X Marks the Spot

Untold riches can be found within Generation X, say some planners, if you know where to

By Cort Smith

Like it or not, we've all been assigned our respective generational pigeonholes, from the Pilgrims to the latest American timeline iteration, Generation Y. Groucho Marx once said he wouldn't want to be part of any group that would accept him as a member. But Grouch himself, born in 1890, was a member of the 900,000-strong Lost Generation, spanning pe born between 1883 and 1901. Definitely not lost are the Baby Boomers, all 70-plus millio them, born between 1946 and 1964. It's a demographic the minutiae of which have been f fed ad nauseum to financial professionals nationwide—and mined deeply for its wealth of clients.

While hip Boomers can readily identify the rock band behind the lyrics, "War…uh-huh, h yea; what is it good for?" their immediate successors, Generation X, remain, like, clueless shortcoming worthy of forgiveness when considering that some experts are touting GenX frontier market for financial advisors—a market that at least one recent study claims is se overlooked. Why? With an surfeit of Boomers, no one's needed them as clients—yet.

In general, though, there appears to be a lack of understanding of this segment, compound a closed-mindedness on the part of some financial professionals who hold fast to GenX stereotypes portraying them as motivationally challenged, instead of the skeptical, politica and socially aware, well-schooled and oftentimes wealthy do-it-yourselfers that many of t are. One advisor calls GenXers the "perfect client," adding that she is "delighted with thei mindset." Are there many with six-figure incomes? "More than I ever imagined," she says

The GenX potential hasn't escaped the notice of New York Life Investment Management The money management and investment services firm conducted a survey in March 2001 through its MainStay division to see exactly how deep this potential ran. Previous researcl survey states, showed that roughly one-third of millionaire households in the U.S. are hea someone between 18 and 39 years of age, though this figure may have changed due to the lackluster economy. Nonetheless, the New York Life researchers concluded that, in the w a press release trumpeting their findings, "financial advisors are missing an enormous unt opportunity." Few investment pros have thus far focused on Generation X, affirms Beverl Moore, head of retail marketing and managing director at NYLIM. "It's a huge untapped market."

Fools' Gold? But there are some financial advisors who have little interest in reaching the GenXers as a market segment per se. "I think the marketplace is getting carried away with labeling demographics," maintains Morris Armstrong, of Armstrong Financial Strategies Milford, Connecticut. "The question can be asked, 'Who works with the middle market,' obviously a large number of GenXers are not 'wealthy' but rather middle class." He make point that when one refers to the GenX High-Net-Worth faction, one will find there issues far removed from those pertaining to HNW clients of virtually any other demographic.

That logic notwithstanding, GenX proponents would use Beverly Moore's argument that GenXers have needs not shared by other HNWs and exhibit certain attitudes towards their finances which, when met and understood by advisors, afford the latter "access to a whole group of clients." (We'll explore these unique characteristics later.) It's a group, proponen

Like the viability of the demographic itself, this figure is quick to draw fire. Scott Kays, o Financial Advisory Corp. in Atlanta, has a hard time believing the number is so high. He wonders, too, how much of that money is actually investable and not paper wealth depend future market events. But believers in the GenX potential take these figures to heart. They cognizant of those GenXers whose assets were decimated last year by a flagging technolo market (where many but not all wealthy GenXers made their money) and backfiring comp stock options. They count among wealthy GenX clients those in a variety of professions unrelated to technology, and not enriched (or impoverished) by company options.

"They have great jobs, great incomes, great career paths, and are often a lot more frugal th their parents," says Sheryl Garrett of the Overland Park, Kansas-based Garrett Planning Network, a national network of advisors who eschew asset management fees, retainers, an long-term contracts or commissions in favor of as-needed financial planning services and billed by the hour. It's an approach that resonates with GenXers and works extremely wel Garrett and others with similar business models.

GenX proponents believe they have a few other aces as well. First, while some GenX clie portfolios may be of modest proportions today, many of these people are scarcely 25 years They haven't had time to accumulate impressive portfolio assets—but many undoubtedly Garrett sees this as the perfect time to "nurture and invite" this demographic into advisor practices. The fact that not all GenXers have high net worth isn't seen as a deterrent by Ar Spatz, either. A CFP with Louis Wallensky Associates in Los Angeles, Spatz doesn't targ particular demographic, and most clients come to the 33-year-old firm through referrals. E "comprehensive planners" who bill through a combination of fee and commission, they ar to serve the basic life and disability needs of less affluent GenXers.

