The work of independent financial advisors matters to the individuals and the communities they serve. It mattered yesterday, and it matters today. With the majority of advisors’ clients already enjoying retirement or retiring soon, the time has come for advisors to make the next generation of investors a priority.

Two years ago, through its generational research, Schwab termed the generation of affluent individuals between the ages of 30 and 45 as “Generation Now.” We believe this group represents an exciting and significant opportunity for independent investment advisors.

Generation Now is just the beginning. At the same time, advisors are facing an emerging need to engage with and manage assets earlier to ensure sustainable long-term growth and create the legacy firms they desire.

Generational Shifts Create Opportunity

The financial-advice industry is in significant transition, driven by macro trends such as technology innovation and industry-specific shifts including regulatory change and increased competition.

One significant driver of this change is the generational shift occurring as the core client base ages and wealth begins to transfer to younger generations.

Nearly 70 percent of independent advisors’ clients are retired or expected to retire within the next 10 years, and 63 percent are drawing down assets, including principal, from their portfolios. These statistics have made the advisory industry increasingly aware of its need to appeal to younger clients (see figure 1).

Generation Now, following on the heels of these retiring clients, is already in control of nearly $3.5 trillion in investable assets. Generation Now is expected to be on the receiving end of $16 trillion total in wealth transfer by 2050. This generation is in a strong position to invest, now and in the future.

The acquisition of Generation Now clients, and their assets, is a major opportunity for advisors as well as an imperative for those seeking to sustain and grow their businesses. Our research shows that Generation Now has unique characteristics and demands that advisors need to understand in order to serve them.

What Makes Generation Now Unique?

Generation Now shares many of the same financial goals as their baby-boomer parents. Generation Now, however, came of age in a different era than the boomers and has a somewhat different outlook on life and finances.

Generation Now’s life experiences have been punctuated by persistent instability spanning everything from the dot-com bubble, the Great Recession, and the rise of global terrorism (see figure 2). Schwab’s 2014 Generation Now study researched the perceptions and desires of this group and found that market volatility is the source of Generation Now’s pervasive insecurity and cautiousness. The result is Generation Now’s general distrust of financial advice and investing, an emphasis on short-term goals versus longer-term needs, and values that emphasize family and life experiences.

Accordingly, Generation Now tends to save more and prefers having more cash in savings than did previous generations. They worry about budgeting and spending levels after seeing so many people’s finances damaged in the Great Recession.
In a departure from their parents’ generation, Generation Now investors are less willing to put career goals ahead of family. Many choose meaningful experiences over flashy consumption. Traditional displays of wealth still appeal to some, but showy cars and country club memberships take a back seat to substantive experiences with family and friends for many in this group.

As they struggle to look beyond near-term concerns and focus on long-term goals, Generation Now has set a high bar for financial success. This group dreams of having the freedom to avoid financial hardship or burdening others as they age.

They also have their own retirement-planning challenges and perceptions of what success in retirement looks like. To Generation Now, successful retirement amounts to having the means to cover the known—health care, education, housing, elder care—as well as the unknown (thus the desire for high savings rates).

Despite the challenges they face and their lofty financial aspirations, many people from within this generation don’t trust financial advisors to understand them. They tend to question the ability of advisors to deliver truly unique insights and expertise. They question whether advisors even have their best interests at heart.

What Generation Now Wants from Advisors
We believe the key to winning the trust of Generation Now is to understand them. Schwab learned that Generation Now is looking for three key things in relationships with financial advisors:

- The Generation Now investor is looking for a custom relationship with an advisor who demonstrates a high degree of transparency, empathy, and understanding of the client.
- Collaboration is key. A Generation Now investor prefers a financial advisor who can provide a holistic approach that accounts for a broad spectrum of financial needs and concerns. These investors have a strong research bias and they expect to be involved in decisions about investment strategy.
- Accessibility is critical. Generation Now investors are technologically connected, and they want on-demand access to their advisors and their financial information.

But just as in the past, relationships continue to shape the future for financial advisors. Understanding nuances between and within generations benefits advisors who hope to create legacy firms.

