Bridging the generation gap: five ways to attract investors and create competitive advantage

Wealth firms need to adapt faster to the modern investor's needs

1 Scope to build greater trust with younger generations

Ninety-three percent of Baby Boomers and 86% of Generation X and Millennials say that their financial advisors understand their goals and values. While Baby Boomers, Gen X and Millennials all have high levels of trust in their financial advice, younger generations do exhibit slightly less confidence.

2 Investors require differentiated alternative investment strategies

Forty-eight percent of Millennials and 35% of Gen X would like to discuss cryptocurrencies with financial advisors. These investors want to be informed about a range of alternative and digital assets from crypto to hedge funds, ESG investments and private assets.

3 Index strategies: an untapped opportunity

Sixty-six percent of investors with financial advisors would like to discuss index investing with them – revealing that there is still a strong desire for these strategies which may present an untapped opportunity. Investors want to use index funds to diversify their existing portfolios and for long-term performance.

4 Tuning in to digital

Thirty-three percent of Millennial investors and 21% of Gen X use social media to gather insights and ideas, compared to only 3% of Boomers. Millennials and Gen X want to receive information in easily digestible digital formats with channels such as YouTube and Twitter continuing to grow in use among investors.

5 Mixed views on 2023 require a personalised approach

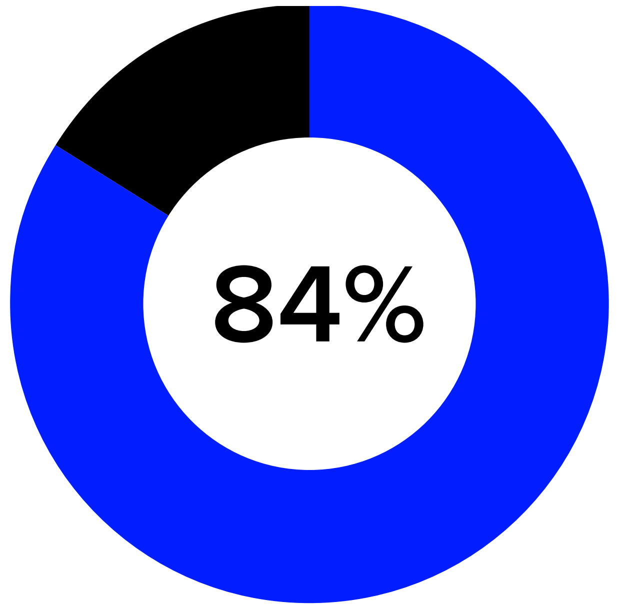
When asked about their likely action if the major stock markets should decline in 2023, 40% of investors say they would maintain their current portfolio while 35% see it as a buying opportunity.

1. Scope to build greater trust with younger generations

It is a credit to wealth firms that retail investors on the whole are happy with how they have steered their portfolios through the volatile markets of recent years. But Gen X and Millennial investors are slightly less satisfied than Baby Boomers, suggesting there is a need for wealth firms to better adapt to the preferences of younger generations.

Nine out of 10 (92%) clients say that they are satisfied with their advisors, with six out of 10 (59%) very satisfied. But drilling down into investor perceptions shows that wealth firms are more in tune with the needs of Baby Boomers (aged 57+) than Gen X (41-56) and Millennials (25-40). For instance, 93% of Boomers say that their financial advisors understand their goals and values, compared with 86% of Gen X and Millennials.

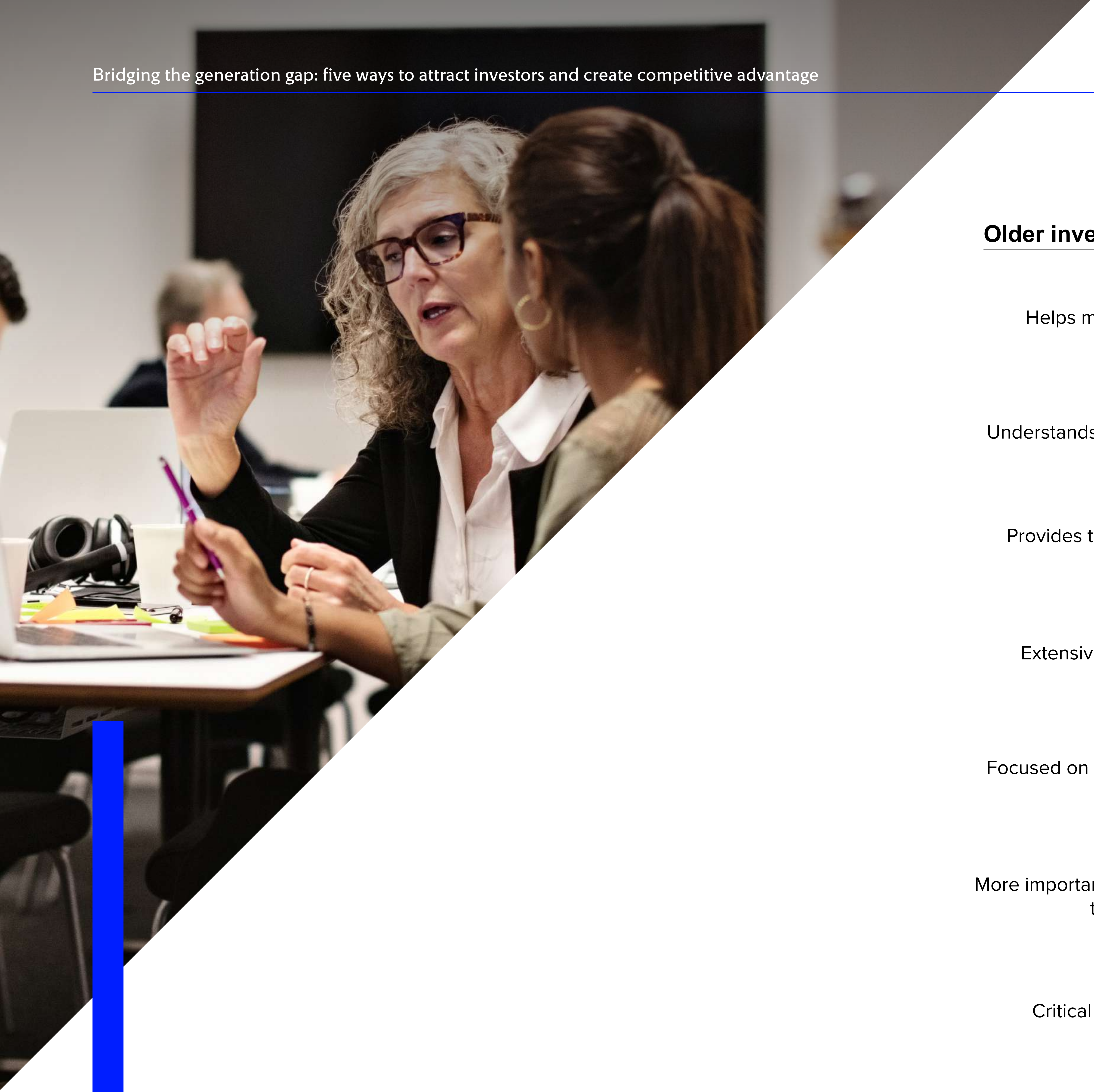
Younger generations are also less confident that their advisors are critical to their investing decisions and success. Seventy-five percent of Millennials and 78% of Gen X with financial advisors agree that their advisors play a vital role – fewer than the 82% of Baby Boomers.



