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"X" MARKS THE SPOT

Millennials may be a big part of tomorrow's advisory practice, but Generation X is where today's advisors should be focusing.

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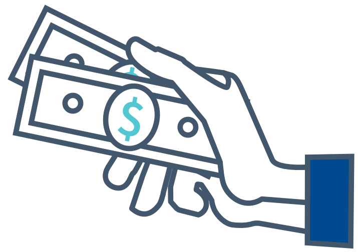


For several years, the most pressing generational topic for financial advisors has been millennials. Advisors have been warned by media pundits and industry leaders that failing to appropriately target millennials could be the death knell for an advisory practice. The millennial generation, the thinking goes, stand to benefit from a tsunami of wealth that's expected to pass from aging baby boomers to their children.

While millennials are certainly in line to receive some of the estimated $68 trillion in wealth that will be passed down over the next 25 years, they aren't expected to be the primary recipients.

Instead, an estimated **57%** of that wealth **will go to Generation X.**[1]

Generation X is the oft-forgotten group sandwiched between boomers and millennials, and they could be a critical source of growth and stability for advisors in the near term. And while millennials will remain an important component of advisory practices in the years and decades to come, advisors would be wise to avoid focusing on millennials to the exclusion of Gen X.

The Millennial Allure

Why have millennials caught the attention of the advisory industry at large? For starters, the media has loved focusing its gaze on millennials. "It's the Kardashian culture," says Kristin Discher, Marketing Manager at The Investment Center. "It's a very different generation than the baby boomers."

The media breathlessly highlights these differences, whether it's looking at attitudes about work and money, to what they put on their toast (avocado, anyone?). What's more, millennials' needs, goals and wants are viewed as wholly different from more traditional boomer clients. This makes it easy to sensationalize the need for advisors to radically change their approach to this new, foreign client demographic.

By contrast, Generation X has largely gone unnoticed. It may be harder to draw clear distinctions between Gen Xers and baby boomers; the differences are certainly more nuanced than between millennials and boomers. Aside from the technological difference, the Gen X path has been rather like that of boomers. "Generation X is on the tail end of the time when getting a degree meant you could get a decent job without having too much debt," explains Rich Dalzotto, owner and investment advisor at Pittsburgh-based South Hills Financial Group. "I believe Generation X gets overlooked because their path was so similar to that of boomers." As a result, Dalzotto says, it may have been convenient to simply group the two generations together when predicting their wants and needs.

"If you want to be in this business 10 years from now, **Generation X is as important** as any other generation."

-Rich Dalzotto, owner and investment advisor, Pittsburgh-based South Hills Financial Group

The Case for Gen X

Are advisors right to assume Generation X can be treated the same as baby boomers and thus focus their attention on the up-and-coming millennials instead? Simply put, no. For starters, Gen Xers are receiving six out of every 10 dollars transferred from prior generations, so they have—or will soon have—the assets advisors need to target.

"You can't take Gen X relationships for granted or you may have a gap in your business"*-Dalzotto*

Another reason is that Gen X is a big driver of the economy. The Harvard Business Review called Generation X "the greatest entrepreneurial generation in U.S. history." They're also a generation in which it is common for both partners to work, and where it is more common for women to earn more than their partners than was the case in past generations.

Finally, Gen X needs guidance, says Discher. They're stretched thin by heavy, mid-career workloads, the kids they support at home or in college, and the parents that may live with them or need financial support toward the end of their lives. What's more, as with younger baby boomers, Gen Xers have had to bear the responsibility of saving for their own retirement, with no pension to depend on and minimal support from Social Security. "This is a group that is pressed for time and needs help," says Discher. "And advisors can deliver considerable value to these clients."

The good news is that many advisors report that Gen X clients are good clients: They're highly coachable, relatively low maintenance and appreciative of the help and guidance they receive. For the most part, Gen Xers also have a good grasp of market principles, including the value of equities. "Many Gen Xers spent their youth and the start of their professional lives with relatively calm markets," says Dalzotto. "And while all generations lived through 2001 and 2008, more Gen Xers had the context to understand these were cycles. Meanwhile, many millennials walked away seeing what this did to their parents and are only worried about the next crash."

