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4 REASONS THE 'GREAT WEALTH TRANSFER' KEEPS ADVISORS UP AT NIGHT

Over the next 40 years, more than $30 trillion will pass from baby boomers to Generation X and millennials.

It is generally considered to be the most significant transfer of wealth in American history. For financial firms and their advisors, this transition represents opportunity -- if they're prepared to win over this new generation of investors, that is.

Experienced advisors may well remember the transfer of wealth from the Greatest Generation to the baby boomers, which totaled nearly $12 trillion. The Allianz American Legacies Study, a survey of members of the Greatest Generation and baby boomers conducted at the height of that transfer of wealth, identified several elements that made the transfer unlike past transitions of wealth between generations.

At the time, it was the largest transfer of wealth in history, driven by an older population that was far more affluent and living longer than generations prior. The study also pointed to more complex, diverse family structures and the well-known differences between the spendthrift reputation of the Greatest Generation and the more freewheeling habits of baby boomers.

While these factors are still largely at play this time around, a whole new set of issues are creating challenges for advisors. Younger investors have a vastly different outlook on investing and aren't afraid to abandon the relationships and tactics that define their parents' financial strategies. Two-thirds of children fire their parents' financial advisors after an inheritance, and the problem is growing. One recent J.D. Power study found millennials represent 55 percent of assets held by investors who are "at risk" of leaving their current firm.

The most successful advisors will tackle head-on four commonly held challenges associated with serving the next generation and turn them into opportunities for long-term growth.

1. MANY YOUNGER INVESTORS LACK FINANCIAL EDUCATION

THE PROBLEM:

The basics of financial planning are lost on many new investors. Only about a quarter of millennial investors demonstrated a basic understanding of how to manage their money, according to a National Endowment for Financial Education and George Washington University report titled "Overconfident and Underprepared – The Disconnect between Millennials and Their Money." Yet 69 percent said they believe they have a high level of financial knowledge.

For example, only four out of 10 respondents got this question right -- True or false: Buying a single company's stock usually provides a safer return than a stock mutual fund.

More affluent investors may have a better handle on financial factors, but that's no guarantee they know or value the same things as their parents when it comes to managing their money. For advisors, this creates a two-fold problem: younger investors may not see the value financial advisors provide and may have unrealistic expectations of what services they can expect from an advisor based on their investable assets.

THE OPPORTUNITY:

Education is a clear and valuable service advisors can offer younger investors, and they should take advantage of early opportunities to do so. As clients' children get older and reach their own financial milestones, from opening their first checking account to building a retirement strategy, advisors who take the time to sit down and provide education and guidance will also be nurturing an important future relationship.

To help bridge this education gap, many advisors are leveraging their client portals to build a library of informative resources for newer investors. This also enables them to send timely materials personalized for an investor's specific needs or questions.

2. MANY YOUNGER INVESTORS DON'T TRUST FINANCIAL INSTITUTIONS

THE PROBLEM:

71 percent of millennials say they'd rather visit the dentist than listen to their bank, according to Viacom research. As observers and victims of the Great Recession, young investors are decidedly wary of financial institutions.

What's more, advisors at these institutions often have the unpleasant responsibility of explaining stipulations that may frustrate younger investors, such as a stringent withdrawal schedule for a family trust. When the first connection point with a new investor is a tough conversation, the relationship can be damaged from the outset.

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THE OPPORTUNITY:

Advisors should start to build trust with younger investors before they inherit their parents' money. One best practice, especially with more affluent clients, is to facilitate family meetings when children reach an age where they should be brought into the fold on their family's estate planning. By creating an open dialogue around the family's wealth, younger investors will better understand their advisor's role and may be further inclined to discuss their own financial goals.

Even if in-person meetings aren't a reality for some clients, advisors can also ease the transition by providing younger family members with access to customized dashboards and reports, tailored to the information their parents wish to share. Keeping future investors informed and accustomed to ongoing communication from their advisor will continue building this relationship – even if in-person meetings are infrequent.

3. MANY YOUNGER INVESTORS EXPECT A LOT FROM TECHNOLOGY

THE PROBLEM:

Millennials are rarely wowed by technology. They expect the tools they need will be available at their fingertips in whatever format is most convenient to them. But for many advisors, becoming the "Uber of financial advice" isn't realistic.

THE OPPORTUNITY:

Advisors and their firms should focus technology investments in areas that improve the investor experience. Prioritize upgrades that make client connections more modern, secure and seamless. For example, a robust client portal can provide an impressive, secure channel for advisors to share insights and updates with investors in real time on a variety of platforms.

But these tech upgrades can't exist in a vacuum – to be effective, advisors must incorporate them into how they promote their practice and advise clients.

4. MANY YOUNGER INVESTORS HAVE SMALLER PORTFOLIOS

THE PROBLEM:

The case of the HENRY (high earner, not rich yet) young investor is well established. These investors may not have the assets to justify the kind of tailored services they expect, creating a disconnect in their relationship with advisors. This situation is also common when multiple children inherit wealth. When a parent dies and their $10 million portfolio is split between three or four children, the inheritors may expect the same level of service despite fewer assets.

THE OPPORTUNITY:

Advisors who can successfully introduce robo-advising tools and digital advice can keep these investors engaged and successful until their assets reach a level that supports a more high-touch service model. Encouraging younger investors to bring more of their assets into a single portfolio is another way to accommodate more advanced services. Aggregating a client's full financial situation across multiple accounts can be an effective way to get an investor to start thinking about consolidating portfolios.

In the race for assets, advisors who successfully update their offerings and develop relationships with younger investors will position their practice for long-term success. That same J.D. Power survey found millennials will make more positive referrals for financial advisors they like and trust. But only through an understanding and focus on these younger investors' priorities will today's financial advisors successfully win over the investors of tomorrow.

InvestEdge's wealth management solutions empower today's wealth management professional to become a **Bionic Advisor**, satisfying current clients and bringing a new generation of investors on board. As a trusted partner, we deliver innovative thinking and proven technologies so leading advisors can stay competitive and grow their business. Advisors looking to retain legacy clients and capture new assets during the great wealth transfer can take advantage of our solutions:

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