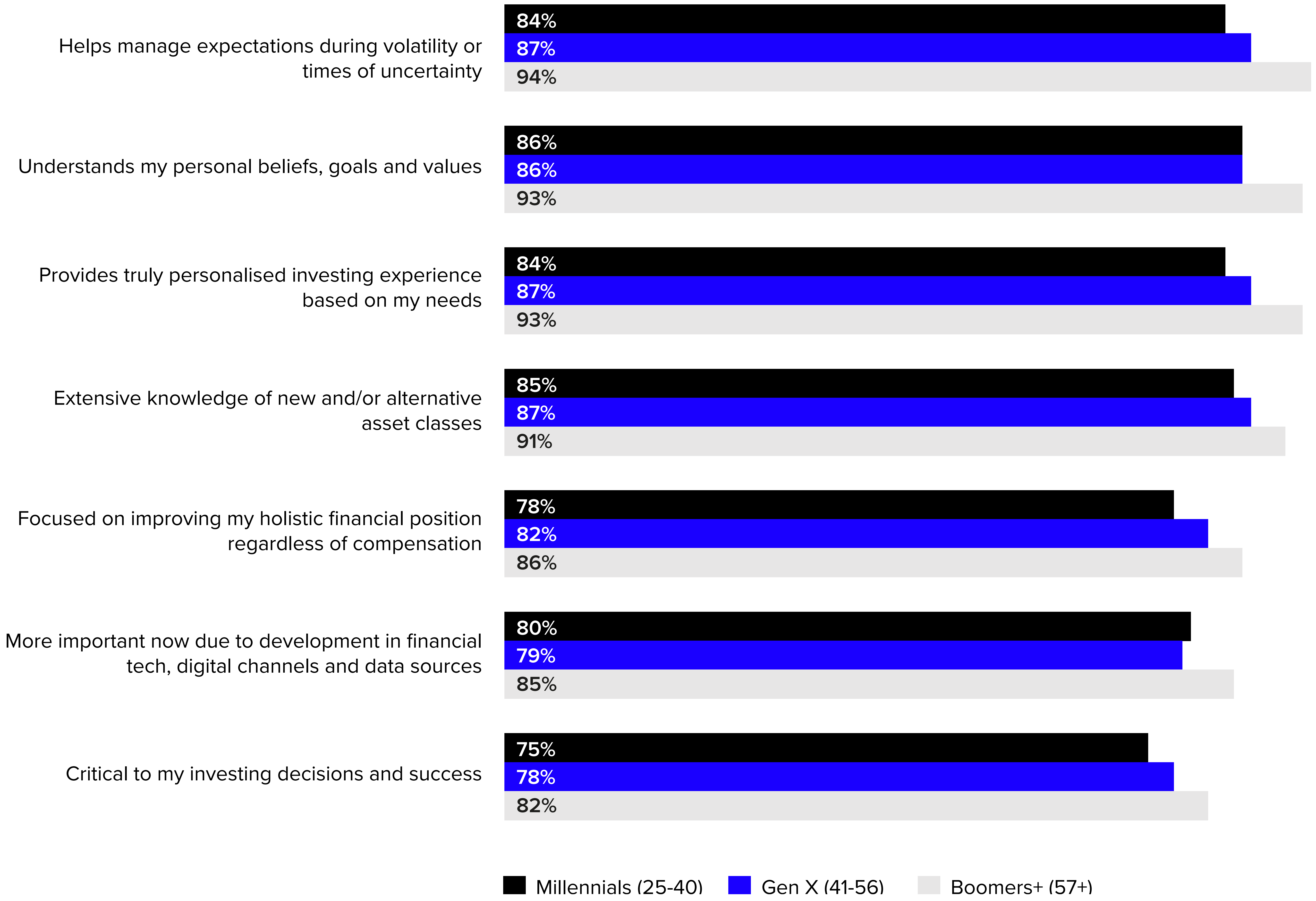
84% of Millennials state that advisors provide a personalised investing experience based on their needs.

What's more, while 93% of investors aged 57+ agree that advisors provide a personalised investing experience based on their needs, that number falls to 87% of Gen X and 84% of Millennials.

It's fair to say that levels of trust are high even among younger clients, but wealth firms have the scope to raise them to match Baby Boomers' levels of confidence. To achieve this and attract modern investors, advisors must understand the unique needs of Gen X and Millennial investors while providing personalised services, differentiated data, actionable insights and intuitive digital experiences.



