The New York Times

September 20, 2013

WEALTH MATTERS

Younger Generations' Approach to Investing

By PAUL SULLIVAN

TRYING to glean differences among the generations makes for an interesting parlor game. But this week, three reports by big financial institutions offered insights into how investors in their 40s and 20s — known as Generation X and Generation Y — think about their personal finances in the broadest way.

The reports by Fidelity, U.S. Trust and Pershing show how the younger generations want to set themselves apart from the baby boomers. The reports yielded tips from which any generation could benefit but also contained some red flags indicating where the younger generations could stumble in the future from the same traits that seem like strengths today.

"When I was 25 years old, I wanted to emulate my parents," said Craig D. Pfeiffer, a former vice chairman of Morgan Stanley and the founder and chief executive of Advisors Ahead, which trains advisers to work with younger clients. "I can remember proudly telling my father that I opened an account at a national financial services firm. When we wanted to buy our first home, we sought out our parents' real estate agent. Today there is great pride in saying 'I don't have an account where you have one, and I'm proud that I'm not doing what you did.' "

> "We view investments first and foremost by, Is it making the world a better place?" he said. "We keep things strictly mission-focused — renewables, energy efficiency, household products that are sustainable."
>
> — Farhad Ebrahimi
> Founder,
> The Chorus Foundation
> (which helps communities affected by fossil fuel extraction)

Margot Seigle, 26, consulted both her family's advisers and her friends as she decided how to invest an inheritance.

That's all well and good — and youthful rebellion is to be expected — but the decisions chronicled in these reports will affect the financial success of these generations for years. While some choices seem to be positive, others

Continued on next page

Continued from previous page

are going to take more time to play out. Here's a look at some of the more interesting findings.

HAVING A SAY Fidelity's Millionaire Outlook found that Gen X and Gen Y were deeply engaged in managing their money, though that engagement was not necessarily paired with a deep knowledge of investing.

The report said that nearly three-quarters of the young millionaires surveyed said they felt knowledgeable about investing, found it enjoyable and were actively involved in it. Yet that group also reported making 30 trades a month on average, meaning they may be less aware of fees and the risks of short-term speculation.

"Thirty a month is a big number," said Bob Oros, executive vice president of Fidelity Institutional Wealth Services. "But I would look at it less as an absolute number. They're actively engaged in how their assets are managed."

Mr. Pfeiffer, who participated in the introduction of the Pershing report on the need to bring younger financial advisers into the advisory business, equated the heightened interest to the do-it-yourself movement in home repair. "They go to Home Depot and Lowe's and try to fix it themselves," he said. "Then they call the plumber to fix what they did. There is absolutely great risk around do-it-yourself."

Rahul Shah, a founder of Peninsula Wealth in San Francisco said his clients broke down along generational lines and by wealth level. He said that Facebook employees with wealth exceeding $20 million had found advisers to help them manage the complexity, while those with a couple of million dollars were trying to figure it out themselves.

"There are a few who say, 'Is there an app for this that can do this for me?' " he said. "Whether there is an app for that or not, everyone is going to behave emotionally when they're managing their own money." He said he would manage his client's money better than his father's money because he had an emotional attachment to his father's money.

He added that many Google millionaires discovered this the hard way in 2008, when the financial markets collapsed four years after the company's public offering.

SEEKING VALIDATION When Gen X and Gen Y investors ask for help, they want an adviser to collaborate with them and, in some cases, validate their decisions. The Fidelity report found that nearly all millionaires in this cohort worked with advisers — compared with just two-thirds of millionaire baby boomers — but that six in 10 said they used their adviser for a second opinion on investment decisions.Michael Nadeau, chief executive and founder of Viverae, an employee wellness company in Dallas, said, "I can't imagine there is anyone in my shoes or similar shoes who isn't using a professional — to be successful they need to focus on their own job."