"These people are prime for that," she says, adding that most of the basics of financial pla are best done at that age. "Get 'em while they're young and just starting out. You can buil lifelong savings habits and dollar-cost averaging because, frankly, a client can do more fo themselves than we can do for them. If they learn to live beneath their means and save, tha more valuable than any kind of investment portfolio we could put together." As an added benefit, the advisor is liable to have clients like these for life. And according to Sheryl Gar they're especially good clients for planners just starting out in business.

Anatomy of Generation Who exactly are these GenXers? How do you go about finding th How do you service them once you've found them? According to the U.S. Census Bureau generation, born between 1961 and 1981 (and which the bureau counts as those 22 to 35 y of age), numbers 51,976,339, or 19% of the total United States population of 274,634,000 her report, "Generation X and Investing," Forrester Research analyst Ekaterina Walsh not with a 47%/53% male/female makeup, this group is relatively well educated, and has a me annual household income of $40,000. Of the 64% of GenXers who are "online," 23% ban there, and 7% trade stocks or mutual funds there.

GenXers boast an average net worth of $117,000; 2% of GenX households have $1,000,0(more; 33% have less than $24,999; while 19% have $50,000 to $99,000, and 15% have $100,000 to $199,999. This latter figure is noteworthy because it helps put the New York Investment Management survey—and its enthusiastic pronouncement of the GenX demog as a gold mine of advisor opportunity—into clearer perspective. This survey, conducted b Greenfield Online and released in May, draws upon the responses of GenXers who are 22 years olds with more than $100,000 in investable assets; that represents some 20% of all GenXers.

In the Forrester report, Walsh found that GenXers are active, independent investors. Of th survey respondents who said they used a brokerage channel, 52% gather their own investı transactions. (The NYLIM report notes that 63% of the GenXers they surveyed obtain the financial information from the Internet.) Of these stock holders, 67% said they consider financial advisors to be an important source of information; 63% cited daily business new newspaper quotes, while 62% and 55% cited the Internet and friends and family, respectiv

Of those GenXers in the Forrester study who own mutual funds that are not in 401(k) or 4 plans, 79% found financial advisors to be an important source of information; 70% said magazines; 69%, fund-rating services; 58%, family or friends; 43%, the Internet; and 16% advertising. As for investment style, 91% said they invest to grow their money, with 84% claiming to be long-term investors; 69% said they were investing primarily for retirement, 53% said they were investing to provide income for themselves. Twenty-eight percent sai wouldn't consider investments where they might lose money. Only 13% claimed to be experienced investors.

Who You Gonna Call? A profile created by Colorado College shows that GenXers have le from their Boomer parents' mistakes: they are marrying later, having kids later (which accelerates a couple's savings through dual incomes), and want to spend more time with tl families when they have them. In fact, 46% are still crashing with Mom and Dad. In a generalized nutshell, GenXers are educated, techno-savvy, and independent-minded do-it-yourselfers. They appear more realistic than Boomers about money matters, perhaps even pessimistic: More GenXers believe they will see a UFO than a Social Security check with name on it. But they are, at heart, validators. As Garrett puts it, while they may be regular the Internet, a lot of GenXers would prefer to get their advice "from a financial geek rathe a gadget."

Besides, as planner Andrea Spatz posits, self-reliant GenXers who may proclaim, "I woul never use an advisor" (as did the son of a 50-something Boomer friend of Spatz's, much to amusement), may change their tune when beset with life-altering events or time-consumin activities such as raising a family. Steve Thalheimer of Thalheimer Financial Planning, w launched his fee-only practice in Silver Spring, Maryland, just two years ago and has adop the business model of Garrett Financial Planning, reports that his practice has been pickin with GenXers for these very reasons.

The NYLIM survey notes that a "significant" percentage of HNWs who don't currently ha financial advisor believe they need one. While 39% of the HNW GenXers surveyed use an advisor, fully two-thirds of the remainder will consider using one in the future, the report adding this: 58% said they still need to put together a comprehensive financial plan, and w do so. A majority said they were concerned about their financial future—86% of GenXers or expecting to use a financial advisor said that retirement is extremely or very important them. "GenXers are more focused on trust and an advisor's willingness to communicate an give them advice," reports NYLIM's Moore. The problem is they don't know whom to tu for this type of relationship, which is the only one many will accept.

