IMAP Independent Thought Podcast
Episode 26: Tomorrow's Clients

James Kingston of Blackrock and **Pedro Marin Ramirez, CFP of Marin Wealth** discuss tomorrow's clients.

- Who are they?
- The rise in unexpected demographics
- What are the needs of these clients?
- How to connect with clients families for ongoing support.
- Social media and tomorrows clients

Moderated by David McDonald, CFA - IMAP

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David McDonald - IMAP (00:15):

So welcome to this podcast in the IMAP independent Thoughts series. Today I'm joined by James Kingston and Pedro Marin Ramirez.

James is Head of Wealth Solutions for BlackRock in Australia.

And Pedro is the Managing Director of Marin Wealth.

Today we're going to discuss tomorrow's clients. Who are they, what are the demographic shifts that are occurring that advisors need to think about, and what are the needs of these different groups of clients?

So perhaps James if you'd like to head off, I know you've done a lot of work on future clients and demographic changes and so on. Would you like to talk about what you see as the outlook in the next five to 10 years for changes in the advisor's client base?

James Kingston - Blackrock (00:59):

Yeah, absolutely. And thanks for having me on the podcast today. This is something that I've been talking about for a while now. It's I think it's something that the industry is very much focused on. If you look at the expectations we have on intergenerational wealth transfer over the next 10 to 20 years, there is around 75 trillion US dollars in motion from the older generations to the younger in Australia, that's around three and half a trillion Aussie dollars.

There's a lot of money in motion. If you combine that with the fact that we are seeing a demographic shift, as we are seeing more people moving to retirement over the next few years.

And that's going to have a huge impact on how we service clients. But we also see the younger generation coming up the curve in terms of their wealth and their ability to earn money.

James Kingston - Blackrock (01:43):

The millennials are not far off actually reaching their peak in terms of earning capacity. And as they grow, and generate wealth, we also have to try and service them and meet their needs. So we've got very diverging different ways of having to engage with these clients.

You've got the close to retirees or retirees, you've got those who are still in accumulation, but probably at the latter stages of accumulation. And then you've got the younger generations coming through … the younger millennials and the Gen Zs.

And that's not even thinking about their kids, kind of "Gen Alpha" and beyond. So if you think about that, we have to understand how to engage with them. There's a different way that they are looking to engage. There's different investing preferences. And as we also see within Australia, reducing numbers of advisors, and more people generating wealth.

James Kingston - Blackrock (02:31):

How do we get scale within our advice practices to actually service more clients? Because that's going to be what the future's going to look like. So those are the kind of trends that we are seeing. I'm sure Pedro, you're probably seeing exactly the same thing in your client cohort too.

Pedro Marin Ramirez, CFP - Marin Wealth (02:47):

Correct And obviously before I even say anything, I also want to thank David for having me in the podcast today. You are 100% correct. There is a quite a broad range of clients.

Even in Australia we haven't even put the variable of foreigners. Australia is a huge attractive nation for foreign individuals that have absolutely no idea about the system. And that increases the demographics of who comes here.

Because for example, you're talking to me, I chose Australia 16 years ago, t eventually as I progressed to a bigger roles, my income increased. So my needs were changing as I was developing. But I had no idea about the system.

I think the type of clients that are hungry for advice at the moment seems to be weirdly enough females first, in the last couple of years I've observed that the females are driving the ship in a very different way than before.

Pedro Marin Ramirez, CFP - Marin Wealth (03:51):

If they're single, they're coming ahead first. Saying look I need advice. They know the limits, they know the value of advice. But even if they're in a relationship they are the ones who are driving the boat.

Like they're just bringing in the partner, making sure that their needs are attended. And that's what I've been seeing in the last few years. Which is an angle I wouldn't have expected before. It's a very plain ground right now, and it's all across the board.

But the millennials are definitely here because of social media, I would dare say, especially in our profession that (after our doctors), we are the most trusted individuals in someone's life.

Pedro Marin Ramirez, CFP - Marin Wealth (04:42):

So when you see someone on social media, you start to build up trust. And I think that's what has driven the millennials to come in, and even though obviously what has happened with Covid global financial crisis was just around the corner, like it was just a few years ago, that has also enhanced the questions around what do I do with my super?

Just having access to super back in 2020 made more individuals aware of their investments in those things. S I think, I think it has helped our profession. In regards to the demand for our services is definitely the optic, but also the realisation that some individuals just reach the limit of their knowledge, and that help is needed at that time.

James Kingston - Blackrock (05:33):

It's interesting you mentioned one thing there with advisors being the second most trusted after doctors in Covid.

I think we saw a stat that financial advisors noticed the mental acuity of their customers decreasing before doctors did, because they were engaging with them more often, especially with the advent of telehealth, which I found really fascinating.

