Wealthy Young Investors

Catherine S. McBreen
Managing Director, Spectrem Group
• Spectrem conducts ongoing research with Wealthy households and their advisors.
  - 7000 to 9000 research interviews per year
  - One-on-one in person discussions
  - Focus Groups
  - Telephone interviews
  - Online research

• Spectrem utilizes this research to publish in-depth research reports and provide strategic consulting to the Financial Services Industry.

• Today we will focus primarily on the Affluent Investor.
  - Mass Affluent ($100,000- $1 million)
  - High Net Worth ($1 million and above)
The number of affluent households is beginning to rebound from the lows experienced in 2008.

**Total Households - 1997 to 2009 (Millions)**

- **26.8 million households** with $100,000-$1 million Net Worth NIPR
- **97,000 households** with $25MM+ Net Worth NIPR

Graph showing the number of households by net worth category from 1997 to 2009.
Investor sentiment has regained some optimism in 2010, but today’s investor remains cautious.

The Spectrem Affluent Investor Confidence Index (SAICI) and Spectrem Millionaire Investor Confidence Index (SMICI) gauge the investment outlook of households with more than $500,000 of investable assets and $1 million of financial assets, respectively.

31 to 51 = Bullish; 11 to 30 = Mildly Bullish; 10 to -10 = Neutral; -11 to -30 = Mildly Bearish; -31 to -50 = Bearish

© 2010 Spectrem Group. All rights reserved.
Much like their elder counterparts, Young Affluent Investors are well educated. The 35-40 age segment is the most highly educated among each wealth segment identified below. Those with over $1 million of net worth are more likely to have an advanced degree. Note that millionaire households have higher percentages of MDs, MBAs, and JDs than the $100K-$1MM segment. In fact, more than half of investors over the age of 35 with over $1 million of net worth have an advanced degree of some type.
A distinguishing demographic between the age segments is that over one-third of investors under the age of 35 are single and have never been married. Regardless of wealth level, half of the affluent Young Investors under 35 do not have children. These trends are consistent with the national trend that has been occurring beginning with the Baby Boomers. Individuals are delaying marriage and are waiting until later in life to start a family.
The largest number of Young Investors below $1 million identify their occupation as Manager, Educator, or Salesperson. Managers, Business Owners and Senior Corporate Executives are the top occupations for those with over $1 million of net worth.
Regardless of wealth level, all Young Investors attribute “Hard Work” as a primary factor in obtaining their wealth. Education and Frugality were also important factors in obtaining their current financial status at such a young age. Those investors under the age of 35 are more likely to give credit to Family Connections, Inheritance and Luck for their wealth than older investors.
Nearly one-third of investors under age 35 with less than $1 million believe the financial crisis will cause them to delay retirement. Almost half of Young Millionaires felt similarly. For Millionaires, panic decreases when age increases.

Over half of Young Millionaires under 35 say the events of the past few years have significantly impacted their short term financial plans. Half of the investors in the $100K-$1MM segment, regardless of age, feel similarly. In contrast, only slightly over one third of Millionaires between 41-45 believe the recent events have impacted their long and short term financial plans.
Young affluent investors are saving and investing more than in the past. The youngest investors are trying to recover what was lost as a result of the economic crisis and would like to grow their investments more than protect their principal. Their older counterparts may already have additional financial obligations such as a mortgage and/or family that cuts into their ability to save, thus the older segment of Wealthy Young Investors is saving significantly less than those under age 35.

**Financial Attitudes**

<table>
<thead>
<tr>
<th>It is more important that I grow my investments than it is that I protect my principal</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100K- $1MM</td>
</tr>
<tr>
<td>Million +</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Because of events of the past year, I will be saving or investing more than I have in the past</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100K- $1MM</td>
</tr>
<tr>
<td>Million +</td>
</tr>
</tbody>
</table>

© 2010 Spectrem Group. All rights reserved.
As the young affluent work to rebuild their portfolios, approximately 3 in 10 of those in the $100K-$1MM segment are having trouble maintaining their standard of living. Approximately one fifth of Wealthy Young Investors have sold securities/properties to maintain their standard of living. The youngest group of Millionaires are the most likely to have sold assets to maintain their standard of living.
A quarter of the youngest Millionaires define themselves as Conservative yet a higher percentage of the younger investors describe themselves as Most Aggressive.

