Investment Firms vs. Gen Y: Is the Customer Always Right?

SUMMARY

Meradia hosted a roundtable event at which several key participants from a range of investment firms across the industry shared their views regarding the Millennial Generation, Gen Y, and how their firms might adapt to the challenges posed by Gen Y's unique needs. This intriguing conversation delved into many key areas of focus for investment firms with respect to Gen Y, including recruiting and motivating employees, attracting and retaining clients, and compliance and regulatory pressures.

BACKROUND

For the first time in history, four different generations comprise the global workforce, and there are five different living generations:

1. Traditionalists or Silent Generation: Born 1945 and before
2. Baby Boomers: Born 1946 - 1964
3. Generation X: Born 1965 - 1976
4. Gen Y or Millennials: Born 1977 - 1995
5. Gen Z, iGen, or Centennials: Born 1996 - TBD

Each generation has commonalities that give it a specific character. Gen Y is the demographic cohort that was born between 1977 and 1995. Gen Y constituents are the first generation to have the dubious benefit of continuous access to information via the Internet, which also enables them to provide their 'friends' with mostly unfettered and unreserved access to their personal lives, experiences and thoughts.

Compared to prior generations, Gen Y defines 'friend,' 'relationship,' and, perhaps most importantly, 'privacy' far differently. Unlike Generation X and Baby Boomer constituents, who are far more reserved and tight-lipped, Gen Y is often regarded as an information over-sharing generation. This has seismic consequences for investment firms that face numerous transformative challenges with respect to attracting and servicing Gen Y clients, especially considering the industry's compliance and regulatory environment.

Statistics and characteristics that provide insight into the Gen Y demographic include:

1. More than 80 million Gen Y constituents in United States[1]
2. Celebrate individuality, happiness, and uniqueness often feeds the view that Gen Y is extremely narcissistic
3. At age 27, a typical Gen Y member has the same life experiences and sophistication that Generation X and Baby Boomer constituents had at age 21
4. Gen Y constituents raised in a 'friend' model by parents, rather than a typical parent-child relationship to which previous generations conformed
5. Approximately 30% of Gen Y members between ages of 20 and 34 still live with parents[2]
6. 20,000 estates worth more than $20MM are transferred to Gen Y **every year**[3]
7. Baby Boomers are expected to transfer $41 trillion in wealth to Gen Y[4]

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[1] U.S. Bureau of Labor Statistics
[2] Pew Research Center
[3] Sisk, Michael. 2011. Barron's (June 4).
[4] PGDC Study, "Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy."

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BACKGROUND (continued)

Going a bit deeper with the analysis reveals some curious and, for the investment industry, potentially alarming trends:

1. More than half of Gen Y investors say they will NOT use their parents' advisor[5]
2. While four out of five Gen Y members use an advisor, they place only 37% of assets with a primary advisor[6]
3. Only a third of Gen Y investors are 'highly confident' in the advice they receive from an advisor[6]
4. A typical Gen Y investor has more than five advisors managing their portfolio[6]
5. Just 39% of affluent Gen Y investors pay commission; 20% execute more than three trades per month (highest proportion of active traders across all five generations) [6]
6. Gen Y investors have a forward-looking view: their focus is 'what can you do for me,' not 'what did you do for me'

During the discussion, several key questions, along with possible answers, emerged that investment firms are considering with respect to Gen Y. Below we present a collection of these themes.

WHAT CHALLENGES DO FIRMS FACE WITH RESPECT TO COURTING GEN Y CLIENTS?

- Average advisor is 57 year-old male, which illustrates the generational gap with respect to relating to Gen Y clients
- Gen Y prefers communication methods (texting, etc.) that are at odds with tight regulatory rules and compliance environment
- Major technology investment is required to provide new communication methods and related compliance processes necessary to support these methods
- Inability of firms to monitor texting is an obstacle to courting Gen Y
- Use of social platforms like Facebook and Twitter by FAs is often viewed by Gen Y as disingenuous and awkward, highlighting the generational gap
- Gen Y constituents expect transparency, immediacy, and socialness; which runs counter to firm and advisor preferred means of delivering information

HOW ARE FIRMS ADAPTING TO, OR INVESTING IN TECHNOLOGY THAT PROMOTES CLIENT COMMUNICATION, PARTICULARLY WITH GEN Y?

- Some firms encourage advisors to use LinkedIn, Facebook, and Twitter to communicate with Gen Y
- Most firms allow only outbound communication via social platforms, which restricts the ability of advisors to engage with Gen Y
- Advisors can post articles and other preapproved content on social networks
- Investment firms are purchasing software products that allow them to capture social media conversations advisors have with clients
- Some advisors are using LinkedIn to prospect for clients and have attracted multi-million dollar accounts
- Firms have not yet embraced other methods, such as texting, given their inability to monitor and control information

CONSIDERING HOW GEN Y DEFINES 'FRIEND, 'RELATIONSHIP,' AND 'PRIVACY'; HOW ARE FIRMS CHANGING THE WAY IN WHICH THEY INTERACT AND COMMUNICATE WITH GEN Y?