Older investors are more confident that their advisors are critical to their investing decisions and success



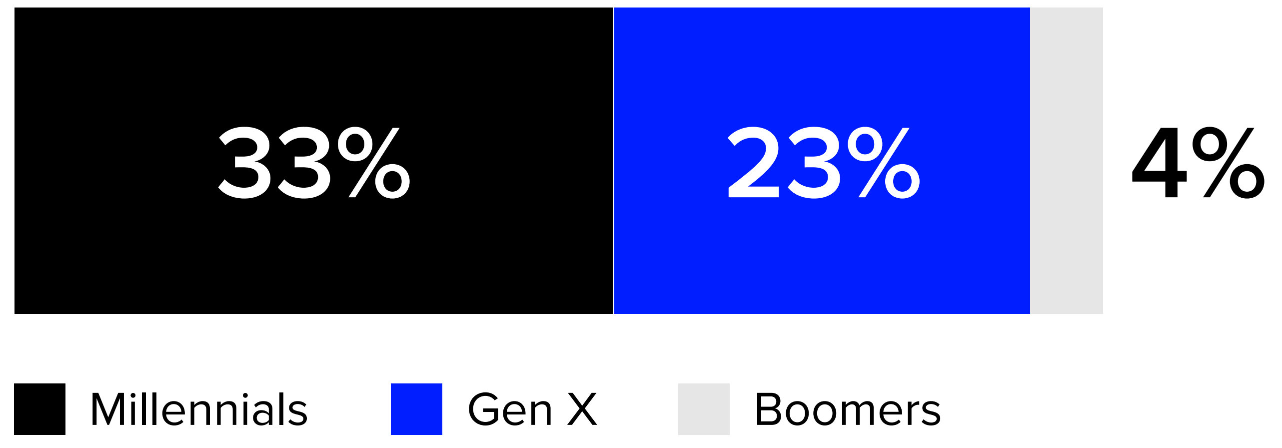
Do you agree or disagree with each of the following statements about your financial advisor?

2. Investors require differentiated alternative investment strategies

To attract and successfully engage with Gen X and Millennial investors, wealth firms must provide information about cryptocurrencies, ESG investments and alternative investments. These often are different to the asset classes that appeal to Baby Boomers.

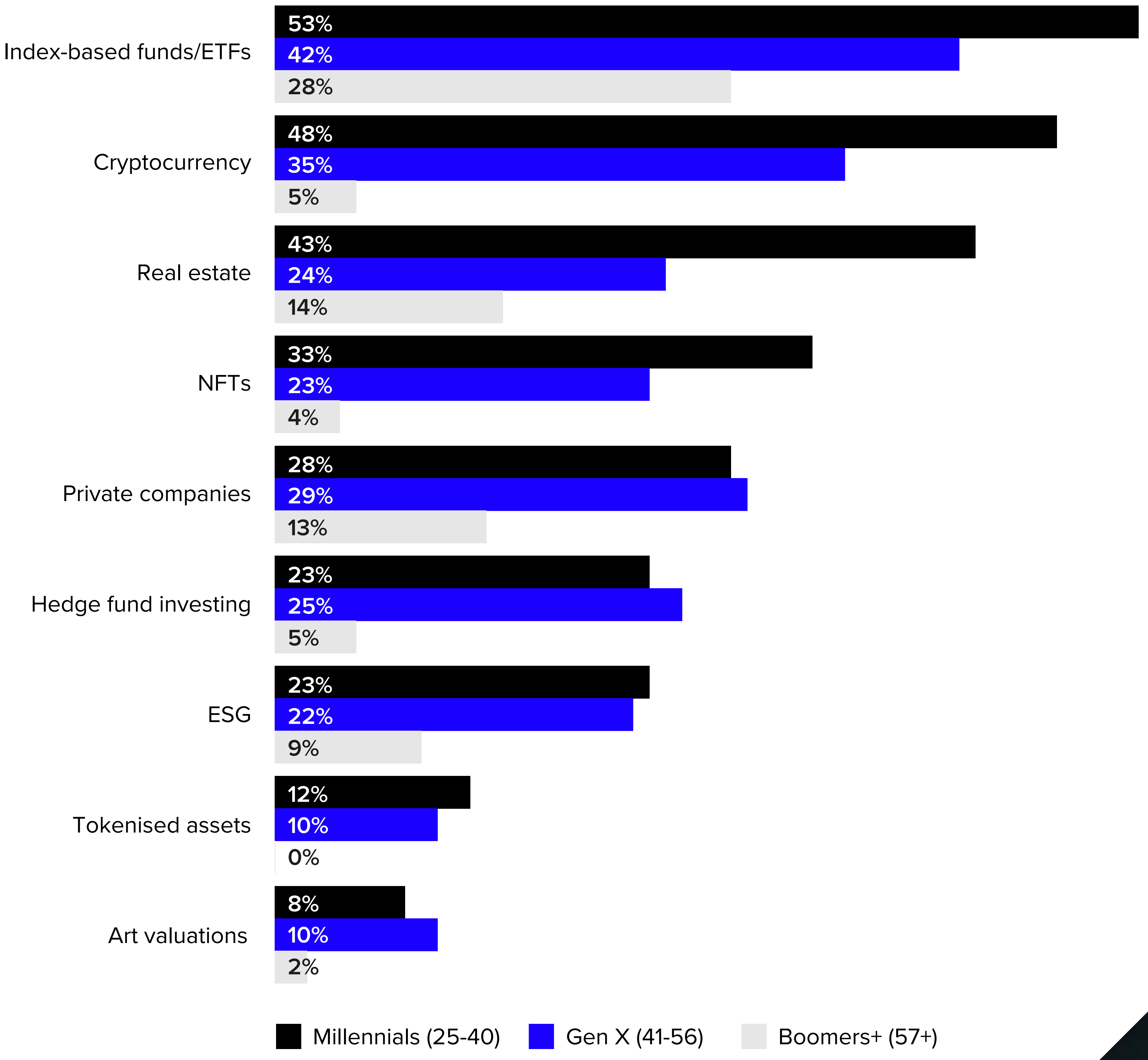
For instance, younger clients want to know more about cryptocurrencies. Almost half (48%) of Millennials and a third (35%) of Gen X say they would like to discuss these digital assets with their financial advisors: by contrast, Baby Boomers are largely uninterested – just 5% of them would like to have such a discussion. Similarly, younger generations are more interested in receiving information about ESG investments and a range of alternative assets such as hedge funds, private investments and real estate. There's even an interest in art as an asset class.