Four Steps to a Gen X Practice

If working with Gen X clients will be key to an advisory practice's success in the decades to come, how can advisors do a better job focusing on this demographic? Consider these four steps that can help build a strong base of Gen X clients:

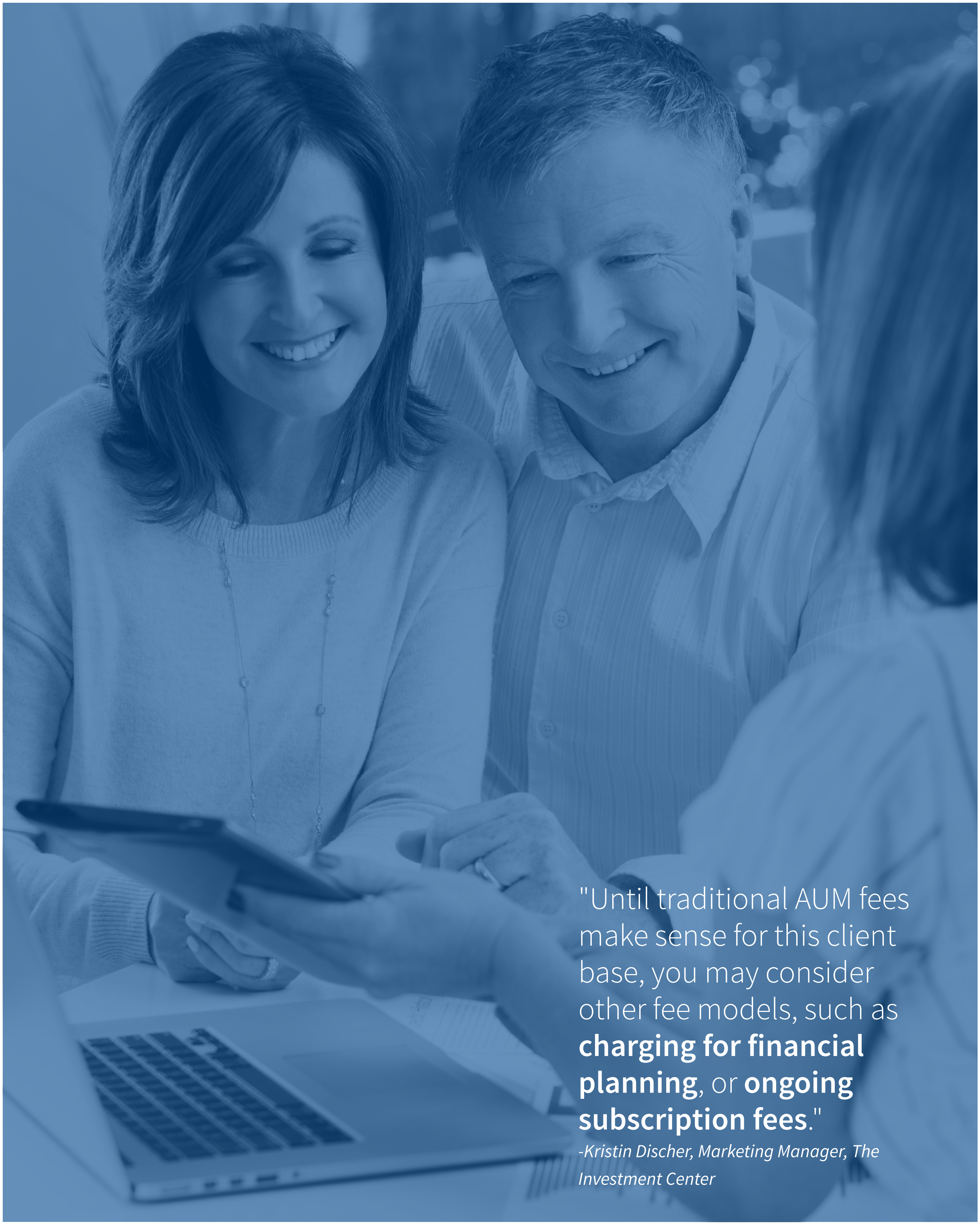
1. Build relationships with clients' beneficiaries.