- Firms starting adapting to texting – Gen Y's favored method of communication – by providing basic account information via text
- Firms have also begun to provide balance details via text; though they have been slow to provide performance details given the lack of disclosures via text
- Advisors are slowly accepting Gen Y view of advisor-client relationship as one where they receive real-time, immediate text updates regarding performance and account values, rather than traditional face-to-face meetings
- To encourage interaction with Gen Y, firms and advisors are improving transparency on social platforms
- Advisors post ideas to LinkedIn, Twitter, and Facebook to show value to Gen Y investors and offer to provide guidance that helps translate ideas into action
- Firms are actively working with regulators to develop sensible rules to govern texting as an acceptable means of communication, especially considering advent of texting apps like Cyber Dust and Snapchat
- Common view is that industry needs to adapt; it's unrealistic to expect advisors and clients to not text when that is preferred means of communication

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[5] Merrill Lynch. "Millennials and Money", 2013.

[6] Cogent Research, Insight Series, April 2013

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HOW ARE FIRMS CHANGING THE WAY IN WHICH THEY INTERACT AND COMMUNICATE WITH GEN Y? (continued)

- Recognizing generational gap, some firms are actively hiring Gen Y advisors with mixed results: helps to build credibility with Gen Y investors; but Gen Y advisors want fast track to success without spending time in the trenches
- Firms slowly accepting Gen Y view that telecommuting work style is productive, and helps Gen Y employees keep work and home life from suffering
- Some firms have implemented Advisory Boards that pair Gen Y employees and advisors with Executive Committee mentors to promote Gen Y engagement

THE INDUSTRY'S PERSPECTIVE ON GEN Y AS BEING RISK ADVERSE, AND MORE THAN HALF OF GEN Y INVESTORS WILL NOT USE THE SAME ADVISOR AS THEIR PARENTS

- Unlike previous generations, Gen Y has experienced mostly negative or zero S&P returns, creating an understandably conservative investor profile
- Gen Y's 401k participation rates are low, evidencing lack of commitment to long-term assets
- Risk averse nature may cause Gen Y investors to seek more conservative advisors than those with whom their parents invested
- In family office settings, Gen Y advisors often brought to family meetings to develop relationship with family's Gen Y counterparts
- Multi-generational wealth retention is close to 100%, as families impart family values across generations, and firms actively engage all family members
- Getting Gen Y family members and investors involved early is a key to retaining wealth at time of estate transfer; firms that engage with only patriarch are far more likely to lose significant assets at time of transfer

WITH RESPECT TO COMMUNICATION AND PRIVACY, HOW MIGHT GEN Y AFFECT REGULATORY ENVIRONMENT?

- Gen Y tends to hold anti-government views, given recently-exposed government surveillance methods; which leads to rebellious view to find workarounds to regulations
- Regulators have stronger reactions to privacy issues (Target breach, etc.) than Gen Y, which does not fear identity theft, viewing it as an acceptable risk
- Demographic of regulators may be key to implementing rules that govern use of additional methods of communication, including texting
- Industry sees regulators as 'protecting their turf' by attempting to enforce regulations, but don't have tools or background to understand industry pain points
- Regulators will eventually be forced to adapt by adding sensible rules for new communication platforms such as texting

RESULTS

Answering the question, "Investment Firms vs. Gen Y: Is The Customer Always Right?" is difficult for the financial services industry. Firms face an ongoing battle with two competing and conflicting objectives. First, firms are constantly trying to attract new assets. Providing clients with what they want can help firms accomplish that goal. On the other hand, these firms must also meet compliance and regulatory rules that govern their business.

Rather than ignoring the problem, smart firms are engaging directly with Gen Y investors and employees alike. By bringing this cohort to the table, and encouraging their participation in moving the industry forward in a responsible, scalable manner, investment firms and Gen Y constituents may well find a suitable common ground that satisfies each group's requirements. It's not a question of 'if'; it is a question of 'when.'

Scott A. Wybranski, CFA is Meradia's founder, President & CEO. He manages the overall strategic direction of the company, focusing on clients' long-term financial and operational success.

ABOUT MERADIA

Meradia specializes in strategic advisory and implementation services for the investment management industry.

Since 1997 we have helped our clients enhance their processes, productivity and profitability through improvements in operations and technology. Meradia leverages its time-tested methodologies to solve business challenges, including strategic assessment, workflow optimization, vendor selection, and system implementation.

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