To differentiate themselves from competitors and attract Gen X and Millennial investors, wealth firms need to understand which investment classes are of interest to their clients and enhance their offerings by providing trusted data and insights on alternative and digital assets, including ESG investments, cryptocurrencies, NFTs, real estate, private assets, hedge funds and index strategies (see next section).

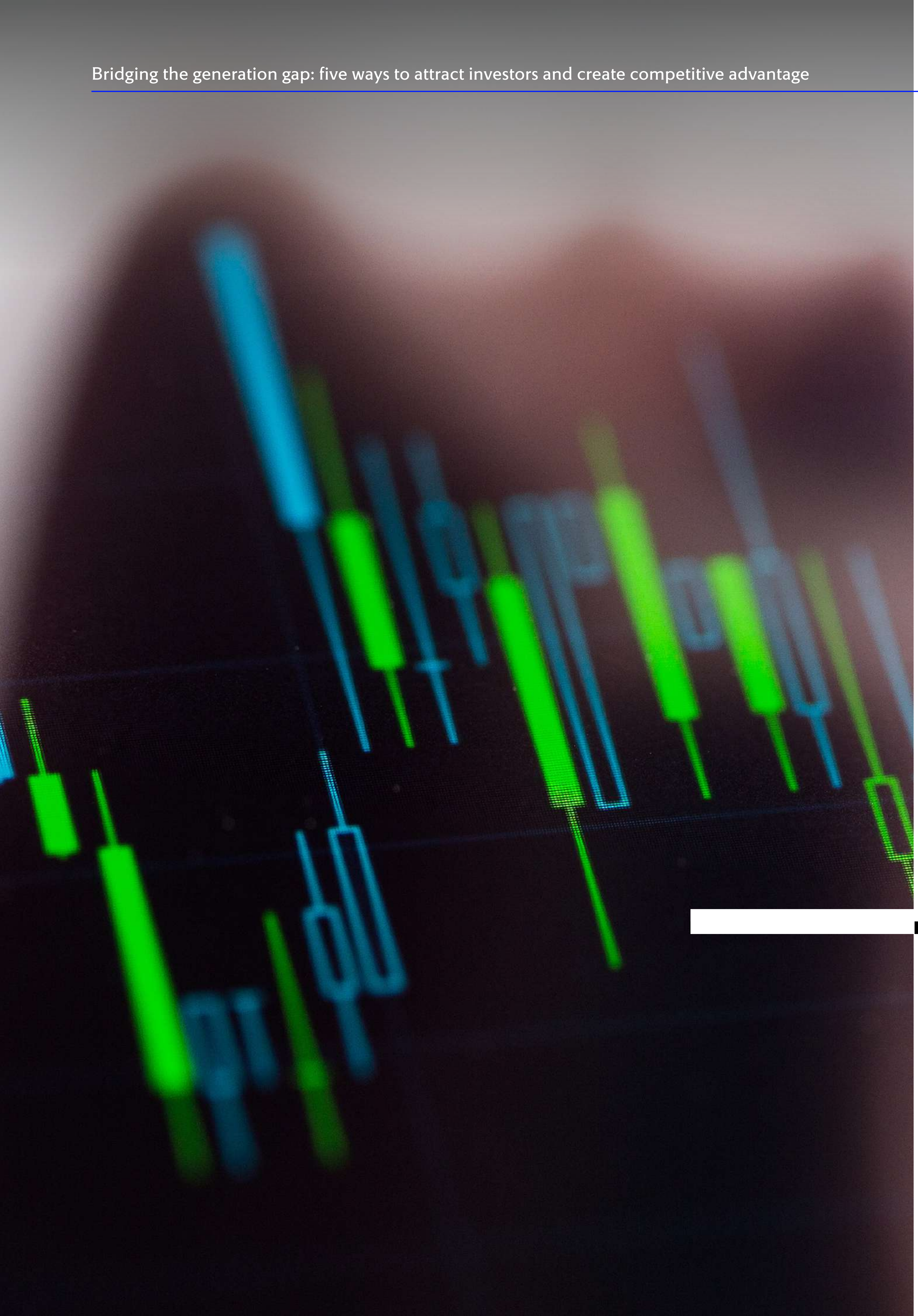


A third of millennial investors are interested in receiving more information on NFTs, while 23% of Gen X and only 4% of Baby Boomers show an interest.

Generation X and Millennials more likely to want information about crypto and other alternatives



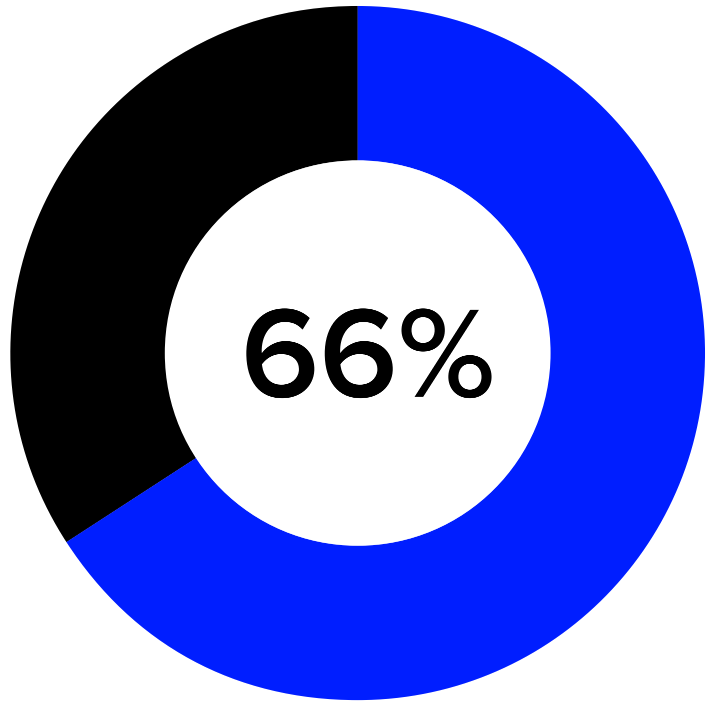
Which of the following areas are you interested in receiving information about and/or discussing with your advisor?



