older clients you've dealt with."

For example, Marston shares that talking about past successes and about yourself as a "member of the team" may appeal to baby boomers. But Marston says this approach can turn off younger clients, who would rather be told straight out what you'll do for them and how you'll do it. Similarly, when a Millennial prospect walks into your office for the first time, will your decor give her the impression that you

understand her, or is your décor all about you and your achievements?

As you plan how to attract and engage younger clients, be assured that the basics of cementing a relationship won't change. "You still need to establish rapport and build trust, respect, and credibility," says Marston. "But how you build that connection will vary for each generation, because of their social and cultural biases and preferences."

### **Establishing a Toehold with Gen X and Millennials**

While boomers may view an advisor's credentials as a crucial part of establishing trust, some already skeptical Generation Xers and Millennials perceived during the financial crisis of 2007-08 that credentials don't always make a difference. Marston describes their attitude toward advisors as, "We don't know exactly what you're supposed to do, or why you should get paid for it."

Due to their inherent skepticism of advisors, many younger investors have taken investment management into their own hands. In fact, nearly three-quarters of the Gen X and Gen Y millionaires surveyed in Fidelity's 2013 Millionaire Outlook study said they felt knowledgeable about investing, enjoyed it, and were actively involved in it<sup>4</sup>.

Unlike older investors, many Gen X and Millennial investors are looking for validation, not delegation. Although nearly all the young millionaires in the Fidelity survey (92%) worked with a financial advisor, most (61%) said they used their advisor for a second opinion. They also tend to be less loyal than their elders are. According to Cisco Solutions research, 20% of wealthy younger clients said they plan to change advisors within a year, compared to just 5% of boomers<sup>5</sup>.

To communicate effectively with Gen Xers and Millennials, you may need to become a better educator, Marston says. "At some point Gen X and Millennials will decide 'I need a professional,' but they

won't want to give up control over their financial future. If you offer them advice, they are likely to ask, 'Why? Show me that's true.' You will need to be a teacher."

### **Introductions May Help Pave the Way**

When you're as busy as most experienced advisors are, it's tempting to think you have too little time to pursue younger clients whose assets may be lower than your usual target market. But devoting the resources necessary to attract and engage these investors may pay off in the long run. Learning what it takes to establish strong relationships with Gen X and Millennials may help you expand your current revenues, position yourself for managing inheritances left to younger generations, and create a book of business that may be more valuable when you retire or sell your firm.

You're starting with a potentially powerful advantage: your relationships with clients whose adult children may be excellent prospects. Marston suggests that advisors consider asking these clients for permission to introduce themselves to their children or grandchildren. It's also worthwhile to ask yourself whether your firm should be nurturing junior advisors who can serve as the primary contact for clients in their own age group.

As baby boomers start to retire en masse, now is the time to take a closer look at who you serve today and who you want to serve tomorrow. Advisors, whether older or younger, or in between, should seriously consider changing with the times and adapting to demographic shifts.

*The next article in this series will delve deeper into the unique characteristics of Millennials and action steps you may want to consider taking to build relationships with these investors.*

### **Learn More**

- [2013 Fidelity® Millionaire Outlook Executive Summary: Gen X/Y Millionaires Not Sitting Idle](#)



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1. Cogent Research Investor Brandscape®, 2013, "Young Money: One-third of Affluent Americans are Gen X/Y," The Street.com Financial Advisor Forum, 7/4/13.
2. Internet Business Solutions Group (IBSG) at Cisco Systems, Inc., 2011, "Advisory industry frets over serving Gens X&Y," InvestmentNews, April 2011.
3. Accenture, "Generation D Investors: An Important Emerging Segment," [www.accenture.com](http://www.accenture.com), posted 2/7/13.
4. The 6th Fidelity Millionaire Outlook is a primary research study among 542 U.S. millionaire investors conducted via an online survey during the period of May 15–23, 2013. Qualified respondents had investable assets of at least \$1 million, excluding workplace retirement accounts and any real estate holdings. Fidelity worked with Bellomy Research, an independent third-party research firm, to conduct the study. The data reflect a margin of error of  $\pm 4.2\%$  at 95% confidence. This executive summary examines differences between Gen X/Y millionaires (age 48 and younger; average age of 37) and Boomers+ millionaires (age 49 and older; average age of 65). The experience of the millionaire investors who responded to the survey may not be representative of the experiences of all investors and is not indicative of future success.
5. Cisco IBSG Wealth Management Study, 2012.

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