

The X Factor in Wealth Transfer

Children of Baby Boomers Bring Different Attitudes, Making Retention Difficult for Many Financial Planners
By Emmet Pierce

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San Diego — As 30- and 40-somethings begin inheriting their parents' wealth, financial planners are looking for ways to attract their investment dollars.

"Their attitudes and who they look to for advice are very different than older generations," said Thomas M.D. Warschauer, director of financial planning programs at San Diego State University.



Thomas Warschauer

A report by PricewaterhouseCoopers in 2013 said that more than \$41 trillion in assets will be transferred between generations by 2063. PwC also reported that there will be a 50 percent attrition rate for these transfers, as the inheritors find new ways to invest their money.

Generation X, people who were born between the early 1960s and mid-1970s, and millennials, the generation that followed, are much more internet savvy than older Americans, Warschauer said. That means they are more comfortable entrusting their money to websites that offer indexed investments. Index funds typically have lower management fees and expenses than funds that are managed actively.

These investment websites often are called "robo-advisors" because you can complete transactions without ever having spoken to a real person.

Trusting investments to an automated system may seem reckless to some people, but many GenXers and millennials grew up using the internet. Meeting with an advisor face to face might not be as important to them, since they already socialize, shop, bank, watch movies, and date online. For them, investing online doesn't require a leap of faith.

Older people are concerned with privacy and security when they go online, Warschauer noted. For people who are completely comfortable using the internet, "those things are not high on the list."



Chris Jaccard

Comparison Shoppers

Younger investors are more likely than their parents to ask questions about fees and do comparison shopping when they invest online. They have a stronger focus on getting the best value for their money and they aren't afraid to change investment companies to get a better deal.

There is no question that they are demanding lower fees, Warschauer said.

"The financial services industry has been sales-based for generations," he said.

"Millennials are not used to dealing with that arrangement, and they are uncomfortable with it. They are used to shopping online and getting a price quote online and coming to the conclusions they want without a lot of sales pressure." Chris

Jaccard, a wealth manager with Financial Alternatives Inc. in La Jolla, said young investors are less willing to be guided than their parents. They want to know what the financial planner is doing with their money.

“The older generation might see your credentials and take it more at face value that you are an expert at your field,” he said.

Many young investors don’t want to do things the way their parents did it, said Richard Fogg, president and CEO of Pacific Coast Financial Planning Group, which has offices in San Diego, Orange County, and Monterey.



Richard Fogg

To attract younger investors, financial planners need to learn to speak the client’s language, he stressed. That means embracing the internet and understanding social media.

“You can’t be perceived as doing things in an old-fashioned way,” said Fogg, who volunteers as a financial curriculum advisor at SDSU. “Having younger staff work within your firm is good.”

To survive, financial planners must take a multigenerational approach to their jobs, he said. That means finding clients who are young and just starting out in careers and keeping them as they transition into the stages of their lives.

Planners as Coaches

To adapt to changing times, some financial planners are changing business models, Warschauer said. They are offering more service. It’s no longer enough to offer investment products and life insurance. A modern wealth manager has to provide something that’s not available online: sound advice that is tailored to the needs of individual clients.

Unlike a robo-advisor, a financial planner can serve as a coach and teacher as clients chart their investment course, he said.

To do this, advisors sometimes must be willing to deliver bad news. It may be necessary to tell clients that their investment goals are unrealistic, he said. Perhaps they won’t be able to retire as early as they would like to.

Another thing that good financial planners do is help people understand that investing requires patience. He noted that there is a new branch of wealth management called financial therapy. Planners help investors overcome the urge to buy stocks when the value is climbing, then sell them when the value drops suddenly.

“People’s instincts often lead them into financial disasters,” Warschauer said. “One of the things financial planners do is help them (clients) avoid those disasters. Coaching is an important part of planning.”

Fogg said a modern wealth planner should be a “financial concierge.” That means being versatile and guiding clients through all types of financial decisions.

“It’s a myriad of issues,” he said. “We help people manage their financial lives.”