But Mr. Nadeau, 40, said he got some of his best ideas from his peer group of younger chief executives and business owners. "We're looking for the next exciting play," he said.

Such convenience surveys carry risk, since what would a fellow business owner know about investing broadly? But Simon Baker, chief executive of Baker Ave Asset Management, which manages about $1 billion, mainly for tech entrepreneurs, said his clients were most interested in investing in companies that operated in a more socially responsible way or were creating products or technologies that aimed to change how the economy worked.

"They're looking at, 'How can I make an impact with my experience or knowledge?' " Mr. Baker said. "They want to collaborate with us. They want to know the process. They want to be more actively involved."

For some, though, this comes from a distrust of the financial markets, particularly for members of Generation Y who came of age during the Great Recession, Mr. Pfeiffer said.

Margot Seigle, a 26-year-old community organizer who works on a Jewish farm in Falls

Continued on next page

The New York Times

Continued from previous page

Village, Conn., said she had been consulting both her family's advisers and her friends as she decided how to invest the money she inherited when her family's lumber company was sold.

"I'm in the process of shifting my investments not just into socially responsible investments but into investments that are investing in the new economy," she said. One that she likes is the Black Mesa Water Coalition, which is trying to put solar power panels on former coal mine land.

Yet she said she understood why her family's financial advisers had advised against risky investments: "Their bottom line is to make me money," she said. "What's important to me is I'm investing my money in communities and in people. If I lose some money in that but people are getting paid great wages, great."

ALIGNING INTERESTS Many in these generations have also worked to align their investments with their philanthropic mission.

Farhad Ebrahimi, 35, is the founder of the Chorus Foundation, which helps communities affected by fossil fuel extraction. He said he aligned the investments of his foundation, which has $40 million in assets, with that mission.

"We view investments first and foremost by, Is it making the world a better place?" he said. "We keep things strictly mission-focused — renewables, energy efficiency, household products that are sustainable."

SPENDING BIG, BUT PLANNING TOO If there was one thing I thought the financial crisis had taught all generations, it was that being a big spender could be detrimental to their financial well-being. The Fidelity report said Gen X and Gen Y millionaires had more vacation homes, boats and country club memberships and took more vacations than their boomer counterparts.

Mr. Baker said that particularly for his younger millionaire clients, this was derived from a belief that they would have other big paydays in the future. ("The reality is only 5 percent of these people are going to have another hit," he said. "There are only a few serial entrepreneurs out there.")

But Shawn Meade, an accountant and adviser at Redwood Wealth Management outside of Atlanta, had a different take: his younger, wealthy clients are more interested in spending money for time with their families.

"I'm taking my kids to San Francisco and we're going to see the Golden Gate Bridge and Alcatraz," he said. "They're going to remember that a lot longer than if I just bought them something. We tell our clients to spend your money."

A countervailing force to this spending, the Fidelity report said, was that more young investors wanted to have financial plans in place so they could track their progress toward their eventual financial goal.

ENJOYING A LEG UP Many of those who have become wealthy enough at a young age to be counted in any of these reports acknowledged having an advantage their baby boomer parents did not have: they grew up well-off.

In its report on high-net-worth business owners, U.S. Trust said 95 percent of the baby boomers surveyed were first-generation business owners, but just three-quarters of younger business owners were the first in their families. More broadly, 78 percent of baby boomers who went on to own successful businesses grew up middle class or lower, while so far, that is true for only 20 percent of Gen Y business owners.

"The boomers had no safety net — if they failed, they'd hit the ground and have to deal with it," said Keith Banks, president of U.S. Trust. "For Gen X and Gen Y, it's a different beginning: they perceive a safety net there because of the wealth of their boomer parents."

Yet Mr. Banks said this was not a reason to be cynical about the attitudes of younger business owners and investors. "They're so much more aware of the world around them," he said. "They're better people because they can be. I hope they have the same drive and ability to be successful. I'm rooting for them." ■