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X Missed the Spot

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ADVISOR'S EDGE (October 2007)They respect authority and, generally, take your advice. They have good jobs that pay well and let them accumulate scads of investable assets. All that liquid capital in a time of low interest rates sent them screaming into the equity markets. You just had to grab a mutual funds licence, set up shop, and collect the trailer fees.

Yeah, pretty soon you're really gonna miss the boomers.

And how, because you'll be stuck with the newcomers: Generation X. Those kids born roughly between 1962 and 1980 who stepped out of university into recessions and a job market crowded with baby boom yuppies who wouldn't get out of the way or give them decent salaries.

While most have since done well for themselves, they carry the scars of those early failures into adulthood. And they're going to carry them right into your offices — with long sleeves to cover the tattoos, and piercing holes starting to close — flop down in front of your desks, and ask for help.

An advisor with one eye on retirement might ask herself why she'd bother catering to a bunch of brokesters who don't listen. Fair question. The answer is boomers are rapidly converting their assets into income vehicles, and numerous advisors have already created specialty practices catering to those needs. But not every planner can switch to that niche, so they'll have to work with the remaining accumulators, fewer of which will be boomers. Like it or not, the clock is ticking. Wouldn't it be smart to extend an olive branch to Gen X now, if only for the sake of that young advisor you're grooming to take over?

Rob Kelland, director and associate portfolio manager at the Kelland Group with ScotiaMcLeod in London, Ont., points out the investment needs of X-ers aren't "significantly different from those of any other generation."

While some may be asset-lean now, over the long haul — say the next three decades — their goals and needs will be substantially similar to those of their predecessors. Provided they live within their means, save, and invest for the long term rather than chasing fads, they'll eventually become good clients.

And, keep in mind many X-ers are the children, or younger siblings, of existing clients. Taking them on will help keep your practice in the picture when wealth transfers take place. Further, as a group, they're always looking for the next cool thing and once they build up financial cushions, they'll make good candidates for investments your more traditional clients reject.

Lastly, never forget not every X-er is broke — and as the labour market tightens up in the wake of boomer retirements, Gen X will move into management and up the salary curve.

Dig the New Breed

Due to the sheer number of boomers in the marketplace, a lot of advisor practices haven't focused on X-ers.

Those wishing to accommodate the generation will need to make modifications, perhaps including adoption of a fee model for low-asset clients to ensure the firm receives adequate compensation for work performed.

Expect the transition from boomers to X-ers to be rocky. Client meetings won't be as relaxed. "There is no deference. They're not saying, 'You are clearly the expert,'" says Alexandra Macqueen, a fee only financial advisor at The MoneyPower Group at Raymond

James in Mississauga, Ont. "I have one client who in a perfect world would be doing his own investing, but he doesn't have time. He will say, 'I want you to put me in this and that.' He's not coming in and saying, 'What do you recommend?' "

Out the window goes the explanation about how you're holding a specific stock because it fills a hole in the client's portfolio; that it's part of a larger, long-term strategy. The client just says, 'I don't care. It's my money.'

But sometimes that bravado masks insecurity, notes Scott Plaskett, CEO of Ironshield Financial Planning in Etobicoke, Ont. Unlike boomers, who saw steady increases in income after embarking on careers, X-ers did a lot of job-jumping post-university — and some persist in that pattern. That often translates into a lack of confidence about being on a success track; they see people just slightly older with far fancier toys and want them too, consequences be damned. "It looks like they're doing well but they're spending everything; there's a BMW in the driveway, but it's leased," says Plaskett.

But they need the lecture. Advisors say the vast percentage of clients in this age group have young children, and are struggling with their mortgages and the last vestiges of student loans. They've been in the workforce awhile, but still need to set priorities and make the most of the assets they have. "They can't take advantage of a lot of discretionary opportunities," notes Gray. "It's not, 'I'm going to max my RRSP and then buy permanent life insurance and then some critical illness and disability coverage, and then put some into a second non-registered account to have a vacation fund.'"

Nope. Not even close. It starts with budgeting and from that you identify the needs versus the wants, says Doug Nelson, a senior financial advisor at Nelson Financial Consultants in Winnipeg. "Then you say, 'What's the best way to allocate this $1,500 a month?' They need to know where to get the greatest leverage," he explains.

These are people who need a plan to pay off the mortgage. They need guidance to ensure they put money into their kids' RESPs while their income levels are still low enough to garner kickbacks from Ottawa. And then they need life insurance. Nothing fancy, just enough to get the job done. "It's term-20 to get them covered because they need it but it's not expensive," Gray explains.

