Advisor Services

Your firm's future starts with **Generation Now**

"Relationships will be a key driver of RIA differentiation for this next generation of investors. It will be critical that everyone, from advisors to office support staff, knows and understands Generation Now and is able to meaningfully connect with them at every point of interaction to their firm's value proposition."

—Bernie Clark
Executive Vice President, Schwab Advisor Services

Recognizing the Generation Now opportunity

Advisory firms' client base is aging

Many Registered Investment Advisor (RIA) firms have experienced phenomenal success in recent years. Results from the 2014 RIA Benchmarking Study from Charles Schwab show that more than one-third of the firms that participated in the study have doubled their assets under management (AUM) and revenues over the past five years.[1] But this success is built primarily on a foundation of aging clients. Approximately 60% of RIA clients are 56 or older—and they control 69% of the assets held in a typical firm.[2]

Many clients are in, or approaching, retirement

An estimated 70% of RIA clients are retired already or are expecting to retire within the next 10 years.[3] And among the retired, 63% are currently drawing down on their portfolios—including the principal balance.[3]

Young, affluent investors are key to RIA firm stability

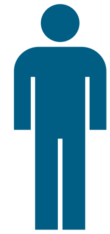
To continue to grow, increase firm value, and prepare your firm for succession, it's more important than ever to broaden your client base. One of the most promising ways to do this is to focus on a group that Schwab is calling Generation Now, because of the immediate opportunity it represents for advisors. High-net-worth investors ages 30–45 currently control around $3.5 trillion[4] in investable assets, and they are just beginning to hit the prime of their professional lives—and their earning potential. And as some of the potential beneficiaries of what's expected to be an upcoming wealth transfer of more than $16 trillion by 2050,[5] they stand to grow their assets even more. Suffice it to say, this represents one of the most significant growth opportunities for RIAs in the next decade.

Advisors are missing a significant opportunity

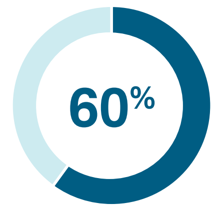
But too many advisors are looking the other way—potentially missing out on a significant growth opportunity. Only 16% of advisors currently report that they are in routine contact with the adult children of their clients, and only 40% have indicated that they see their clients' children as an opportunity.[3]

It's time to build connections with Generation Now

Given that an increasing number of clients are entering retirement every day, it is more important than ever to start cultivating relationships with Generation Now investors to help position your firm for the future. And the timing is right for them as well. As they juggle competing priorities and look for new ways to build their wealth, having access to knowledgeable advice and exceptional service will be highly valuable for them. And as they continue to accumulate assets, they'll become increasingly valuable clients.



The average age of an advisor's end client is 59.[2]



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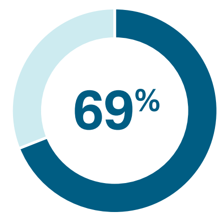
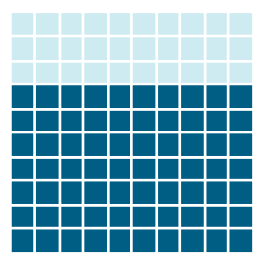


What's more, they hold 69% of the assets in the firm.[2]



Nearly 70% of RIA clients are retired or expected to retire within 10 years.[3]

Equipping RIAs with research

To help advisors better understand the unique needs of Generation Now, Schwab conducted an innovative research study. The results of the 2014 Charles Schwab Generation Now Study for RIAs[6] help bring the qualities, beliefs, and values of this generation to life.

About the 2014 Charles Schwab Generation Now Study for RIAs

Schwab took a progressive approach to the Generation Now research, engaging these tech-savvy participants though their preferred communication channels. Our approach included three phases:

1. Search intelligence
We started our understanding of next-generation investors and their finances by diving into millions of web-search data points. This search intelligence allowed us to discover the landscape of relevant considerations and helped us frame the questions we'd pose to Generation Now in the next phase.

2. Mobile ethnography
We used insights from the search phase to direct our exploration for the mobile ethnography phase. Over a period of five days, Generation Now participants responded to a series of questions by using their smartphones. They submitted photos, videos, and audio to help us understand their overall lifestyle, money and investing attitudes, retirement goals, macro view of the economy, and opinions of financial advisors.

