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RESEARCH

Millennials' wealth management preferences differ from boomers: report

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Image courtesy of Michael Kors

By KAY SORIN

Millennial investors have different preferences compared to their baby boomer parents when it comes to wealth management, according to a new report by Luxury Institute.

While baby boomers and older generations prefer to work with full-service brokerage firms, wealthy millennials and members of Generation X are showing an increased preference for working with private advisors. Independent financial advisors can offer a more individual approach that is often appealing to younger investors who are accustomed to personalization.

"Independent financial advisors are able to do more things for their clients, because they are not working for a firm that has rules and regulations about what they can or can't do," said Milton Pedraza, CEO of Luxury Institute, New York. "The IFA is the fastest growing industry in wealth management."

Different strokes

Luxury Institute surveyed investors earning at least $150,000 and found that at least 46 percent used some form of advisor to help them manage their finances. Among respondents aged 65 and over, this number rose to 59 percent.

Wealthy millennials are inclined to prefer independent wealth managers

Respondents varied in their preferences for an independent wealth manager versus a full-service brokerage firm such as Morgan Stanley or Merrill Lynch. Interestingly, this preference strongly correlated with age.

“A full service firm doesn’t have a fiduciary relationship with the client, meaning that they are not legally obliged to serve the client’s interests only," Mr. Pedraza said. "They can recommend an investment in which they will make a bigger commission.”

Millennials and members of Generation X and Y, defined as those 45 and younger, showed a significant preference for independent wealth managers compared to full-service brokerage firms. Thirty-eight percent chose to work with individual advisors while 27 percent preferred a big brokerage firm.

Millennials have access to more information and are well informed

Investors over 65 were much less likely to work with an independent advisor and only 28 percent reported doing so. They strongly preferred to go full-service with 56 percent using large firms to manage their wealth.

This difference between the generations is likely a result of their upbringing. Baby boomers were raised to expect to work with a big brokerage firm, while millennials may be more wary and distrustful after the recession of 2008.

Financial advisors can assist in major life decisions such as purchasing a home

Additionally, millennials have more information at hand, which allows them to be more selective with their advisors.

“Millennials are so much more informed that they depend less on a brokerage firm providing them with research," Mr. Pedraza said. "Millennials don’t need as much because they are so informed.

“They know that very few financial advisors can outperform the market in the long term.”

One way in which individual advisors often distinguish themselves is by providing a more personal connection for clients. Luxury Institute found that expertise, trustworthiness and generosity were the most valued traits in financial advisors.

As millennials age they are in greater need of financial advice

More than numbers

Investors looking for both a personal relationship and a full-service brokerage firm may seek other solutions to find the ideal compromise. Ultra-affluent consumers often appreciate the relationship-building culture fostered at boutique wealth management firms, according to a report by the Luxury Institute.

The New York-based Rockefeller Wealth Management firm received the highest score in the report, followed by Atlanta-based Atlantic Trust Private Wealth Management and Convergent Wealth Advisors. As wealth management firms continue to repair their reputations following the financial crisis, prioritizing relationships over transactions will be important (see story).

Regardless of the size of a firm, relationships are often the deciding factor when it comes to choosing a financial advisor. To differentiate themselves from competitors, wealth management companies must make crucial changes that will only work if the alterations are part of the company's core DNA, according to a speaker from the 2012 Forrester Customer Experience Forum.

It is no longer enough to just return calls and give a great customer experience, since clients at wealth management companies are not even thinking about those that do not require this. Instead, Morgan Stanley Smith Barney was forced to bolster its customer service in terms of technology, getting to know the customer and its consultants (see story).

Looking forward, it is essential for wealth management companies to take personal relationships into account in order to appeal to wealthy millennials.

"Millennials will be keen to stay with those who deliver and will dispense with those who don't," Mr. Pedraza said. "They will choose advisors based more on the client's experience than on the client's return.

"The baby boomers are kind of exiting the stage. Millennials will demand a far more objective and independent metric.

"Advisors need to be completely trustworthy and very responsive," he said. "They need to go above and beyond to make the client feel special."

Final Take
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