Some of his better-off clients in the age group, who would ideally go with permanent insurance that's cheaper over the long haul, can't because of income issues. "They need something more affordable," he adds. "For them, the conversion privilege is important. They can switch it later."

Family Ties

Right now, Clough says the majority of X-ers either have or are planning families and are trying to figure out what an extended period of interrupted cash flow during maternity leave will mean for their finances.

"They have to decide between paying down the mortgage or putting money into the RRSP. So we look at whether we can blend the two and take the tax savings from the RRSP and put that toward the mortgage, or determine if what they need to do is just pay down debt," she says.

They're tough calls for a generation that grew up in the '70s and '80s when divorce became more common, and two worker families became the norm. A large percentage of X-ers have reacted with lifestyle choices that impact the pocketbook.

One spouse has elected to stay home with the kids, and even if the other is earning a decent wage — say $80,000 — that's still not enough to be writing a $15,000 RRSP cheque every year.

Advisors need to educate, says Macqueen, noting couples in particular tend to couch their conversations in terms of retirement, as opposed to building wealth over the long term. All those RRSP ads on TV in February become an impetus for people to start saving, which is good, but these younger clients still don't fully understand the message.

When X-ers do save, Plaskett suggests it can be haphazard. He's had first meetings with

Generation-X clients that uncover five, six, even seven separate RRSP accounts at various institutions or branches. Each year, these clients responded to the February deadline by taking an RRSP loan out and stuffing away some money at whatever bank they happened to be visiting. But none of it's been managed properly. Notes Plaskett: "The next year, they've moved, so they open at a different institution. Or they happened to be downtown, as opposed to their usual branch, and opened the account there."

The result can be clients who do have assets, but no single advisor knows where everything's stashed. "When I put together a net-worth statement and tell them what they own it's really an eye-opening experience," Plaskett says. That statement then becomes a stepping stone to encourage clients to consolidate management of their funds so they can have more money working for lower fees. "I agree with diversification, but I'm a planner," he adds. "So we'll diversify among managers but everyone has to tell us everything or we can't do our jobs properly."

40 and Fried

And then there are the X-ers who have money. Many of Nelson's clients in the age group have moved into higher-paying positions. "A lot of them are working their tails off and have produced a pretty good whack of dough. They have the lifestyle and they want to protect it," he explains.

The downside is burnout. They've missed too many soccer games and school plays. They've got no balance and want advisors to get them off the money-go-round. "They want to maximize their returns and they're asking me to calculate what it will take. On the bright side, they've got the cash flow to do it," he says.

But to help people in their 30s and early 40s, advisors need to explain how job jumping will impact benefits and pension options, and how that fits in with retirement planning. They must make it clear these clients are largely on their own and can't rely on an employer for retirement, says Clough, explaining that disability insurance coverage from a non-employer source is critical for this group.

Gray adds only five of his clients in the Gen-X age group have jobs that provide defined benefit pension plans, and he doubts they'll have those jobs when it's time to cash out. "A DB is a luxury that most companies can't afford and I don't know if they'll be around in 20 years. These are going away, so people have to do it on their own," he says.

The good news is a lot of his clients are making savings commitments. The bad news is, based on projections of what these people are capable of putting away for the next few years, they'll really have to beef up contributions when they reach their 50s if they ever want to retire. "On paper, fewer and fewer of them are going to have the lifestyles they desire," Gray pontificates.

Even the better-off X-ers need help with cash-flow management, so Nelson sets up automatic withdrawal systems that allocate money to a savings plan earmarked for investing. If a client wants the money, he has to go to the advisor and ask. Since most won't do that, they end up saving.

Also keep in mind this group shares a different perception of retirement. They're not headed to Golden Pond. But while some may never stop working, they'll love nothing more than being able to choose their assignments. Nelson's now working with a successful 40-something for whom a job change is on the horizon. "What he looked for from me was the assurance that he could choose to not take on a certain level of work. Here's a person who's so burnt out that he's okay with making less money if it gives him a little more flexibility," he explains.

And that's really it. Far more than the boomers before them, this group wants advisors to relate to their aspirations — perhaps because they often seem so far out of reach. One way to accomplish that, says Macqueen, is for advisors to get serious about bringing in new blood. "You tend to attract clients who are similar to you. I'm 39; I'm one of them, and so I really relate to this need. If all your messages feature grey-haired people, then that age group isn't going to locate within your practice. It's like putting on Dad's tie. It doesn't quite fit."

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