3. Index strategies: an untapped opportunity

With retail investors planning to increase their index-based holdings, there is an opening for wealth firms to add value by providing sound advice about how to incorporate index strategies within their portfolios to improve diversification and long-term performance. Regardless of age, nearly four in 10 (38%) US retail investors who invest in index strategies plan to increase their investments this year.

Yet almost half of people with advisors (45%) say they have not discussed index strategies with them. What's more, two thirds (66%) of those who haven't discussed index strategies with their advisor would like to do so – revealing the scale of this business opportunity.

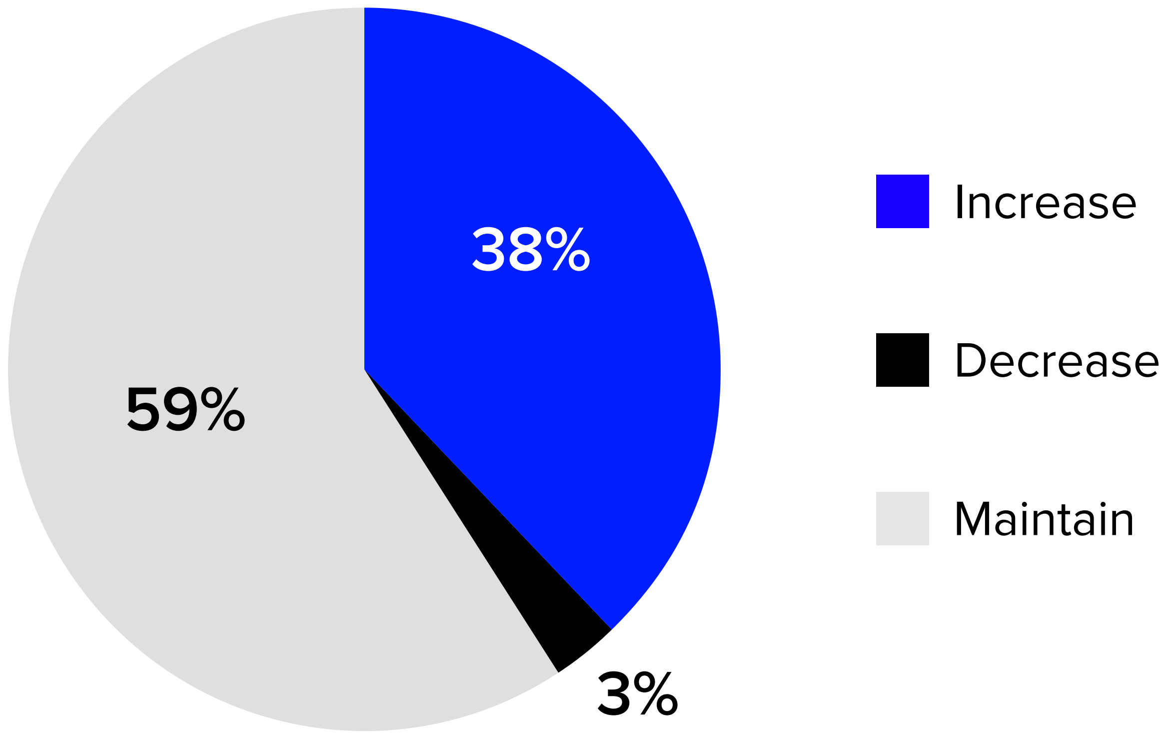


Two thirds of investors with financial advisors would like them to discuss index investing and strategies – showing the scale of this untapped opportunity.

As ever, information is key. Almost four in ten (39%) clients with financial advisors want to receive more information about index strategies. This presents wealth firms with an opportunity to include more recommendations.

Just as investors are becoming more interested in the advantages of low-cost, easily traded index strategies, so wealth firms need to begin offering advice and information about them. The fast-growing range of index strategies presents options to refine portfolios, taking advantage of emerging opportunities while using diversification to further mitigate risks.

Most respondents plan to maintain or increase their use of index funds this year



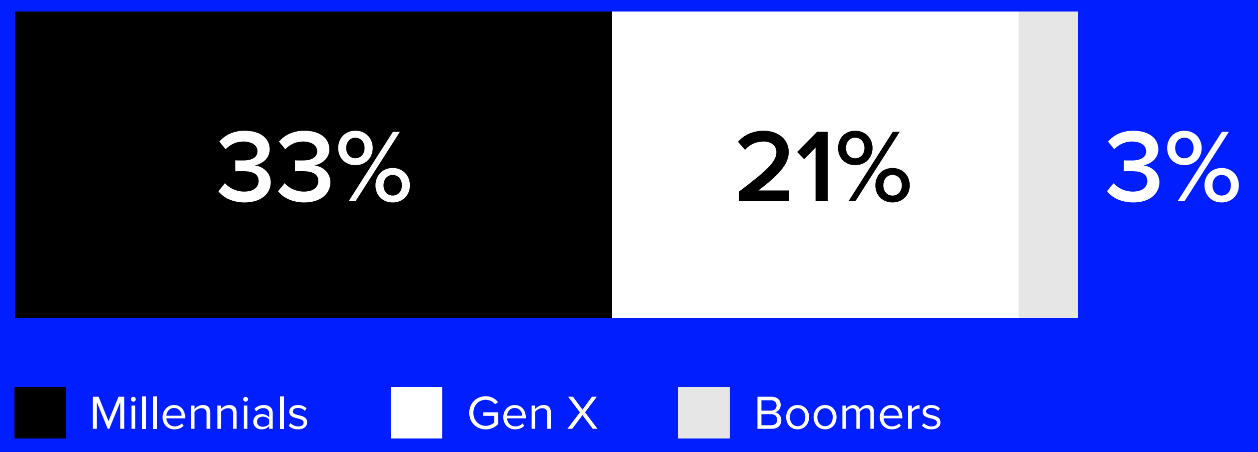
In 2023, do you expect to increase, maintain or decrease your use of index funds?

4. Tuning in to digital

When it comes to communicating, not surprisingly the younger generations prefer to use digital technology than have in-person interactions. For instance, Gen X would just as soon receive an email as a phone call – while 55% of them say they prefer phone calls, 56% prefer email.