### Risk Tolerance – $100K - $1MM

- **41-45**: 5% Conservative, 24% Aggressive, 46% Moderate, 26% Conservative
- **35-40**: 5% Conservative, 25% Aggressive, 44% Moderate, 26% Conservative
- **Under 35**: 9% Conservative, 20% Aggressive, 46% Moderate, 25% Conservative

- **Most Aggressive**: I seek the highest returns and I am willing to place all my investments at risk
- **Aggressive**: I seek high returns and I am willing to place a significant portion of my investments at risk
- **Moderate**: I seek moderate returns, and I am willing to place a limited portion of my investments at risk
- **Conservative**: I seek stable returns, and I am not willing to place any portion of my investments at risk

### Risk Tolerance – Million +

- **41-45**: 8% Conservative, 27% Aggressive, 48% Moderate, 16% Conservative
- **35-40**: 13% Conservative, 32% Aggressive, 37% Moderate, 19% Conservative
- **Under 35**: 12% Conservative, 26% Aggressive, 38% Moderate, 25% Conservative
The largest segment of Young Investors are looking to invest in cash in the next 12 months. This is especially true for those under the age of 35. Fixed income is also popular with Millionaires under the age of 35. Yet nearly half of young Millionaires are also looking to invest in alternatives and investment real estate. In an interesting contrast, both fixed income and alternative investments have high interest for the youngest investors and interest decreases with age.

### Likelihood to Invest

<table>
<thead>
<tr>
<th>Category</th>
<th>$100K- $1MM</th>
<th>Million +</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Real Estate</td>
<td>4%</td>
<td>25%</td>
</tr>
<tr>
<td>International Investments</td>
<td>21%</td>
<td>41%</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>7%</td>
<td>19%</td>
</tr>
<tr>
<td>Equities</td>
<td>22%</td>
<td>30%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>21%</td>
<td>34%</td>
</tr>
<tr>
<td>Cash (Including CD's, Money Market, and Treasury)</td>
<td>49%</td>
<td>54%</td>
</tr>
</tbody>
</table>

© 2010 Spectrem Group. All rights reserved.
Primary Financial Advisor (Among Those Who Use Advisors)

Over one-fourth of Wealthy Young Investors with 100K-1MM do not use any advisors, compared to 12% of Millionaire Young Investors. Among those who do use an advisor, accountants are the most common advisor for the youngest investors regardless of wealth level. Independent financial planners are also popular regardless of age or wealth level.
Over one-third of affluent investors under the age of 35 who have less than $1 million believe they can do a better job of investing than a professional advisor. Although Wealthy Young Investors feel their long and short term financial plans have been hit hard by the events of the past year, less than one-third have used an advisor more as a result. The youngest investors are the most likely to have increased their advisor usage.

**Attitudes Towards Advisors $100K- $1MM**

- I have worked more with a professional advisor because of the recent economic crisis:
  - Under 35: 27%
  - 35-40: 18%
  - 41-45: 9%

- I can do a better job of investing than a professional advisor:
  - Under 35: 41%
  - 35-40: 38%
  - 41-45: 39%
Young Millionaire Investors are cost conscious when considering the services of a financial advisor. Three-quarters of those under 35 do not want to pay for an advisor. This attitude decreases with age. Nearly two-thirds of Millionaire Investors under the age of 35 believe they can do a better job than a professional advisor. This attitude also decreases as age increases, yet still applies to almost half of all Young Millionaires.