3. In-depth interviews
We selected a subset of individuals from the mobile ethnography phase and met with them both online and in person to better understand the reasoning behind their attitudes and behaviors.

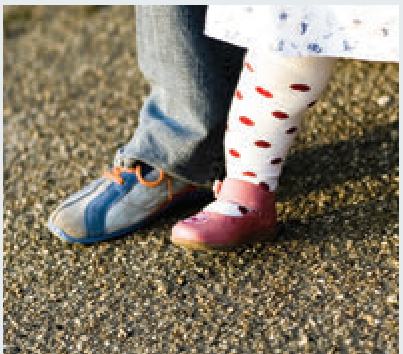
About the participants

- 30–45 years old
- High net worth* or high household income**
- 50% male/50% female
- Investment accounts outside of work-sponsored plans
- Primary or shared household financial decision maker

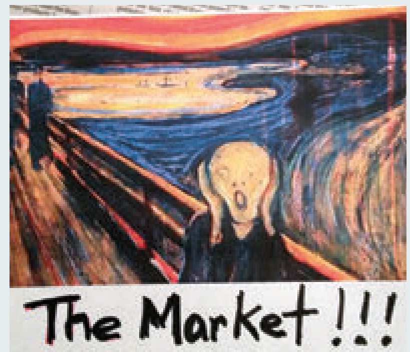
*Defined as having greater than or equal to $500,000 in financial assets
**Defined as an annual salary greater than or equal to $150,000

A generation in snapshots

In the mobile ethnography phase of our study, participants used their smartphones to snap photos that reveal their feelings on topics such as money and investing, financial advisors, anxieties, and values. Through this unique data-gathering method, researchers gained insight into the fears, hopes, and aspirations of Generation Now. The photos below are reflective of their submissions.


Value children and family relationships


Anxious about providing for family



Concerned about the economy and market


Financial advisors are clients' partners


Proud of hard work and education


Value hobbies, talents, and collections


Concerned about ability to fill father's shoes


Advisors are a waste of money


Advisors are motivated by financial gain

Understanding the Generation Now mindset

Uncertainty dominates the Generation Now experience

Generation Now investors were shaped by uncertainty. They grew up in the ’80s surrounded by the promise of rising economic growth, went to college, and started their careers around the 2001 bubble—and then watched as everything changed.

Shortly after the dot-com bubble burst, the 9/11 attacks thrust the nation into a wartime footing that is still lingering more than a decade later. Against this backdrop, the housing market rose sharply—only to abruptly crash along with the stock market.

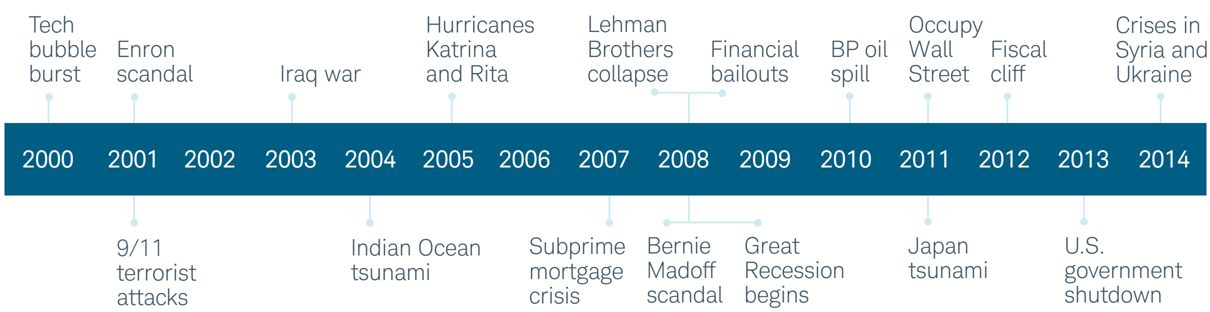
The Great Recession changed their outlook

As a result, Generation Now investors started building their careers under the cloud of one of the longest recessions the country has ever experienced. They witnessed family, friends, and colleagues suffer decimated retirement savings, home values, and businesses. And now, as members of this group enter their prime earning years while shouldering the responsibilities of starting or raising their families, they remember how easily things can go wrong.