Self-service digital channels are an important source of information and ideas for younger investors, with 30% of Millennials saying that they use YouTube and 33% social media such as Reddit, TikTok or Twitter to access investment advice and information.

Wealth firms can lean on market sentiment data to monitor social media opinion – which also distills news content, providing sentiment indicators to augment trading strategies, volatility forecasting and risk management. While many firms are already developing their social media presence on digital channels that are widely used by Gen X and Millennials, by harnessing market sentiment data these firms can attract new investors and increase their engagement.



Digital sources play an important role in the investment decision process for younger investors, with 33% of Millennials and 21% of Gen X using social media to gather insights and ideas, compared with only 3% of Boomers.

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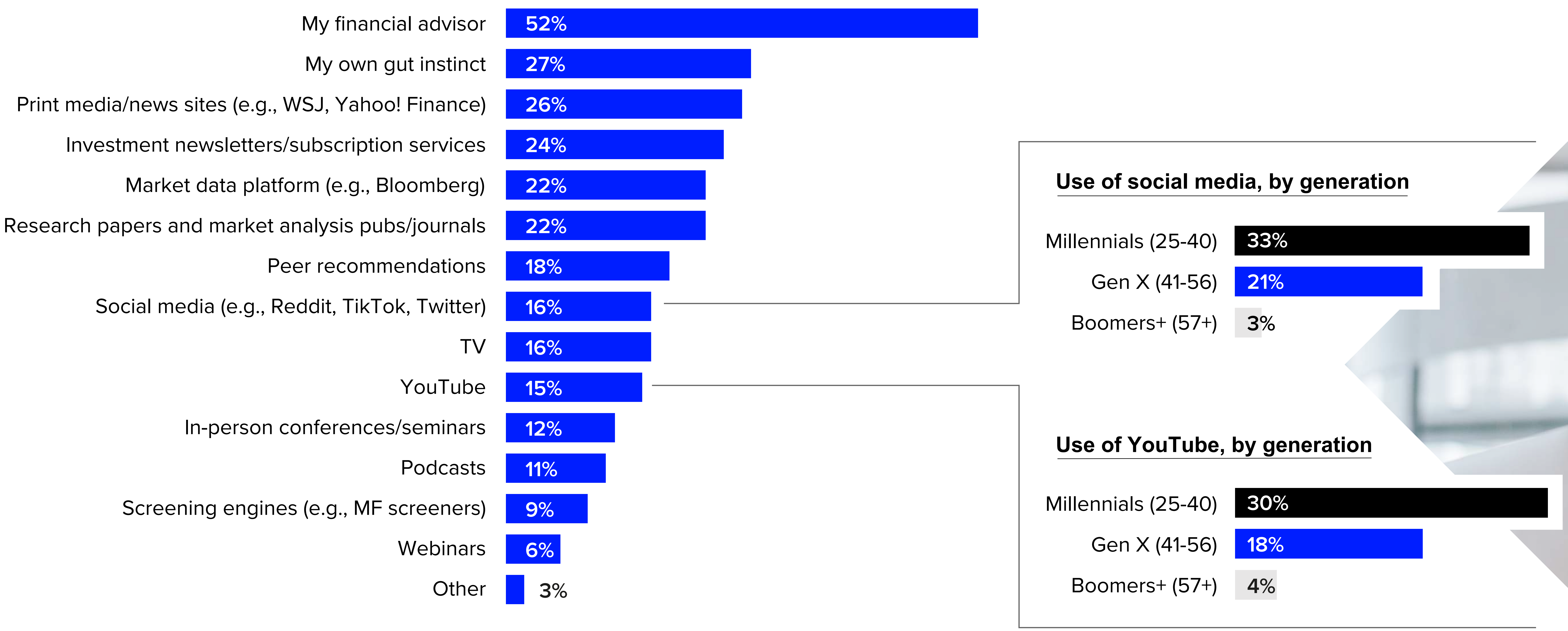
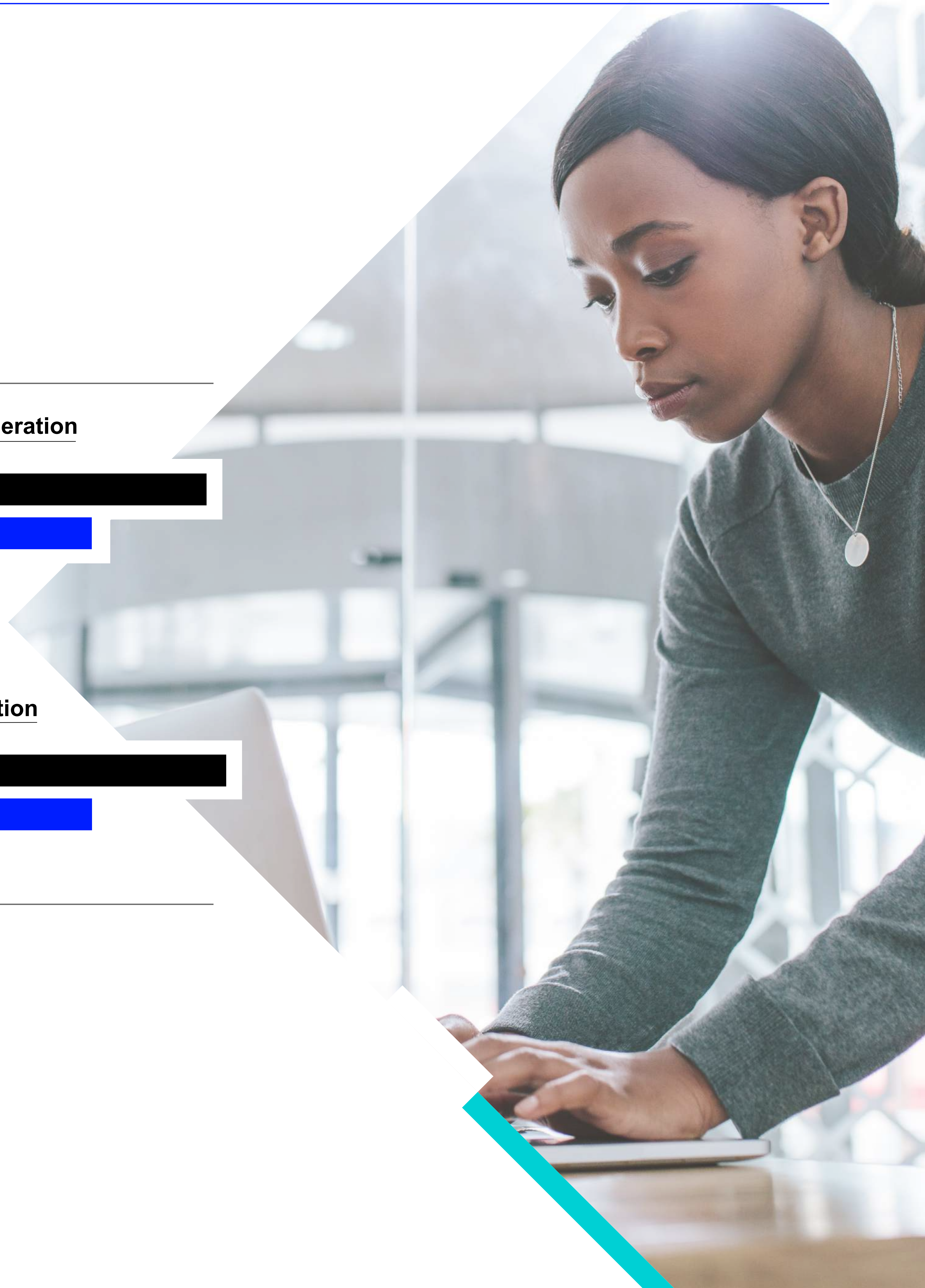