And the trend with women is also really interesting. So I think some of the stats that we see coming out of the US, like 40% of US businesses are owned by women, and 90% of household decisions are made by women either in partnership with their partner, or by themselves.

So we expect around 35% of global wealth to be controlled by women in the next few years.

So we're heading towards parity, which is a great direction to be moving in after all these decades.

James Kingston - Blackrock (06:19):

We're not quite there yet..agreed but still, there's nuances that are needed for female investors over males. Just owing to some of the income gap, there's still not parity on earnings or savings compared to their male colleagues.

So in the US we've actually launched model portfolios just for women to address for those things. Probably there's probably more innovations we can do on that side of things but the other thing that we've also noticed especially in Australia, is that Australia's a very successful multicultural nation.

And the generation coming ahead of us, so younger, I mean, look, I put my hand up. I'm a millennial, I'm an older millennial<laugh>, but Gen Z and beyond, you know, we are seeing more wealth being controlled by women. We're seeing more people identify as LGBTQ, plus we are seeing more racially diverse client cohorts.

Are you seeing this in the clients that you are dealing with? Are you noticing more diversity now than you did say 15 years ago when you started?

Pedro Marin Ramirez, CFP - Marin Wealth (07:11):

Yes, absolutely. Not just from even just from the client side, but also on the practitioner side when you look at who was there 15 years ago probably 10% were females. Whereas now I think it's up to 30% of practitioners are female.

So it's between 20 to 30% are female, and not just practitioners, and the industry itself, but with clients as well. Feel that even just my experience with foreigners.

Obviously, I'm a bit biased, because of my background and my language, whereas obviously being a Spanish speaker most migrants tend to hover around their same language, which is easy for me to explain concepts that are very complex in their own language or even understand their situation, because I was one of them at some point.

Pedro Marin Ramirez, CFP - Marin Wealth (08:09):

So think I am a bit biased towards the foreigner demographics. But I look always at myself as a potential client. So I put myself in the shoes of the client.

Meaning when I arrived in Australia, I didn't know anything about the system. Superannuation tax, I had absolutely no idea.

But as my knowledge and my wealth grew, then I was more aware of things. Okay, I know there's something in super, I should probably contact someone.

And then just the media alone, especially when there's stats going around saying, oh you should have around this much in super.

By this age we are a very different cohort, because we came in later. Most Australians start working when they're 16, which I was very impressed.

Pedro Marin Ramirez, CFP - Marin Wealth (08:54):

Coming here, we in South America, we work maybe at 23, 24, that's when you start your working life. Whereas here, there's this push to actually be very independent from day one. If you're 18, you're probably paying rent.

So there's very different cultural approaches to wealth, and financials than I was used to. So when I look at the migration system in Australia, it's a fantastic tool, even just for lead generations, because you want someone that is educated, that is young that has a good outcome, because that's how I look at clients.

I look at clients <u>not from</u> a FUM component, but also from how long I'm going to be able to help these individuals. So if I look at someone just with a good outcome, I'll be able to help them for 30 years.

Pedro Marin Ramirez, CFP - Marin Wealth (09:39):

That would allow my business to be around for a minimum of 30 years. So I'm always thinking around the longevity of business and not the FUM. I think obviously we'll discuss this in a few minutes, around how to approach clients that don't have much FUM, but you can see their potential.

And I have a few examples actually, where alongside my client, I knew that that person had a lot of future. Like I could just feel it. And I was able to incorporate a model, which is like a subscription model, very similar.

Because most millennials and Gen Zs, they're used to subscriptions now. So that's what I'm trying to cater for. Even just the work subscription, it's better than ongoing fees in literally in a way that a client feels like, well, this is not fixed, this is a subscription.

Pedro Marin Ramirez, CFP - Marin Wealth (10:29):

It's the same thing, but just the words around it makes it more valuable, makes it more like, I'm already paying Netflix, might as well pay for someone that actually gives me information that helps me.

So I think in the ways you work things and the way you explain value, the client that I was telling you about, obviously we work together for four years and he is now a CEO. So we went alongside his progress as I knew he was going to be there.

But now I have a couple of CEOs in my books as I went with them. So it's always good to have that, and, and I think they see you differently as I guess we both grow together.

So it's an interesting current scenario for our profession, because back probably 15 years ago, I was all basically mostly in FUM. How much FUM do you have? How much I can take care of? And then the fees were centered around that.

Whereas now, I believe it's mostly per client. Where is the client going to be in 20 years? So I look at it like that 20 to 30 years.

David McDonald - IMAP (11:31):

That's interesting. I like your subscription description. That's the one thing I was just wondering maybe from both of you James as well, is you've both talked about so many different clients here.

You know the younger ones have not much FUM yet. The retirees, the migrants, etcetera, they all need different solutions. How do you cope with this ? How do you tackle a wide range of clients, Pedro, for instance? Or do you target certain areas?

