A SEEMINGLY SIMPLE QUESTION

By Paul Simons, Founder & CEO, PUREfi Wealth

I was recently asked by the 28-year old daughter of a friend of mine (we'll call her Beth) a seemingly simple question: "At what point do you think someone my age should consider a human financial advisor?"

A brief fact-finding discussion ensued. Beth has successfully established herself in her career, earns good money and will likely earn substantially more, has managed to save and invest using an online DIY robo-advisor and has built up a meaningful nest-egg for a 28-year old. She's been in a serious relationship for 5 years, expects to get married soon and begin raising a family, and she will likely inherit some wealth at some point in the future.

I responded "why don't you speak with an advisor, someone you know, like and trust, and decide for yourself if you feel like they can help you and provide value?". She quickly responded with "I don't really know anyone my age, I don't think I want to go speak to a 50- or 60-year old, and I'm probably too small anyway for anybody good to spend time with".

Having spent 35 years in wealth management and currently the founder and CEO of a recently launched independent firm, I have always had an aversion to appearing solicitous of friends and family. But Beth's conundrum resonated with me and I really wanted to help her. I was intrigued and provoked by her question. A simple one for sure, but as an industry veteran and leader, I saw so much behind it and it underscored a dynamic, and an opportunity for clients and advisors alike, of which I have long been aware and for which I have passionately advocated for a solution. So I decided to see it through.

Fortunately, we happen to have a fantastic young partner, under 30, who is also a CFP® professional with 6 years of experience, and to whom I decided to refer Beth to decide for herself. Before I knew it, Beth called me to tell me they are now fully engaged in an advisory relationship. She thanked me and told me that he asked questions she had never been asked, gave her advice she had never received or considered, and instantly helped her, before they even entered into a formal agreement.

A THESIS VALIDATED

Beth validated a thesis I have long held: Assumptions that the next generation of wealthy clients don't want or need traditional advisors, don't want to pay for it, and prefer low-cost DIY ("do it yourself") offerings using technology or even AI, are misplaced. Rather, the industry has done a lousy job of hiring, training, developing a next generation of financial advisors that understand and can meet their own generation where they are, and serve them in ways that resonate.

At the same time, our educational institutions, even the most prestigious among them, do not value financial literacy and don't teach young people even the most basic post-graduation financial management skills, let alone how to become responsible future stewards of wealth, earned or inherited.

Perhaps most importantly, the issues around and responsibility for financial literacy and preparedness, and having a relationship with a financial advisor, are not limited to the next generation.

PUREfi WEALTH

The incumbent Baby Boomers who are transferring massive amounts of wealth to the next generation should be primary drivers of encouraging their "adult kids" to engage with advisors, whether their own or someone more age-appropriate, as a means of preserving the legacy of both their wealth and their values.

It is in their own best interest to ensure not only that their adult kids are well-advised, but that that advisor relationship is one that works for and resonates with the next generation, not just inherited from the parents, and that it is a relationship that endures along with their legacy.

GEN Z, MILLENNIALS, AND "ZILLENNIALS"

People born between 1981 and 1996 are considered Millennials. They are known for being open to change, passionate about learning, and valuing social interactions and teamwork in the workplace. They also tend to have an intuitive knowledge of technology and understand the importance of setting and achieving goals.

Gen Z, also known as Zoomers, is the generation after millennials and before Generation Alpha. People born between 1997 and 2012 are considered Gen Z and they are known for being socially conscious, prioritizing mental health, sustainability, and racial equity. They are more likely to graduate high school and go to college than previous generations, and are more cautious in their career choices.

Taken together these 2 generations, today representing people ages roughly 13 – 42, are often referred to as "Zillenials". And, taken together, there is no doubt that some will be innovators and creators of wealth, some will be inheritors of multi-generational wealth, and some will be both.

In fact, Millennials and Generation Z'ers have already seen their financial accounts grow significantly. Just in 2021, according to Cerulli Associates, their wealth grew from $2.9 trillion to $3.6 trillion, the most of any generational cohort.

Their wealth comes from sources such as investing in their retirement accounts and experimenting with brokerage accounts, and they also stand to inherit significant wealth from older generations. According to Cerulli, 63% of all wealth transfers through 2045 will be from households in the baby boomer generation. Much of that money will trickle down to their children's and grandchildren's generations – Millennials and Gen Z'ers.

A case can be made that many, if not most, in these generations may be unprepared to be effective stewards of either earned or inherited wealth.

SOURCES OF FINANCIAL ADVICE

Case in point: with all this money funneling – or poised to funnel – into young peoples' accounts, they aren't exactly stampeding to financial advisors and traditional advice sources for guidance.

Instead, 34% of Gen Z consumers obtain financial advice from TikTok and 33% get it from YouTube, while only 24% of this age group seek advice from financial advisors, according to marketing company Vericast. When it comes to Millennials, 13% get advice on TikTok. Another 22% head to YouTube, and only 26% seek out advice from professionals.

AN AGING WEALTH MANAGEMENT INDUSTRY

At the same time, the wealth management industry has allowed its advisor population to age while largely abandoning programs to develop young talent. Zillennials want and need advice, but not necessarily from a 60+ year old.