Where do you get investment insights and ideas?

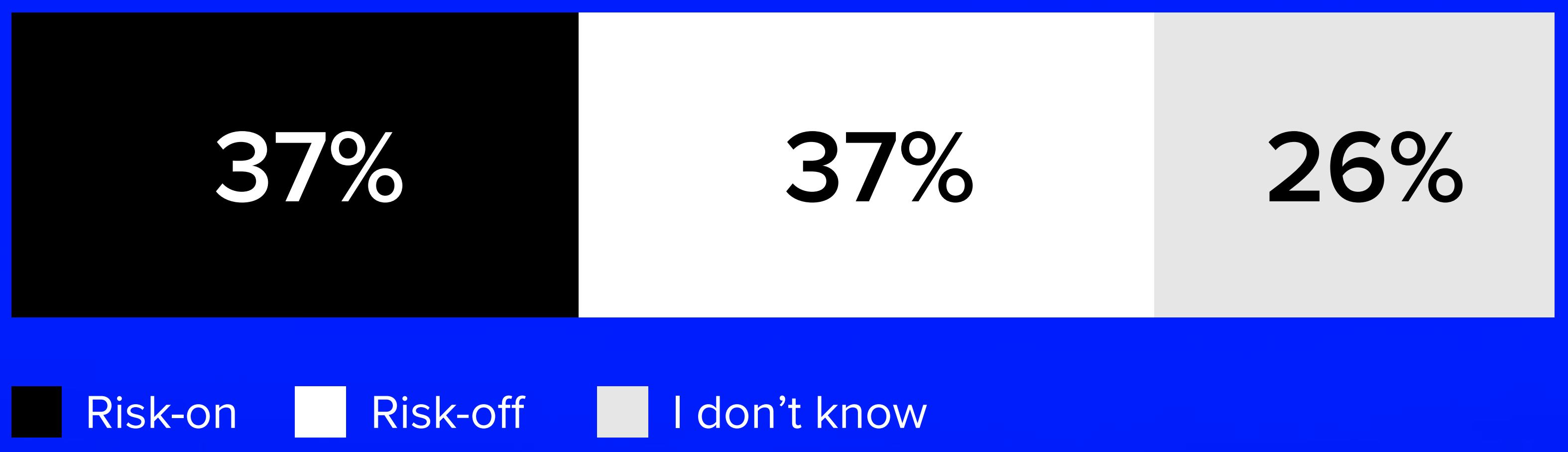


5. Mixed views on 2023 require a personalised approach

When asked about 2023, investors are as likely to take chances for larger gains as they are to avoid investment risk. When asked if they are taking a "risk-on" or "risk-off" approach, investors are evenly split at 37% each way – with the remaining 26% not sure.

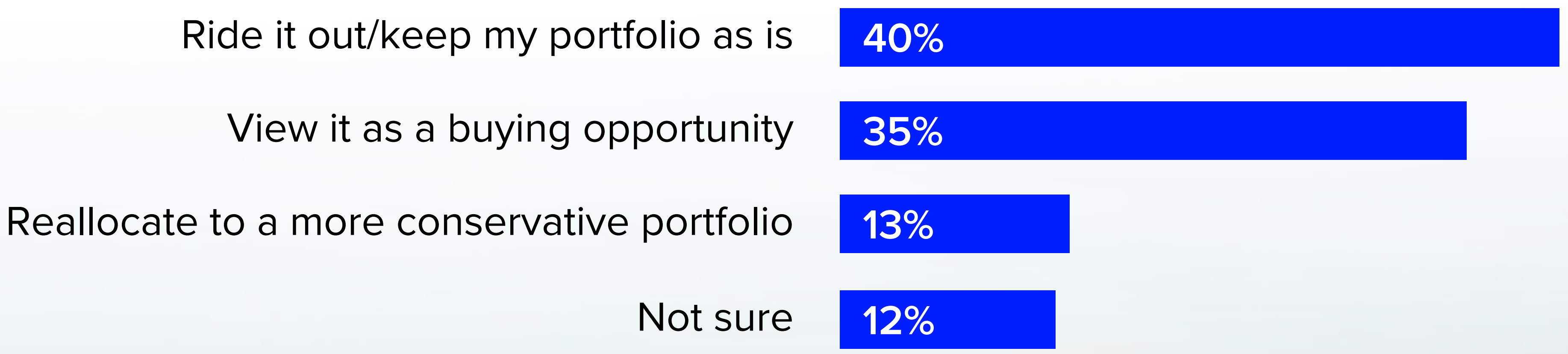
However, when asked about their likely action if the major stock markets should decline in 2023, 40% said they would maintain their current portfolio and 35% see it as a buying opportunity. Only 13% said they would move to a more conservative portfolio.