Pedro Marin Ramirez, CFP - Marin Wealth (12:02):

Yeah, so for example, yesterday I was talking to a potential two-way referral SME. And one of the things I was explaining to that person was the categorisation of potential leads based on their demographics or their age, their income, their goals.

If it's a first home buying, like look I can make a lot of impact there. The middle aged depending on the situation, but also the ones who are over 50 where we can put a lot of value back, very immediately. So I was explaining around how much value do we give based on time? So those ones at the beginning is immediate. It's very quick value.

Like where it's, for example, for some super saving scheme, that's an immediate tax return that we can have an impact. It's very easy for me to explain that to someone in the middle aged group with this a foundation, a family's already started, there's debt, et cetera.

Pedro Marin Ramirez, CFP - Marin Wealth (12:57):

The value is not seen because it is an unseen value, whether we're just preparing for the future. The value is seen in 20, maybe 30 years, like protecting your wealth. I was talking to a doctor the other day, and this will stick for me for life. Her fund was minimal. It was very, very low.

But the way in which she described it was “thank you for protecting my biggest asset, (which is my brain) the capacity for me to earn is here”. And it was that she was right. She was like of course, because you can make $40 million in your lifetime, but it's all based on protecting that brain, which is your biggest asset right now. So that's probably the middle cohort. Just the value is not immediate. It is a long term.

Pedro Marin Ramirez, CFP - Marin Wealth (13:38):

We have to be very, very careful on how we express value in that middle range. And obviously if you are retired, it's much easier. I'm able to do re-contribution strategies, or transition to retirement. There's a whole bunch of strategies in that latter cohort where value is simpler. And it's usually when they can see it, I don't have to explain it as " Hey, I'm giving you this X amount across the years - it is all peace of mind.

I always say to clients with peace of mind, I can't quantify in dollars. But obviously I go back to how do you express value is key in all three. And you have to be very clear from the beginning on how long would that value be in their expectations.

Pedro Marin Ramirez, CFP - Marin Wealth (14:23):

So I think it was four years ago I became paperless, absolutely paperless!. So no paper for me, was the best decision ever, because it saves me time. I don't have to have to be going into the office to collect something, and then I later have to go back to scan. Everything is digital, but then obviously there were cohorts of individuals who have to be brought into this millennia.

Most of my clients were easy to convert, 'because I was like, sign here on a Microsoft surface device. But there were others like, look, this is exactly like a piece of paper. Put your hand in there. Don't stress, and some take a little bit of hand holding.

But overall, everyone understands if you tell them the benefit, as in, I'm not chopping up trees, I'm saving on ink. It's a cost. They understand that. Okay. I know what you mean. Yeah, this makes sense. And they make the effort to come on board with you. So just a couple of things that I've changed in my practice that have helped me deliver a bit of efficiency all across the board.

James Kingston - Blackrock (15:37):

I wonder how much your brand's worth? Sounds pretty, pretty expensive. <Laugh>.

Pedro Marin Ramirez, CFP - Marin Wealth (15:41):

Yeah. Well, look, I don't know,

David McDonald - IMAP (15:45):

James, you mentioned earlier that BlackRock had portfolios in the US I think it was now specifically for women. So what's different there? What do they need that's different, do you think? Or what do those portfolios offer ... Differing to the normal ones?

James Kingston - Blackrock (16:01):

Oh those are target date portfolios. So they're built around a particular retirement year that the individual will be targeting. They differ from our other model portfolios because they're trying to address the gap in savings that we see between men and women. So they might have a bit of a different skew between growth and defensive assets.

We also see preferences for certain cohorts around ESG preferences as well. So I think more than 55 or 60% of women that we surveyed said they are interested in sustainable investing versus 45% of men.

Hence the solutions tend to have more of a skew towards the ESG type exposures to address the preference for that as a US market.

I think if you look across cohorts in Australia ESG hasn't grown as much.

James Kingston - Blackrock (16:52):

That being said, I think with the younger generations that there is more focus on sustainability but just in different implementation versions or guises compared to ESG.

Oh there's definitely a difference between different cohorts of investors, especially on the emerging side, but we're seeing advisors tackle this in different ways. You spoke earlier and you said there are tomorrow's clients, and there are clients are about to retire.

So how do you service retiring clients differently? 'Because when someone retires, their needs from you as an advisor completely change. How do you build down a draw-down strategy? How do you think about your needs in retirement, which are going to be different to when you are working?

We see a lot of clients erring towards the side of becoming a wealth coach, focusing on wellbeing.

James Kingston - Blackrock (17:43):

What is purpose in retirement? How do you want to lead a retired life? And then working backwards to think around what the financial plan looks like. So not just starting off with this is your income, see you later. It's more around, you know, what do you want to kind of get out of life and kind of working backwards.

