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How Millennials Are Shaping the Evolution of Investment Advice

By Christina Kilroy

The future of investment advice—as embodied in the youngest cohort of working Americans, known as the Millennial Generation—was the focus of a panel of financial services industry leaders at ICI's 57th General Membership Meeting. The approximately 75 million 18- to 34-year-olds that make up the group have now overtaken Generation X (ages 35 to 50) as the largest generational group in the workforce, according to Pew Research Center.

These numbers will only continue to grow as younger Millennials graduate high school and college, and enter the workforce. Stuart Parker, president of Prudential Investments, led the panel that explored what the emergence of Millennials means for the financial services industry and how business models will evolve to meet their needs.

Invested in the Future

Although the panelists tried to avoid making generalizations, they agreed that certain facts about Millennials do set them apart from other cohorts. As Parker pointed out, Millennials are the most educated, most diverse, and ideologically motivated group. But that education has come at a cost: seven out of 10 have student debt—with the average debt totaling $30,000. This financial burden, coupled with their coming of age during the Great Recession, has led to Millennials' portrayal as conservative investors who shun equities and hoard cash (52 percent of Millennials' assets are held in cash, according to Parker).

But where others see Millennials as overly cautious, panelist Adam Nash, CEO of Wealthfront, sees a measure of prudence. He argued that most Millennials "think their best chances for financial success come from investing in themselves, in their careers." Holding excess cash is not extreme risk aversion, he explained, but "a buffer against volatility, not necessarily in the markets, but in their lives" and in the tumultuous job market of Millennials' post-college years.

Much has been made about Millennials' preference for passive investing, but "they're not 'theologically devoted' to passive versus active," according to panelist Andrew Sieg, head of Global Wealth and Retirement Solutions at Bank of America Merrill Lynch. "They want customized solutions, aligned with their goals, and they want to see real value creation over time," regardless of the products they use to reach their goals.

Nash observed that Wealthfront's Millennial clients show no resistance to diversified portfolios, even a globally diversified portfolio, and have less home bias than other age groups. In addition, said Richard Dion, executive vice president and head of strategic partnerships at Envestnet, Millennials are independent and "want to learn and make decisions." The key is giving them access to information in a way that appeals to their love of technology and social feedback.

Coming into Their Own—with Technology in Hand

As Millennials amass greater investable assets and face increasingly complex financial decisions, having a financial adviser will become more appealing, said the panelists, who added that clients no longer receive advice the same way they did two decades ago, when an adviser-driven model was the norm. Appealing to younger clients will mean giving them the power to decide on what balance of human and digital interaction they prefer, said Dion: "Investors will pick what they want to do and how they want to put their advising package together." The challenge will lie in finding new ways to "provide services that can't be replicated by technology" and, as digital offerings are integrated in the business model, to deliver unique value to clients, he said.

In the next decade, Nash predicted, services will become unbundled and recombined in different ways, resulting in further pricing pressure on the industry. But “people will pay for advice if it gives real value,” Sieg said. He explained that advisers at Bank of America Merrill Lynch are now being trained with less emphasis on modern portfolio theory and more emphasis on addressing the life priorities of the client. Client assets are not just a pile of money to invest, he said; the modern adviser needs to frame the dialogue with clients around a number of different facets of their lives, including “their career and human capital, their family, home, their philanthropic and giving activities, how they spend—and intend to spend—their leisure time.” Only after that assessment, Sieg continued, will they get to “the underlying products and services [that will] help them achieve what they want to achieve in each of those areas of their life.”

Communication is key for any adviser to help clients achieve their goals, but “communication is not just talking,” Nash said. It goes beyond how the client interacts with a human adviser. Human–computer interaction, and software and application design, will be crucial in communicating with Millennials in a way that truly reaches and engages them. Nash likened it to Steve Jobs’s goal in creating Apple products that consumers “don’t just like, but lust after.” When Millennial consumers “delight” in using a product, he said, they will keep using it—and will share the product with their peers.

What Have You Done for Us Lately?

Young investors are willing to let the experts take the reins in investing for them, “but they want to know why,” said Nash, and they want access to information whenever they want, whether that be “on Sunday at 11 p.m. or in the line at Starbucks.” Technology makes advice-on-demand possible, and in Millennials’ hyper-connected world, it will be expected.

The panelists agreed that though Millennials may differ from other generational groups in how they approach investing, in the end, they what everyone wants—help from trusted sources in navigating the complex and competing financial demands of their lives. Trust is the bedrock of the financial services industry, Seig said. Firms looking to build trust today must go beyond the basic ideas of their “brand, the stability of the organization and the strength of the balance sheet, and the security it represents,” he explained, to build “a feeling of transparency and openness about a business model, so that the client can decide, ‘Are there things here that are really helping me, and is this actually and truly in my best interest?’ You need to set yourself up for that kind of an experience for clients.” Dion agreed. “What do *we* value and trust? It’s all about transparency and communication,” he concluded.

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