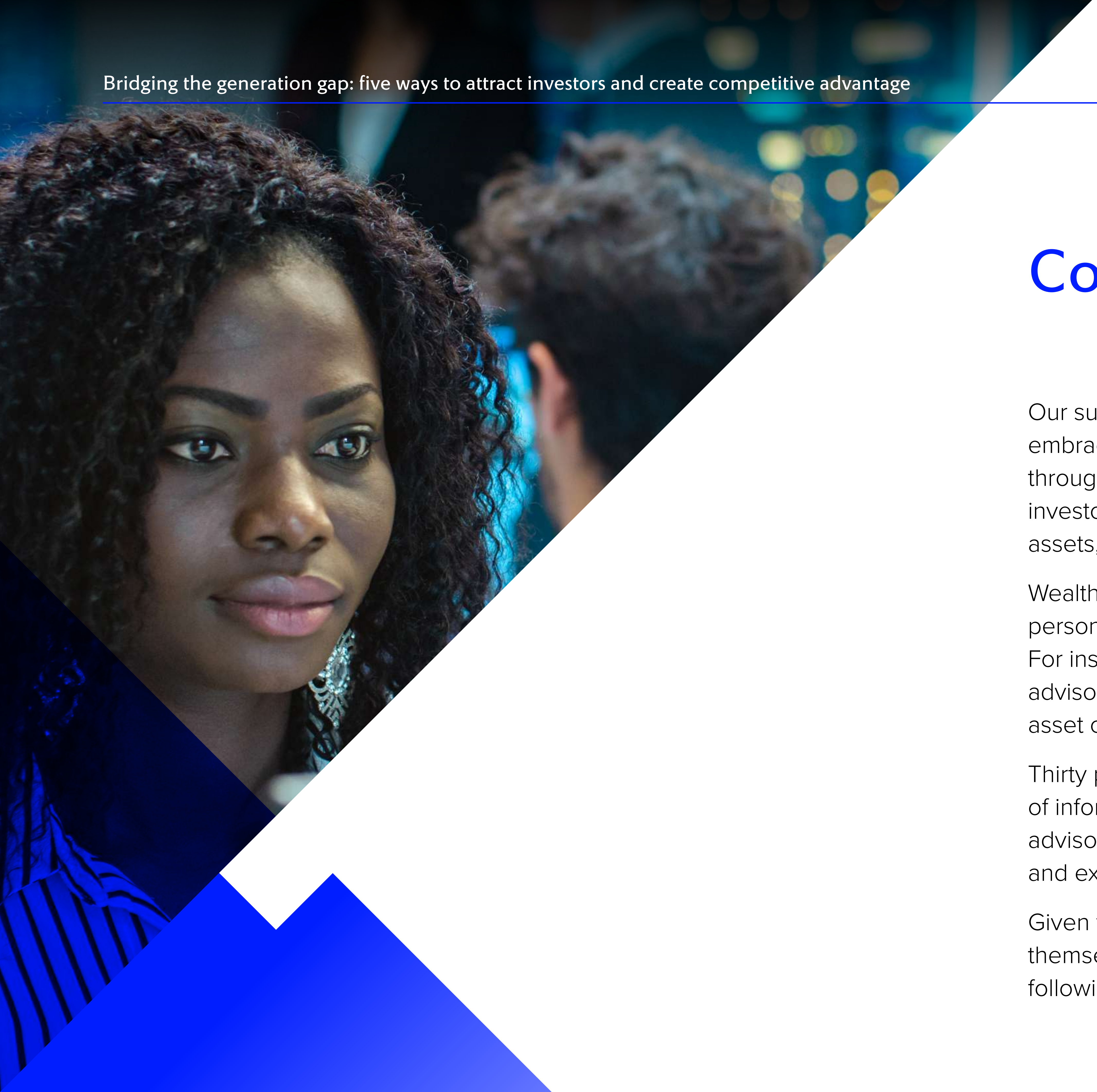
Risk-on versus risk-off



Unsurprisingly, younger investors were more willing to take on risk – with Millennials being most bullish. Fifty percent say that they would treat a major stock market correction as a buying opportunity, which might well occur if high interest rates and stress in the banking sector were to lead to a hard landing for the global economy. Wealth firms may leverage this to provide Millennial investors with information about long-term investment opportunities arising from 2023's volatile markets.

What would you do if the stock market declined in 2023?





Concluding thoughts

Our survey shows that at a time when younger generations are embracing new investment products and more digital content – even through market volatility – wealth firms have an opportunity to attract investors who are hungry for index strategies, alternative and digital assets, media sentiment and personalised digital communication.

Wealth firms need to show the value of their offerings by personalising advice and strategies to suit different generations. For instance, 48% of Millennials and 35% of Gen X would like their advisors to discuss cryptocurrencies – therefore these alternative asset classes must be included in discussions with younger investors.

Thirty percent of Millennials say that they use YouTube as a source of information and ideas, going beyond what's provided by their advisors. Wealth firms must therefore look at continuously evolving and expanding their digital channels to attract and engage investors.

Given these findings, wealth firms have an opening to differentiate themselves in the eyes of investors. They can do so by taking the following five actions:

1. Customise their service, product offerings and information to the needs of Millennials and Gen X.
2. Provide information, advice and education about cryptocurrencies, ESG investments and the full range of alternative and digital investments.
3. Discuss index strategies with investors, delivering information and education about how they can be used to diversify broad portfolios and improve returns.
4. Harness the power of market sentiment data as a tool to provide advice while simultaneously building and evolving a strong social media presence.
5. Educate investors on the risks and returns of long-term investment opportunities that may emerge from any market volatility during 2023.

About our research

In November 2022 LSEG surveyed more than 1,000 US retail investors, who own stocks, mutual funds or ETFs outside the workplace, on a range of topics related to indexes, index investing and their economic outlook for 2023.

The research was conducted by 8 Acre Perspective, an independent marketing research firm. For more information, visit our website.

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