### Attitudes Towards Advisors

<table>
<thead>
<tr>
<th>Statement</th>
<th>Under 35</th>
<th>35-40</th>
<th>41-45</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have worked more with a professional advisor because of the recent economic crisis</td>
<td>24%</td>
<td>29%</td>
<td>41%</td>
</tr>
<tr>
<td>I find the services of a professional advisor to be very expensive</td>
<td>58%</td>
<td>65%</td>
<td>74%</td>
</tr>
<tr>
<td>I can do a better job of investing than a professional advisor</td>
<td>43%</td>
<td>48%</td>
<td>62%</td>
</tr>
</tbody>
</table>
The older Millionaire segment views the value and trust established with their advisor as more important than the firm he or she may work for. If an advisor left a firm, most investors under 35 would choose to stay with the firm they are currently working with because of the safety and brand. Clearly the youngest investors have not yet developed a trusted relationship with an advisor and thus rely on brand. This trend also holds true for the 41- to 45-year-old members of the $100 K - $1MM group.

**If your advisor left their current firm...**

- **$100K- $1MM**
  - I would move with my advisor because the relationship with the advisor is more important to me than the firm they work for: 42% (41-45), 53% (35-40), 45% (41-45), 45% (Under 35)
  - I would stay with the firm because the safety and brand name of the company is more important to me than my relationship with the advisor: 58% (41-45), 47% (35-40), 55% (41-45), 58% (Under 35)

- **Million +**
  - I would move with my advisor because the relationship with the advisor is more important to me than the firm they work for: 59% (41-45), 55% (35-40), 54% (41-45), 55% (Under 35)
  - I would stay with the firm because the safety and brand name of the company is more important to me than my relationship with the advisor: 42% (41-45), 44% (35-40), 42% (41-45), 56% (Under 35)
Regardless of age, not returning phone calls is one of the primary reasons an investor might fire an advisor. Those under 35 are less tolerant of long and short term portfolios losses than those slightly older. Young Millionaires are more likely to expect their advisors to proactively contact them than less wealthy investors.
What Content Would You Like To See On Your Financial Service Firm’s Website

Young Investors are more internet savvy than their older counterparts and are more opinionated regarding web content they would like to see on their provider’s website. While access to personal account information ranks top with all investors, the youngest investors are almost equally as interested in information regarding alternative investments, as well as comprehensive product information. Articles on financial topics as well as research on financial products are demanded by many Wealthy Young Investors.
Implications

• Young Investors have yet to see the value in using a financial advisor and many have not yet established a relationship with an advisor. This is a great opportunity for advisors. Since Wealthy Young Investors have access to a plethora of information available on the internet, they must be convinced of the value of using a financial advisor. It is important for a financial advisor to bring value added information to Wealthy Young Investors. Work to establish your expertise in their minds and ultimately gain their trust.

• The new generation of investors are working to rebuild their portfolios and are willing to bear more risk in doing so. They want to hear about new products and investment ventures so adjust your communication with these investors to the products they want to hear about. They are torn between being conservative and being aggressive. Help them to identify the appropriate strategy for their situation.

• Because these households are having children at later ages their financial crunch may come at a later time than previous generations. Help them to determine how to pay for college, save for retirement and care for older parents all at the same time.
The emerging affluent investor represents a new generation of investors who have different service and delivery requirements than the Baby Boomers or the WWII generation. They are seeking new ways to manage their assets and looking for unique management platforms that allow them to have ongoing oversight and control of their assets. Access to account information 24/7, readily accessible information and the aggregation of account information will soon be a necessity.

Young Investors are more comfortable with obtaining information on the internet and self educating. Because they are more comfortable with technology they want to interact with their providers and advisors within these same mediums. Adjust your communication strategies to match that of the generation of your investors. Become familiar with Facebook, Twitter, LinkedIn and other forms of communication.
For more information on Vanguard please visit:
https://advisors.vanguard.com
CIMA CE Credit

To receive 1 CE hour toward CIMA®/CIMC®/CPWA® designations

Log on to: www.imca.org/main/do/reportCIMACE

Click on “Non-IMCA Continuing Education Hours Submittal Form”

Complete form and follow submittal directions

Program Name: Working With Wealthy Young Investors - Webinar 12/7/10

A recording and the slides of this presentation will be available at

http://www.fa-mag.com/spectrem