The facts demonstrate that the wealth management industry is aging out, and there is no real solution in place. According to a 2019 J.D. Power study, the average age of financial advisors is 55 years old; 20% of financial advisors are 65 and older. Only about 10% of advisors are under 35, says Cerulli Associates, and efforts to recruit younger advisors haven't produced their intended results. Most financial advisors in the industry are over 55 years old, and, making it as a young financial advisor is hard. With over 90% of financial advisors failing their first three years in business and retiring advisors selling their clients to 40-year-olds, the odds are ever against young advisors.

To put it plainly, financial advisors on their way out would rather sell their books than train new advisors, which compounds the problem in the industry because the only advisors who can afford the books are older and have already established a name for themselves. Meanwhile at the large wirehouse firms, training young people has largely been abandoned in favor of recruiting advisors with established books of business, compounding the problem even further. Meaningful training and development of young talent in the traditional wealth management industry is virtually non-existent.

In nearly any other industry, employers look for new young talent with fresh ideas. They try to weed out the aging employees and replace them with talented youngsters — a classic case of ageism. However, in the wealth management industry, you see the complete opposite. One could even go as far as calling it reverse-ageism.

Clients are well-advised (pun intended!) to recognize both the value of an experienced advisor, the 50- or 60- something-year-old with whom they have enjoyed a 20-30 year relationship and is truly their trusted family advisor, AND the need to identify a next generation advisor for their legacy; and advisors and wealth managers should be equally keen to recognize that they need a renewed focus on developing, retaining, and promoting young talent, on their teams and in their firms, who can relate to, and are willing to invest time in, a new generation of client that is both creating and inheriting large sums of wealth, and communicates, learns, and even invests differently than their parents.

FINANCIAL ADVISOR AS COACH OR PERSONAL TRAINER

Many young people assume they only need a financial advisor when they have made a lot of money or have a certain level of complexity to their assets. But this is misguided. While they don't necessarily wait until they get sick to have a medical professional, somehow people believe that they should be able to navigate the ever increasingly perilous financial waters without professional help until some arbitrary threshold is met or event occurs.

And while many traditional wealth advisory relationships, particularly among the older generation, are associated with investment management first and foremost, the next-generation advisor offers so much more.

Typical financial planning decisions in your 20s may include renting vs. buying, selecting employee benefits, establishing an effective cash flow system, negotiating your salary and career trajectory, determining a debt repayment strategy, right-sizing your insurance coverage and deductibles, healthcare proxies and HIPAA authorizations, and yes, understanding markets, asset allocation, risk, and developing a long-term investment strategy – with or without ongoing investment management.

- Hiring a financial advisor in your 20s can be like having a personal trainer for your finances.
- The decision should not be based on age, but on need. It’s never too early.
- An early relationship with an advisor can prevent mistakes that will manifest later in life.
- Having a financial advisor helps instill financial accountability, responsibility, and confidence.

SHIP IN A BOTTLE

For parents of Zillennials, just protecting your assets, and control thereof, utilizing trusts and other vehicles for adult children, can also have the unintended result of enabling adult children to kick the can of financial literacy and responsibility down the road. Wealth should not be treated as just a pretty object, to be admired but never touched, like a ship in a bottle.

While wealthy patriarchs and matriarchs should continue to utilize appropriate trust and related wealth transfer strategies to preserve their legacies, leverage tax advantages, create multi-generational wealth, express their values and philanthropic interests, and yes, ensure appropriate guardrails where appropriate, they should also take steps to ensure the next generation is equipped and prepared, and proactively seek to create opportunities for the next generation to interact with their wealth, to learn, and to develop their own advisory relationships. And, they should demand that their advisors participate meaningfully in that process.

A CALL TO ACTION

Today’s wealthy clients should challenge their financial advisors and wealth management firms to provide resources, human and otherwise, to actively engage and educate the next generation, regardless of their age, provide advice and connectivity that resonates with them, communicate with them in ways and means that are relevant and comfortable for them, and help them to become confident and effective stewards of both earned and inherited wealth.

Gen Z’ers and Millennials are encouraged to develop their own relationships with qualified financial professionals, and to not be reluctant to engage with an advisor - whether their parents', a peer on the team, or one they source themselves - that instills trust, comfort and confidence.

And in either case, if an advisor tells you that you (or your adult kids) are too small, or they don't have the time, or they don't have a dedicated team member that can commit to serving the needs of the next generation, including education and planning, then you should consider a new advisor.

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Paul began his career at Merrill Lynch, where he started as a financial advisor and spent 18 years in increasingly senior leadership roles, after which he left ML to lead the Private Wealth Business at Credit Suisse as Co-Head of Private Banking USA until July 2012. For the next 5 years, he served in a number of executive roles in Financial Technology and in 2018 returned to wealth management as President of Boston Private, where he led the Private Banking, Wealth & Trust business until the firm's 2021 acquisition by Silicon Valley Bank. Paul's strategic vision and leadership have been pivotal throughout his career and led to the founding of PUREfi Wealth in 2023.