If it's true that, as Moore says, "most financial advisors have demonstrated little understan or interest in reaching these investors," it could be said of GenXers that they in turn have demonstrated little understanding and much mistrust of financial services professionals. G maintains that GenXers have been turned away by many traditional planning firms with h minimums and turned off by the prospect of relationships with asset management or broke firms—firms that primarily have busied themselves with understanding and implementing needs of Boomers, not GenXers. What GenXers want, Garrett says, and what's not readily available to them, are validation and professional advice without ongoing asset manageme fees, retainers, and long-term contracts or commissions. They wish to be consulted with, n sold to, and want to be very involved in the process.

Thus, Garrett says, while many GenXers are hesitant to work with a commissioned sales p retainer and hourly -fee billing structures.

Paying the Piper Much of the controversy over the hourly-fee structure stems from the fac many advisors want little to do with Middle Americans of modest means and much do to the high net worth. Historically, the latter has lent itself nicely to the fee-based manageme hefty portfolios, and not at all to the charging of hourly fees. As F. Dennis De Stefano of I Stefano Wealth Management in Maui, Hawaii, puts it: “I simply don’t understand how an can charge by the hour for asset management unless they are not actually managing investments.” Whether or not the fee-based system works at all by the time GenXers sign AARP remains to be seen.

Some planners, like Garrett, find asset management fees grossly inappropriate for many GenXers to begin with, which leaves the flat or hourly fee as the only viable alternatives. holds to the notion that most GenXers should be investing in long-term, buy-and-hold, mo growth-oriented stocks, in a good allocation of mutual funds, or a combination of the two. investor can leave this program on autopilot, she says, and touch base with his or her advis every few years, or sooner for updates, and pay for such services rendered periodically. “Ongoing management is just a way to keep [providing] financial planners with a payche says Garrett, who doesn’t engage in ongoing client management and supervision, but tells charges “what I think they ought to have, what changes they should make, and it’s good fo day.” She says fee-based management “serves no real value to a 30-year-old. They see so as getting 1% or 2% for virtually nothing.” In the face of an ailing economy, advisor Andr Spatz, whose compensation comes from both fees and commissions, wonders how long cl will continue to “pay through the nose” for the former. “For a lot of people, frankly, payin [yearly percentage fee] is an outrageous amount of money if you have a big portfolio.” He has clients who pay that way by choice. “But the reality is that they are spending more tha some other clients who don’t have a bias against commissions.”

Such monetary and ethical considerations notwithstanding, the hourly -fee structure by itse not for everyone. Most planning firms, such as Morris Armstrong’s fee-only practice, acce hourly clients as well as task-specific (e.g., a comprehensive financial plan) and asset management clients. But he believes the hourly-fee model will become more popular in th future since it will be demand driven. “You can envision a large or mid-size planning firm perhaps with planners ‘trained’ in this specific segment,” he says.

High Incomes, Low Assets Marnie Aznar of Aznar Financial Advisors in Morris Plains, N Jersey, agrees that the GenX market is overlooked by fee-only planners like herself, and s targets young professionals. Regarding fees she makes this point: “As more and more adv charge a fee based on assets under management, it becomes difficult to make a living wor with clients who, although they may have very high incomes, have not yet accumulated th of assets that are necessary to make a living charging a percentage of assets under management.” Thus to Aznar, in order to work with a young professional with a solid inco who has not yet accumulated significant assets, a fixed fee for a comprehensive plan and h fees for continuing service makes the most sense.

