

Generation Y: Independent Thinkers

As competition continues to increase in the wealth management industry, discovering new sources of customers has become more important than ever. Moreover, as a sizeable portion of affluent Americans are on the cusp of moving into a de-accumulation phase, the motivation to attract younger investors is stronger than ever. Firms that are successful in attracting the new wave of affluent investors (those born after 1981) will be challenged to meet the needs of a generation that is vastly different from its elders.

First, one in three (32%) affluent Gen Y investors do not have assets in an employer-sponsored retirement plan and one in four (27%) do not have an IRA. Given the fact that most of Gen Y are employed – with substantial incomes – it seems less likely that they don't have access to a 401(k) and more likely that they are choosing not to participate in their employer's plan. Indeed, Generation Y investors are more likely than any other generation to hold a high concentration of their assets (28%, on average) in bank accounts.

Gen Y'ers do invest, however, and when they do, they are more likely than others to own individual stocks and bonds. Furthermore, Gen Y are also significantly more likely to own alternative investments such as exchange traded funds, separately-managed accounts, and hedge funds.

Product	Product Ownership (% of People)				
	Gen Y	Gen X	2 nd Wave Boomers	1 st Wave Boomers	Silent Generation
Mutual funds	75%	76%	82%	80%	76%
Individual stocks	85%	72%	70%	69%	70%
Individual bonds	69%	32%	32%	37%	38%
SMAs	35%	8%	7%	7%	7%
ETFs	40%	14%	11%	9%	10%
Hedge funds	33%	8%	2%	3%	2%

The majority (61%) of Generation Y investors consider an online distributor to be their primary relationship, with E*Trade garnering the highest share of relationships (15% vs 3% among all investors), followed by Charles Schwab and Fidelity. Second to online distributors is the bank channel (which again is a clear departure to other, older generational segments), with one in four young investors (25%) considering a bank their primary distributor.

Continuing the trend of independent behavior, Gen Y investors who are advised are more likely than older investors to retain control of a majority of their own assets.

Currently, Gen Y investors have less than half of their assets (48%) managed by their primary advisors compared to 61% for the average investor.

Perhaps most striking about Gen Y's investing behaviors is their general aversion to risk. While an increased allocation to more conservative investments may be appropriate for older investors, younger investors have a longer time horizon to weather the storm. Currently, younger affluent investors place over a third (36%) of their assets in low risk, guaranteed return products which is almost on par with Silent Generation investors who allocate 40% of their assets to these products.