“I came away thinking that you really have to enjoy the present and what you have, because anything that you have can disappear easily,” said John, a pediatric hospitalist and one of the Generation Now Study participants.

Our study findings tell the story of a generation of investors who have lived their entire adult lives under the specter of instability, always wondering when the next crash is coming.

Instability and uncertainty have shaped the lives of Generation Now



Generation Now investors feel anxious—about everything from the trajectory of the economy and whether they can protect their nest egg to how to ensure their children and aging parents will be provided for.

Generation Now is cautious—and anxious

They do not trust the market

While conventional wisdom holds that, over the years, a well-balanced approach to investing will yield gains, to Generation Now investors that simply doesn't align with what they've experienced. They watched a volatile market disproportionately reward those with lucky timing and sometimes punish those who followed traditionally "good" advice. Today, they are apt to approach finances cautiously.

Generation Now investors tend to keep a high percentage of savings in cash and avoid touching the principal of their wealth. To this group, cash in hand—even above the typically recommended allocation—is a tangible safety net. This aversion to risk is largely tied to life phase. Those who are most established in their lives and have the most to lose are less likely to pursue market wins if they come with requisite high risk, even if they have created much of their wealth through investments in the past.

"I guess you never know if you have enough," said Ruby, one Generation Now participant. "In 10 years when my son goes to college, who knows what tuition will be at that point."

Their anxiety is disproportionate

The anxiety that Generation Now investors feel is pervasive, not situational. It affects even those with substantial assets. Study results found that even the wealthiest high-net-worth participants—those with millions set aside—budget carefully. And those who have inherited their wealth may feel especially cautious, guided by a sense of responsibility to steward and safeguard the family's legacy.

Many of the investment and retirement decisions they make are driven by feelings of financial vulnerability and the desire to protect themselves and their families. This emotional approach often means they are caught between short-term needs and long-term goals, and are conflicted about how to move forward. They understand the need to grow their assets during this stage of their lives, but they are not sure of the right approach or how much risk is really appropriate.

"Very often I worry about the investments: Are we diversified enough? Do we have the right blend? Are we with the right companies?" one participant questioned.

Generation Now is distrustful of the market, financial institutions, and advisors

They are not aware of the RIA difference

At the root of the anxiety that Generation Now investors feel is a deep-seated mistrust of all things related to the financial industry: the market, financial institutions, and financial professionals. And that mistrust extends to financial advisors.

“Generally, I am leery of working with financial advisors, because they’re very self-interested.”

Generation Now investors are not particularly aware of RIAs or the benefits of the independent model. In fact, they assume financial advisors are all alike—salesmen in suits who strong-arm and fast-talk clients into products they are incentivized to sell, with little regard for whether or not those products are the best fit for the investor’s personal situation. Some feel that advisors don’t offer any value or insight that can’t be gained in a Google search.

Stereotypical views drive mistrust

When asked as part of the study to role-play a financial advisor, one high-net-worth participant made her opinion clear, saying: “I live in a fancy house down by the ocean, drive a fancy car, and I invest most of my clients in almost the same types of portfolios. I push the products that my firm asks me to push and am just trying to get as many assets under my belt [as possible].”

Even if they have not personally had a negative experience with a financial professional, most know someone who has. This has left Generation Now with the belief that it’s difficult to find advisors who truly act in their clients’ best interests or who are free to do so.

The independent model is a perfect fit

They know exactly what they want—just not how to find it. They want a personal connection rather than a transactional arrangement.

“Generally, I am leery of working with financial advisors, because they’re very self-interested. They’re interested in making a fee from me directly, or they get commission on anything I invest in, so really, that’s their objective,” reported a study participant. “If you could take that away, then maybe it would work for me.”

They also want to stay in control of their finances and work with advisors as partners. They want someone who will take a holistic view of their financial lives and help them design a custom approach. In fact, the qualities they are seeking align with many of the benefits of the RIA model.

"I need someone to bounce ideas off of. Not somebody who's going to guide me directly into something—just somebody who will talk to me and help me understand better what I'm trying to do, better understand my strategy, and put me on course for that without pushing me into anything," said a study participant.