Peg Downey of Money Plans, a 19-year-old firm in Silver Spring, Maryland, goes after th middle income market. She does mostly hourly work, but when it comes to investment management, “then, like our colleagues, we charge a fee.” She believes there is a “substar market of folks who see themselves as middle income and who prefer to pay on an hourly These are the folks we aim at.” Andy Claybrook, of Fee-Only Solutions in Franklin, Tenn agrees that there is a substantial unmet need in the marketplace for “unbiased, experience financial advice” for those who don’t want or need asset management in the traditional se “This applies to GenX, Baby Boomers, retirees, and any other demographic group one cho to define.” His firm also offers an annual flat fee/retainer schedule for ongoing planning a assistance after initial services are rendered. The flat fee is based on portfolio size but is n

Cohen of Dream Archive Planners Network in Plano, Texas. At a time when asset manag
earnings have dwindled somewhat due to a struggling economy, Hazan-Cohen, like Steve
Thalheimer mentioned earlier, is doing better than ever. “My business has exploded,” she
forcing her to hire additional staff.

Hazan-Cohen recently developed a network similar to the Garrett network, with one mem
Virginia, but hasn’t advertised this because she’s too busy: Having broadcast her hourly
compensation method through her Web site, she has been deluged with calls. Hazan-Coh
charges either by the hour or by retainer. Her minimum fee is $3,600 for comprehensive
clients and $125 per hour for hourly engagements.

Scott Leonard, of Leonard Wealth Management in El Segundo, California, has taken a uni
approach to the billing issue (which brings in certain clientele, including, but not limited t
GenXers) by creating a special program, which he has dubbed the Emerging Millionaire
Program. Designed for middle-income individuals who don’t meet the firm’s standard $1
million minimum, the initiative takes a cafeteria approach to financial planning and invest
management by combining set fees for projects, hourly fees, and very low percentage fees
assets under supervision. “We have yet to see if it will be profitable,” Leonard says. He cr
the program not only so that he wouldn’t have to turn away prospects unable to meet the
minimum asset requirement, but to help advisors who are “just starting out” build their
businesses by outsourcing to them.

Plenty of Clients, Yes, But a Living? The hourly-fee approach does have its drawbacks,
however. Michael Helffrich of PFP Advisors in Minneapolis reports he has been charging
hour for a long time. “Sure it makes sense, as long as you don’t want to grow too quickly,
says. Jamie Milne of Milne Financial Planning in Barre, Vermont, though bereft of GenX
clients, charges a one-meeting fee of $595. He calls it a “financial physical” (he doesn’t c
it “comprehensive”), and it can last three hours or longer. After the meeting, clients are on
own in terms of implementing his recommendations. He has some clients that he charges
retainer fee for two scheduled meetings per year. Milne believes his method can be profita
though not so easy, perhaps, in a non-metropolitan such as the one in which he lives.

Advisor Scott Kays thinks that in terms of a demographic like GenX, fee-based planning
charging on an hourly basis are probably a “great way to get your foot in the door,” but th
down the road, when these clients become wealthier, charging a fee on assets under
management makes the most sense. His firm does offer an hourly rate for advice of $175,
Kays stresses that “99.9%” of his revenue comes from assets under management. “I think
financial planners are going to have a hard time making a good living on a fee basis work
with Middle America,” Kays says. “You’ll have a hard time building clientele big enough
willing to pay recurring fees who make an income of $50,000 to $75,000 a year.”

Striking It Rich It’s clear that some billing systems work better for advisors than others, v
vis their respective clientele and the training and professional experience the advisors hav
received, coupled with underlying philosophies that fuel their business sensibilities. For n
advisors and those willing (or who insist upon) billing clients by the hour or by retainer, t
GenX market would appear custom made. But how do you land these skeptical GenX val
and earn and keep their trust?

They’re comfortable foraging Web sites like Smart Money, Quicken, Morningstar, Motle
but not with “suits,” explains Garrett.

Part of it is attitude. GenXers aren’t impressed by mahogany and pinstripes, and are not
particularly materialistic. Dress casual. Garrett wears Dockers and a golf shirt. Package G
services in a way that is attractive to them. Garrett’s bias is fee-only-hourly, and it works
her. Her success in reaching this group has been primarily word of mouth, through circles

online. Have a decent Web site. Garrett's potential clients often find her in the Yellow Pag and go directly to her Web site, "Where they can check me out behind the scenes." GenXe doing this. Before meeting in person, they can get a "full flavor of my philosophies" and l that she actually wants to work with them, instead of treating them as their Boomer-paren leftovers. As one GenXer told Garrett, "You were the first [planner] we could come to anc 'Here's what we've got going on. What should we do?'"

GenXers are out there, and they're looking for you. Meeting them, at least halfway, is son to consider.

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