The benefits of working with the children of current clients should come as no surprise to advisors. After all, it's an important step in maintaining assets under management when wealth is transferred from one generation to another. In most cases, the relationships with clients' Gen X children are best started as clients enter the distribution phase. Advisors can start working on soft introductions and bringing up beneficiaries during ongoing discussions about issues such as life insurance or estate planning.

For his part, Keith Latimer, of Milltown, N.J.-based Latimer Wealth Management, builds deep relationships with a client's entire family and community from the start by travelling to attend birthday parties and church events where he connects with the next generation. "I make it a family affair and bring my wife with me," he says. By comparison, Dalzotto's firm develops relationships with the next generation by offering free financial planning services to clients' children.

2. Establish service models and fee structures aimed at Gen X clients.

Despite their many similarities, what works for boomers may not work for Generation X—this statement applies as much to fee structures as it does to relationship management. For instance, many Gen Xers haven't had time to accumulate the assets necessary to qualify for the minimums many firms have, while others have been unable to save while they support both aging parents and college-bound children. So, while asset minimums make sense for many firms, making exceptions for motivated Gen Xers who have earning potential in front of them also makes sense. "The challenge is establish a fee model that allows you to provide a level of service to these Gen X clients while remaining profitable," says Discher.



"Until traditional AUM fees make sense for this client base, you may consider other fee models, such as **charging for financial planning**, or **ongoing subscription fees**."

-Kristin Discher, Marketing Manager, The Investment Center

Generation X values relationships much like boomers do, but they may not have the time to come in for face-to-face meetings. Consider traveling to meet clients where they are or using videoconferencing software to help make meetings easier to schedule. And don't stop at fees and meetings—with this generation demanding more impact for their portfolio, consider using socially conscious investing methods, and adding philanthropy to the topics you advise on.

3. Develop a niche.

A niche can help advisors drive client growth and loyalty. It can be based on a specific type of client, such as doctors or divorcees, or even an approach to investing, such as a focus on social responsibility. The right niche ideally will be an area where the advisor can deliver value, as well as one that offers potential opportunities among clients.

As a car buff, Latimer has developed a niche among sports-car owners. He relishes spending time at the race track or out driving cars with other enthusiasts—and all that time spent together helps develop trust and a broad network of potential clients.

"I build these relationships by **going out** and **doing stuff** with these people because I am in that space and enjoy it." *-Keith Latimer, Latimer Wealth Management Management, The Investment Center*

Latimer notes, he doesn't feel the need to limit his practice to only one niche, given that many of his clients are also women in transition, whether changing jobs or going through a divorce.

4. Build a Gen X advisory board.

It may be hard to identify what this oft-overlooked generation wants, so why not ask them? Gathering a group of Gen X clients can give you honest advice on how your practice can better serve this cohort.

Advisors may want to include a few non-clients on their board to broaden the potential range of ideas and input, although the board as a whole should reflect the advisor's target demographic—specifically the target age, as well as the asset levels or niche that an advisor wishes to work with, if applicable.

> "You can get so much out of these advisory boards. These people can become **evangelists** for you and your practice" *-Discher*

The board can be a formal body with an appointed moderator and official agenda, or it can be a less formal effort to solicit input from clients—whatever best suits a firm's needs. For example, Latimer has informal group dinners with up to five female clients every month to discuss not just what is going on in the markets and how this might impact them but also what feedback they have for him. "At the end of the day, they know this is about getting their thoughts on what they want and how I can improve my practice for them," he says.

Generational transfers of wealth happen all the time. And while it is important to plan for the future, it's also important to not skip over the present—and the important opportunity that Gen X clients represent. They are next in line, and if advisors do not start adapting their practices to accommodate Gen Xers now, they may not be around when Millennials do finally stand up to take the lead.

1 Cerulli Associates, "U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2018: Shifting Demographics of Private Wealth," November 2018.

About the Investment Center

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