Becoming an Advisor for Generation Now and Beyond
Successful advisors—the ones of yesterday and today—maintain an unrelenting focus on their clients. They also anticipate and prepare for the future. Advisors who participated in Schwab’s 2015 Firm of the Future Study revealed that they conduct regular planning meetings that look out three–five years, with some looking as far out as 10 years as they focus on strategy.

Understanding Generation Now is the first step. But how do advisors position themselves to be trusted partners to these younger clients and position themselves to capture the corresponding assets?
The most obvious place to begin is for advisors to deepen relationships with family members of aging clients. However, our research shows that only 16 percent of independent advisors are routinely in contact with the children of clients, so more can be done to tap into this low-hanging fruit.

An advisor who is seeking to attract younger investors from beyond the sphere of a current client base should proactively manage the firm brand and reputation, focusing on differentiation (see figure 3). According to our research, independent advisors believe that the best way to appeal to Generation Now is by demonstrating firm expertise and services. In that same study, advisors identified offering a unique service or value proposition and clearly communicating the benefits and differences of the independent model as key to securing Generation Now clients.

Independent advisors also are familiar with the power that centers of influence have on their practices. Generation Now relies heavily on word-of-mouth networks, referrals, and online resources to identify trustworthy services. Developing centers of influence that extend to this younger generation and building a robust online presence that provides opportunities to demonstrate expertise are imperative to reaching Generation Now.

Serving younger investors may require an ultimate shift in firm culture and firm service models. Meeting the needs and demands of Generation Now means adopting new approaches and new technologies, and many advisors are making changes accordingly. Sixty-eight percent of advisors see technology adoption as central to operational strategy, allowing them to spend more time with clients and achieve growth. Additionally, 40 percent of advisors see movement of money to the next generation as an opportunity to develop a model to meet the needs of emerging clients and smaller accounts. Advisors are increasingly aware that a tech-savvy practice with flexible offerings is a powerful strategy for reaching new clients at different points along the investment horizon.

Beyond Generation Now
We think advisors must also recognize the need for a more fundamental shift to engage with assets earlier in the asset lifecycle. Because advisors come to assets only by going through the assets’ owners, advisors need to be involved with clients before they amass wealth.

We believe advisors must have a broader view of target clients. Advisors need to understand the unique values of each investor segment and calibrate services to meet unique client needs.

One way to start turning this lofty goal into reality is through talent development. Attracting, promoting, and retaining diverse talent will help attract Generation Now and provide the human capital advisors need to pursue a future with more-diverse client demographics and objectives.

This is imperative because an advisor’s future assets increasingly will come from diverse populations, genders, and age groups. Many advisors are preparing now for these emerging client demographics with recruiting and succession planning that factor future diversity into the advisor’s asset lifecycle.

Racing toward the Future
We see a number of advantages for the registered investment advisor model with respect to accommodating the demands of future generations.

At the same time, we recognize that this industry must do a better job of educating younger investors on the value of financial advice and the different models in the marketplace.

We are confident that independent investment advisory firms have the nimbleness required to adapt their models, the flexibility to shift their cultures, and direct control over their brand positioning.

Regardless of where one sits in the industry, competition for younger assets will become increasingly fierce. Advisors who want to sustain and grow their businesses in the decades to come will benefit from a deeper understanding of Generation Now and a forward-looking approach to engaging sooner rather than later with clients and their assets.

Bernie Clark is executive vice president and head of Schwab Advisor Services. He earned a BS in accounting from St. John’s University. Contact him at bernieclark@schwab.com.

Endnotes
4. Charles Schwab 2014 Generation Now Study, http://pressroom.aboutschwab.com/press-release/schwab-advisor-services-news/schwab-challeng-es-rias-seize-coming-decades-most-significant This study for registered investment advisors (RIAs) was conducted for Schwab Advisor ServicesTM by Egg Strategy, a strategic research firm. The study, which was released in 2014, included 40 participants, men and women ages 30–45 with earned or inherited investable assets of $500,000 (excluding real estate and business holdings) or a household income of at least $150,000. The term Generation Now reflects the immediate opportunity that this incoming cohort of high-net-worth investors may represent for RIAs. All data were self-reported by participants and not validated or verified. Egg Strategy is not affiliated with or employed by Charles Schwab & Co. Inc. Investors participated in this study between March 24, 2014, and April 11, 2014.