SmartMoney

Money Firms Slow to Target Gen Y Demographic

By Lisa Scherzer
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THE WEB SITE for Thrasher Funds[1] depicts a scene that bespeaks a too-cool-to-care attitude. A dozen late-teen/20-something men and women lounge around a white couch. One guy has his cellphone to his ear; one girl wears denim shorts that could be mistaken for underwear. All are scruffy and display a general expression of detached boredom.

The look is designed to appeal to Generation Y, a demographic made up of 60 million Americans born between 1979 and 1994 that likes its communication immediate and its words abbreviated. In addition to being hip and tech-savvy, Gen Y has mountains of student-loan debt and an overall lack of financial literacy. All that makes the group a huge opportunity for financial-services firms, says Michael Rubin, founder of Total Candor, a Portsmouth, N.H.-based financial planning education company.

Thrasher Funds is one company trying to get in early on this untapped market. Its GendeX mutual fund, whose major holdings will include "lifestyle relevant companies" like **Polo Ralph Lauren** (RL[2]), **Whole Foods Market** (WFMI[3]) and **Toyota Motor** (TM[4]), is set to open to investors on Sept. 26.

Trendy packaging aside, Rubin says Thrasher is probably no better than the offerings of more established fund companies. Unfortunately, those more established companies have been slow to cater to Gen Y.

A KPMG International study[5] released in July found that fund-management companies are unprepared for the generational change affecting their customer base. Only 28% of firms surveyed said they intend to develop a relationship with Gen Y as customers over the next five years. That's in addition to the 22% that have been focusing on this group over the last two years, but still means only half of the industry is making a real effort to help 20-somethings map their financial futures.

Rubin says it's a mistake to think that those weaned on videogames and the web have unique financial goals. While there may be some lifestyle differences, firms need to focus on Gen Y's financial picture in a comprehensive way, he says. "With Gen Y, the approach needs to be more holistic," according to Rubin. "You've got this whole debt issue, which many boomers did not have, and not to this extent at that age. And you need to let people look at their day-to-day cash-flow needs.... You can't strictly talk about investing and retirement without including the debt issue."

For the most part, companies are still in a "strategic development phase" when it comes to figuring out what to do about 20-somethings, says Rubin.

A few, like **Charles Schwab** (SCHW[6]) and American Century Investments, are tailoring their products to attract young investors. This year Schwab reduced minimums for all its main brokerage and retirement accounts to $1,000 from $2,500 and unveiled the "15-Minute IRA" as a way to make investing for retirement quick and straightforward. American Century launched "My (Whatever) Plan[7]" last November, specifically geared toward 20- and 30-somethings who know little about investing. It's an educational tool that also offers two choices of asset-allocation funds requiring a $500 minimum investment.

We spoke with Rubin about how the financial-services industry can better tap this largely untapped market.

SmartMoney.com: What makes Generation Y different from others in terms of how they might invest their money?

Michael Rubin: One of the common misconceptions is that Generation Y, as they've come to be known, is so uniquely different from every generation before it. I think there are characteristics that are special, but some things are similar. Every generation would like to be successful, every generation doesn't want to make mistakes. They don't want to invest their money with people they're not totally comfortable with.

What is different is that they have so much debt. A lot of this is student-loan debt, which is significantly higher as it relates to their income. They have higher expenses, housing being one of the big ones. Also, they do have higher expectations. A lot of that comes from the stereotype that they've been doted on by their parents. Some of that is true. A lot of people who haven't been doted on have higher expectations too. Another thing that's special about this generation is they are so much more tech savvy than others. It's an opportunity for financial companies given how hungry they genuinely are to learn if they could be given the opportunity to do so without the sales shtick.

SM: There have been some reports saying less than half of Gen Y workers who are eligible plan to put money into a 401(k) plan, while other reports say most believe their investments — rather than Social Security or pension plans — would be a primary source of retirement income. That suggests they recognize the importance of investing, but aren't actually using the retirement-saving tools available to them.

MR: In the aggregate, there is a lack of understanding as to what the best way is to go after achieving a successful retirement. So while there is an acknowledgment that they need to be saving for retirement and that they plan to be saving, when push comes to shove, when it's time to implement the plan, there's a lot less certainty how to do it. There's a disconnect. The intent and action are not jibing. It was true of previous generations; when they're unsure what to do, procrastination is the result. That's how I reconcile that.

SM: Some financial-services firms have lowered their account minimums in an attempt to attract newer investors. Do you think that will do the trick?

MR: It's a step. But what there is some of — and I think there will be more of in a year or two — is the provision of education, providing the financial literacy that's lacking in the general population, but there'd be more of an impact on Gen Y. There are some companies that are providing in-person seminars available to customers and prospective customers free of charge. I think it's a huge opportunity. It's like a play area in a mall. You don't charge people to play there. The tenants of the stores and the landlord know shoppers will probably spend money at their stores that day. So if you just provide the education, a lot of those people will come around, and will become customers of yours. They'll remember your brand.

Another example of that: I think banks, to larger extent, have really understood that. There's always been the notion of high switching costs. Today switching costs are even greater. Since Gen Y is so tech savvy, they take advantage of services offered online. You not only have direct deposit, but you have your gym membership fees taken out of your checking account and all your bills automatically paid. So switching banks is a pain in the neck. So it's best to get your Gen Y customers early on. Brokerage accounts will ultimately become an opportunity for them if they can figure out how they can get to Gen Y clients earlier.

SM: Do you think something like Thrasher's GendeX fund will appeal to young investors? Depending on how it performs, is it a good alternative to what the well-established financial-services firms offer?

MR: A segment of every age group will find a specific investment opportunity attractive. The GendeX fund should be no different. In fact, they're clever with their marketing approach, Thrasher may be quite successful attracting Gen Y investment dollars. But is the GendeX fund a better alternative than the offerings of more established financial-services firms? Probably not. Like all new funds, it will start with a limited track record of which to evaluate.

SM: How does Gen Y's enormous debt problem affect the way they might be pitched financial or investment products? Realistically, how should a recent college graduate with thousands of dollars in student loans go about socking away money in a 401(k)?

MR: That's a huge opportunity for financial-services firms. A lot of this is coming about because the financial-services industry is starting to become aware that the baby-boomer boom is ending.... They're asking where's the next big thing? When it came to the baby boomers, it was always nearly entirely about two parts: retirement and investing. That's it when they targeted that segment. With Gen Y, the approach needs to be more holistic. You've got this whole debt issue, which many boomers did not have, and not to this extent at that age. And you need to let people look at their day-to-day cash-flow needs. How do I get through August and September to set myself up for 10 years for now? You can't strictly talk about investing and retirement without including the debt issue. And also boring stuff like health insurance.... They need to take a picture of the entire individual instead of focusing just on the products they're selling.

SM: How are financial companies tailoring their services to this group?

MR: I think a lot of the companies are almost in the strategic development phase. They're exploring what it will take to successfully target this niche. Another thing Generation Y folks desire is self-service. I don't think any financial-services firm has been able to provide — or put on their site — something where someone can look at on their own to plan their financial future. They're really not into making sure the individual as a whole is being addressed from the personal-finance standpoint. It's a huge opportunity if they can figure it out; that would provide with them additional lines of business.

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