
Investment Insights

The Investors of the Future Are Coming—and Maybe Sooner Than You Think.

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Key Takeaways

- ▶ Technology is enabling the investor experience to be personalized—and it's becoming available faster than you think it is.
- ▶ Just because your current clients aren't interested in direct indexing, ESG, and more, that doesn't mean their spouses and heirs won't be.
- ▶ The next generation's financial goals may resemble those of their parents, but the path to getting there may be very different.

Morningstar Investment Management has brought together thought leaders from our Investment Management team, Sustainalytics, and Morningstar Indexes to present the Evolution of Personalization. This series explores hyperpersonalization, direct indexing, and how those quickly developing areas are changing the way advisors address client concerns and the desire for more personalized investing.

The future looks far away until it gets here. After that, everyone wonders how it happened so fast.

If you're old enough, you might recall a time when you didn't have a FICO credit score. Those appeared on the scene in 1989, the same year the B-52s had their first top-40 hit with "Love Shack."

There was a time when advisors didn't employ a risk-tolerance questionnaire, and the concept would have been alien to the average investor. Now investors can probably tell you if you prefer an aggressive, moderate, or conservative investment approach.

I recall my parents driving my brothers and me to Blockbuster in our Volkswagen Dasher to grab a couple movies for the night. It was devastating to return home with Joe Versus the Volcano because both of the store's physical VHS copies of Teenage Mutant Ninja Turtles were checked out. Today, my kids couldn't imagine the hassle of going to a store to rent something, hoping it's still on the shelf. Not when we have Netflix and Disney+.

Forget worrying about finding a pair of sneakers in your favorite color at the mall. You can order shoes on the Web—and customize them. You can even order a car online.

Mind. Blown.

Why should investing be any different? Mutual funds and ETFs have served investors well and continue to do so. But the game is changing, with technology enabling the evolution of the investor experience to be personalized. And it's going to be available much sooner than you'd think.

I've spoken with many advisors over the past 18 months who said, "None of my clients have made an ESG or personalization request." I always ask if they've tried to engage with the spouse or the kids. You may have their assets today, but will you in the future?

The odds aren't promising. A recent Cerulli Associates study states that an estimated \$70 trillion in assets—that's not a typo—will transfer to heirs over the next 23 years¹. Others in the industry indicate an advisor-turnover rate of 70% among surviving spouses after the breadwinner passes away².

To get an idea of what's coming, it's worth looking at a few salient demographic points:

Generations X and Y currently account for a third of the wealth in the U.S. today.
There are more than 600,000 millennial millionaires in the U.S. right now.
95% of millennials indicate an interest in ESG

It's entirely possible that the financial goals of the next generation will resemble those of their parents. But their path to get there may look very different. Are you in a position to meet the needs of the investors on the horizon? Are you equipped to talk direct indexing, personalization at scale, ESG, client values, or customizing tax benefits?

The future will be here soon. And it may be sooner than you think. ■■■

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Based on a proprietary valuation-driven asset allocation process, our strategies offer investors a range of multi-asset risk- and outcome-based strategies designed to help meet a variety of goals. Also, our separately managed accounts offer concentrated portfolios of our portfolio managers' best ideas. We put more than 35 years of investment experience to work in every portfolio we manage to offer you a better investing experience, because your journey also matters.

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