



Investor Demand: Disguised, Dissipated or Disappeared?

Marketrends 2003 Conference “Growth in a Tough Environment”

Boston, Massachusetts • December 10-11, 2003

Presented by:
Nino DeNicola
President
Dialogue Resource, Inc.



The New Requirements: Customer Mindset

- Despite the market turn, customers continue to keep assets largely on the sidelines
- As debt in the household balance sheet exceeds the assets in retirement plans for the first time, people are focused on managing their liabilities
- Risk management has shifted from an abstract idea to a reality...preserving what you have
- Spending patterns have changed...people are (especially) value conscious
- Retirement standard of living suddenly seen “at risk”



Optimizing Assets: Consumers' Personal Financial Reality

- The home is now part of portfolio asset allocation
 - The major financial decision in the past several years has been their primary residence...still holding value
 - Refinancing the mortgage to take advantage of low rates has evolved
 - from cashing out/using it for large items (e.g., vacation spending)...
 - ... To lowering the risk in the household balance sheet by shortening from 30 to 15 years for same monthly costs
 - ... To increasing disposable income



Optimizing Assets: Their Personal Financial Reality

- Wealth dissipation effect
 - New priority is holding on to what you have vs. growing wealth
 - Personal and pension plans are under-funded...need to find additional ways to save
 - 401(k) – trying to maintain contributions, as company matching dollars are cut back
- Early signs of moving back into the market (out of money market funds but not bank deposits)
 - Little trust that market rally will be sustained
 - Continued focus on conservative equity/asset allocation strategies



Optimizing Assets: Who To Turn To?

- Distrust of financial institutions remains a significant factor
 - Ambivalence toward firm providers
 - Decreased loyalty, even to “primary” providers
 - Younger 401(k) plan participants seek multiple providers
- Sense of “abandonment” by financial institutions
 - No one is watching out for me
- Recent press coverage shift from Wall Street brokerage scandals to mutual fund company trading practices is perpetuating idea that firm interests are not aligned with investors’ interests



What This Means To Financial Services Providers

- A new response is needed for the changed investor mindset
- Your customers need enormous help and advice but are not convinced financial institutions “get it”
- The New Value Proposition: *Not Business as Usual*
 - Customer-centric vs. firm-centric stance/communications
 - Solutions not products
 - The entire portfolio, not just investments
 - Premium pricing must be for clearly differentiated value-added
 - Lower pricing for same level of service – the new value equation (e.g., Fidelity cuts trades to \$8.00 but maintains previous service levels)

What This Means: A Customer-Centric Approach

- Client segment profiling is more important than ever to crafting value propositions that demonstrate you “get” customers’ mindset and needs
- Each client segment – according to their lifestage and household balance sheet – is attempting to find solutions to help manage their new realities
- Addressing segment needs of your clients helps define an effective marketing approach:

Who	Age	Income/Assets
Emerging Affluent	26-41	Income > \$75k
Boomer	42-57	Assets > \$100k
Pre-Retiree	55-65	Assets > \$250k
Retiree	65+	Assets > \$250k

Emerging Affluent: Attitudes and Practices

Characteristics

- Educated young professionals
- Education loans/credit card debt
- Focus on balance of work and young family
- (Largely) optimistic about the future
- Skeptical/resistant to aggressive broker/direct mail solicitations
- Generally not brand loyal

Behavior

- Seeking advice/guidance but want consultative relationship
- Somewhat more reactive than proactive when looking for help
- Value personal recommendations...third party referrals
- Serious savers...first home acquisition
- High comfort with remote channels

Financial Needs

- Basic savings vehicles...rebuilding cash
- Debt consolidation, pay down
- Several financial service relationships...need to “diversify” relationships
- Risk averse...conservative...mutual funds

Boomer Affluent: Attitudes and Practices

Characteristics

- Peak career earnings
- “Sandwich generation” – children at home; parents may need care
- Professionals/small business owners
- Time constrained
- The “New Retirement”
 - ... Not planning to “retire”
 - ... Emerging vision of second stage of long life redefined around meaning, interests, life fulfillment, exploration

Behavior

- Many delegate to advisors; keep track through remote channels; still want control
- “Planner” sub-segment orchestrates plan with multiple providers/channels
- Core consumers of the new “value”
- Many are overleveraged
- Home is major part of financial decision making

Financial Needs

- Significant group anxious about financial position
- Sub-segment confident they are in control of financial position (“planners”)
- Looking for retirement savings outside of 401(k)
- Household balance sheet management (spending, savings, credit, borrowing)
- College funding strategies
 - ... School selection is part of financial planning (state vs. private)

Pre-Retiree Affluent: Attitudes and Practices

Characteristics

- Empty nesters
- Large amount of net worth in home and 401(k) plan
- Parent eldercare
- Preparing for “semi-” retirement...active lifestyle...“60 is the new 40”
- Value and importance placed on development of second career (opportunity vs. penalty)

Behavior

- Focused on achieving “retirement plan”; calculating net worth and managing risks
- Housing strategies: downsizing, relocating for lower tax bill
- Working longer...second career...part-time work in retirement
- (Re)assessing lifestage priorities and values

Financial Needs

- An established portfolio of multiple asset classes
- Overall theme: evaluating/restructuring portfolio
- Selling low income/growth assets for retirement lifestyle goals
- Consolidating 401(k)/IRAs from previous employers
- Self-educating on retirement income needs
- Minimizing taxes...optimizing standard of living

Retiree Affluent: Attitudes and Practices

Characteristics

- Many in traditional retirement communities
- Social Security/Medicare
- Can still be active... explosive growth in fitness programs for 65+
- Health and healthcare costs are significant concerns
- Need to (continue to) establish lifestage goals and productivity
- Some concern about outliving assets

Behavior

- Expanded leisure time...travel, health and fitness, charity work
- Downsizing lifestyle...sold/selling home/business
- Transferring wealth to heirs
- More time to spend with an advisor/money management as hobby
- (Perhaps) more brand loyal

Financial Needs

- Focused on retirement income and security
- Maintaining standard of living
- Some consolidation of accumulated investment accounts
- Estate planning/legacy
- Updating personal records to maintain proper instructions
- Support transition to continuing care communities



Summary: What About Investor Demand?

- Financial services' consumer “demand” has been reshaped
- Changes in the type of advice and guidance firms provide are necessary to address customers' new mindset and requirements
 - Redefine investment advice to include the total client balance sheet
 - Go beyond traditional investment products and services to develop new solutions for client segment needs
- Firms that respond to investors with messages, solutions, and interactions that address their new realities will (re)capture their attention