They need a service model that fits their lifestyle

In addition to partnership, Generation Now is looking for a more modern service model. They are used to 24/7 access with online and mobile capabilities, and have come to expect it. They want to be able to meet in ways that fit their lifestyles—with a mix of face-to-face appointments, video conferencing, emails, phone calls, texts, and more. And when it comes to reporting, instead of a thick quarterly stack of papers, they want access to easily understandable electronic reports where and when they need them.

What Generation Now wants in an advisor:

BE OPEN.

- Recognize the investor as a unique individual.
- Acknowledge more than just his financial goals.
- Foster two-way transparency by sharing a little about yourself too.
- Let the investor feel in control of decisions that affect her future.

BE KNOWLEDGEABLE.

- Highlight your own experience.
- Show expert knowledge of financial markets.
- Collaborate with other financial professionals when necessary (e.g., for tax advice or insurance).

BE AVAILABLE.

- Maintain annual or semi-annual face-to-face meetings that fit the investor's schedule.
- Be available for more frequent check-ins—via phone call, text, or email.

Generation Now craves financial freedom

They prioritize experience over material displays of wealth

Though financial success is important to Generation Now investors, they don't define themselves through income or net worth. Life experience has taught them that material displays of wealth can be too easily compromised by forces beyond their control.

Now, while they still value the ability to maintain their lifestyles, they are more apt to prioritize experiences over things. Success isn't about hitting a specific dollar figure. Their focus is on timeless values, such as family, education, and meaningful experiences with the people who matter most.

These experiences might include once-in-a-lifetime trips or simply more time to spend with family. Many are driven to take greater ownership of their lives, and either strive for or idealize entrepreneurship and business creation.

Time is their most valuable commodity

"[Success] is not defined by whether or not you're working or the money you have in the bank. Instead it's about the freedom to use the most precious resource we have: time," said Awaiz, a high-net-worth participant. "If my son has a cool play in the middle of the week, I want [to be there]. If my wife has the opportunity to do something to advance her practice, I want to be able to take the kids so she can. If we want to take a few weeks to travel around the world and do the things that we love doing, I want to be able to do that too."

Financial freedom means self-sufficiency

Ultimately, what they want is self-sufficiency: the freedom not to have to worry about their finances or being a burden, to avoid hardship, and to be able to live spontaneously.

"Financial freedom is the ability to do what you want without relying on others," one participant summed up.

For RIAs, Generation Now is opportunity now

Like generations before them, Generation Now investors have been heavily influenced by their environment—and it, in turn, has shaped their view of their financial world. But while the volatility and uncertainty they've experienced in the past have left these investors anxious and distrustful, they are also resilient and ready. They look forward to being in a position where they can let go of their anxieties and spend time with the people who matter most to them. They need a consultative partner to help them protect and grow their considerable wealth to achieve their dreams of financial freedom. RIAs are well positioned to be that ally.

Start today with the Generation Now Advisor Action Plan

Understanding, attracting, and serving Generation Now investors can help position your firm for success in years to come. As you consider how to tap into this potential, Schwab can help. Get started today, with the new Generation Now Advisor Action Plan, which offers specific tactics and solutions for building a client base of Generation Now investors, or talk to your relationship manager for more information.

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The Charles Schwab Generation Now Study for RIAs was conducted for Schwab Advisor Services™ 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 at least $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 was 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 and April 11, 2014. The RIA Benchmarking Study comprises self-reported data from advisory firms that custody their assets with Schwab. Schwab did not independently verify the self-reported information. Participant firms represent various sizes and business models. They are categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups, by AUM size.

Independent investment advisors are not owned by, affiliated with, or supervised by Schwab. Third-party firms and their employees are not affiliated with or employees of Schwab.

1. 2014 RIA Benchmarking Study From Charles Schwab.
2. Analytics, Insight & Loyalty research, Schwab Advisor Services, June, 2014.
3. Independent Advisor Outlook Study, conducted for Charles Schwab by Koski Research, June 2014.
4. Cerulli Lodestar, 2012E.
5. *Cerulli Quantitative Update: Retail Investor Product Usage,* 2011.
6. Generation Now Study for Registered Investment Advisors, conducted for Schwab Advisor Services by Egg Strategy, June 2014.

IMPORTANT DISCLOSURE

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