FORMULAS FOR SUCCESS

By Mark Tibergien

Client of the Future

Take note: Investors under age 50 hold almost as much wealth as those over age 50

We spend a lot of time thinking about what will drive success in the future of the advisory business. Financial performance studies reveal that advisory practices are managed better today than they were just a decade ago. We also know that firms today are larger, often more sophisticated, more independent and more reliant on technology. Yet something has been nagging at us about the way in which most advisory firms are oriented.

The epiphany came when we realized our view was more about the advisor of the future than the client of the future.

It seems the average advisory practice model has been built around the baby boom generation. Trade press and industry advertisements often emphasize retirement planning as the cornerstone of a thriving practice, especially if your market is the mass affluent. While the wealth created by those born after World War II is substantial, the growth phase for boomers is subsiding as investors start to draw on assets for retirement. While advisors once enjoyed rising fees for the management of these assets, funds are now being repurposed to support retirement, with the hope by clients that their last check goes to the funeral home—and that it bounces.

Retirees and pre-retirees can be a great catalyst for advisors building assets under management, but relying too heavily on this client base ultimately may curb a firm's organic growth. Consider two commonly cited statistics: First, many estimate that real rates of return on client portfolios will be close to 4% for the foreseeable future. Meanwhile, the required withdrawal rate for people financing their life in retirement will likely exceed 4% on average. I defer to the financial planners on their confidence in these assumptions, but few will argue that the current environment is yielding lower returns, and requiring higher withdrawal rates, than predicted. For advisors, a stagnant or declining income coupled with the rising cost of doing business threaten to squeeze profit margins and depress business value.

Times are changing. Advisors grew up with boomers and built their businesses on the assets and market appreciation generated by ranks of fellow workers in their earning prime. Heck, most advisors are boomers themselves, so they can relate to their clients' issues. Take a moment and examine your current client base as a laddered portfolio. You may discover that the boomer category will reach "maturity" earlier than you desire. Like the retirees themselves, your firm needs a functioning earnings generator. Where will new assets come from?

Let's widen the lens and take a look at the demographics. Boomers were born between 1946 and 1964; Generation X clients were born between 1965 and 1979; millennials were born from 1980 to 2000. Are younger investors adequately represented in your client portfolio? To help advisors diversify their practices to include Gen X and millennials, Cam Marston of Generational Insights recently wrote a new e-book titled "The Gen-Savvy Financial Advisor." Marston's central thesis is that everyone sees the world through his or her own generational filter. In some cases the age differences are mitigated by commonalities such as religion or background, but in many other cases the generation gap is wide and deep.

Marston's helpful book outlines the financial traits of each generation, suggests ways to connect with younger investors and shares strategies for positioning your business to serve each demographic. While Marston acknowledges the staying power of the boomer generation, he urges advisors to consider targeting their clients' children and grandchildren. Did you know:

- Twenty-nine percent of wealthy investors are under age 50 and control 37% of potential investment assets.
- Investors between ages 18 and 50 will inherit more than $41 trillion by 2052.
- Eighty-six percent of heirs say they will not use their parents' advisors.

As an example, Marston identifies the millennial investor as generally well-educated, perhaps the most educated generation in history. Millennials also tend to delay marriage, children and other adult markers, meaning their investment needs follow a different pattern. Growing up with technology, unlike previous generations, they tend to be both individualistic and group-oriented, a contrast that is helpful to understand. Unlike the Gen X investors before them who may be the most cynical of all generations, millennials are optimistic. They tend to be friends with their parents, a dynamic few boomers can relate to. The positive result is that they treat people from all generations as equals. This is significant, as advisors who think they know everything may find that these new clients will not tolerate being spoken down to. When making big financial decisions, millennials are more collaborative and often consult with their parents, perhaps even bringing them along to meetings. Is your firm prepared to meet the needs of this investor?

Marston has contributed much to the discussion around generational differences. With his book, he both challenges and instructs advisors who seek to build a business that will endure beyond them while staying relevant to clients who need their help today. How do these trends impact you? Why should you care?

You should care if you want to create opportunities for your partners and employees, or if you want to build a business with transferable value. You should care if you want to invest in your growth rather than simply harvesting the seeds you've already sown. You should care if you are experiencing attrition of existing clients through death and asset withdrawal.

Dramatic generational differences now present a need for revolution, rather than evolution.

Ask yourself if your firm strategy is still relevant. Do you have a clear idea of what you'd like your business to look like five or 10 years from now? Can you envision your future clients and who will be working in your practice? Do you know who will be leading the firm and how the business will be positioned in the market? Do you have a sense of who your competitors might be and how you will differentiate from them?

Frame your vision of the future, including your optimal client and your optimal client experience. This vision will help determine your organizational structure and the type of people you'll want to have working in your business. For example, assuming you deem it critical to appeal to millennials, you will need to develop millennial advisors to serve them. What kind of training will they require? What tools and technology will they need to communicate with clients and make your business accessible to this new generation of investors?

Historically, advisory firms have made a gradual transition through the life cycle of a book of clients. Dramatic generational differences now present a need for revolution, rather than evolution. Hiring and training different people to serve different clients in different ways means changes for your business.

How exciting and hopeful that the economy is experiencing a new wave of liquid wealth. Kudos to those who are well-positioned to capture this trend and build a business that will last beyond them. **IA**

OnlineExtra

To learn how you can engage these shifting client demographics and capitalize on emerging new pockets of affluence, access Pershing's "Investor of the Future: The Quest for Tomorrow's Affluent Clients Starts Today" at pershing.com/futureinvestor.

The Takeaway

- Examine the characteristics of Gen X and millennial investors before changing your strategy
- Consider whether you have the right people and the right tools to serve new demographics
- Position yourself as relevant to all generations and follow up, matching actions to words

Mark Tibergien, CEO of Pershing Advisor Solutions, is a former partner in Moss Adams LLP, and co-author of "Practice Made (More) Perfect" and "How to Value, Buy, or Sell a Financial Advisory Practice." He can be reached at mtibergien@pershing.com.