And then on the flip side, when you think about the next generation, and some of the things that Pedro was mentioning resonated there. But how do you help the next generation be safer for their financial future? They're typically low balance.

So you can't give all of them advice as you would do to clients with higher balances, which means that we've actually seen a lot of advice practices here and overseas develop some sort of general advice offering of their managed accounts via their website.

James Kingston - Blackrock (18:25):

That tends to be a big development area at the moment but at the very least, what we see a lot of advisors doing is just starting to engage with the children of their existing clients. Some have even built creches in their offices so they can actually bring them in. And kind of just create that kind of family environment.

So it's about kind of building that multi-generational relationship with families. And there's one advice practice I spoke to not too long ago in Canberra when they've built a whole business around advising the generations of different families. And one family. I think they had four generations on their books in terms of clients.

So just kind of thinking ahead means that, you know, you've got a better chance of retaining those assets when, you know, inheritance does start happening. I think the stats tell us that 85% of assets are lost from advice practices when that kind of transition happens.

I think, Pedro from what you've been saying, you've got that well in-hand in your business.

Pedro Marin Ramirez, CFP - Marin Wealth (19:20):

Yes, so I took the "out of the box" approach. So social media is huge, and obviously talking to clients around what are your children doing? And just being present in their life by just not being an advisor alone. It's just like, Hey, my daughter's going overseas. I got friends and family overseas, make sure that they reach out if there's a problem and they don't understand who I am.

Because you are correct. I've seen the stats of if clients were to pass, and I think it was if there's an advisor, half of them take the money away, and off they go. I think it was 25% that basically wanted to manage themselves, and the other 25% will stay with the advisor.

Pedro Marin Ramirez, CFP - Marin Wealth (20:09):

So that's quite dreadful stats where when I go look the idea is to make sure that money stays, or just even just education, just providing education, and that empowers them to think on their own. Because sometimes, especially when you're young, you just don't understand, because you don't have the educational component around what to do with a large sum of money, even millionaires or not millionaires.

A lot of winners, I think on average, I don't know what the timeframe is, but most of them go broke, because they don't have the knowledge and I even post stories like that on Instagram around what happens if you win the lottery. And I put a multiple question quiz, and then I put the stats that look X amount of people after winning the lottery become broke within X amount of time, because obviously their perception of money is very different, it does becomes different once you have almost unlimited wealth.

Pedro Marin Ramirez, CFP - Marin Wealth (21:15):

I was actually interviewing the other day, one of my podcasts one of my clients who had unlimited wealth.

Basically what she was saying, the value of money becomes extremely different. So going back probably to your question around children, the way in which I approach it is a two way street, which is be very, very present on social media. Social media in this era is your first step for attaining trust from a future client without even shaking a hand, without being given a referral.

Your image on the web is important. And the second would be just making sure that you have a conversation with them, like whether it is one-on-one, or bring them on. I can usually tell clients to so this if you want to add a bit more value to children, especially if you were to pass. Bring them on a meeting or two.

And I am more than happy to have them around and ask questions. And that gets them in a mindset that Pedro is also my advisor. So it's a very interesting way, but I always try to do as much as I can outside the walls.

James Kingston - Blackrock (22:20):

And I think tech's playing a big role in this with social media, but also the ability for advice practice to kind of offer their models via their website. General advice for example is a tech play and there's more and more tech players out there coming out there to enable you to do that.

But even on the retirement side, we're seeing more retirement tools, more spending tools, and you know, the superfund providers are doing this now because they have to start thinking about giving advice.

We are seeing that becoming more proficient or more used within the general wealth community to help clients think through accumulation and de-cumulation by effectively using an interface that is really easy to understand.

Pedro Marin Ramirez, CFP - Marin Wealth (23:02):

Yeah, and I think I was telling, I tell this a lot is like pre 2000, the com commodities of the world were actual commodities, like your gold, your oil, et cetera. Post 2000, it was data. Data was the biggest commodity. So we needed to manage data, analyze big amounts of data, and I believe our current commodity is attention. Having someone's attention for two seconds is the biggest piece of the puzzle, which is so hard right now.

There's so much noise out there, we underestimate how big it is to have our image in someone's face for one second. So I think social media plays a big part in putting ourselves not just in our clients' children's faces, but also potential clients. Like it's a mass media tool. So I think most advisors, as far as I can see, are catching up with social media.

Pedro Marin Ramirez, CFP - Marin Wealth (23:56):

I think they know if they see this as an actual great tool. But obviously looking at the demographics of advisors in Australia, I think the general advisor is around 50 yrs old, usually male. So it's much harder to actually, and, and I will say this to anyone who's listened to this is ….spend money to do it, right?

Don't be cheap because it backfires doing something on your phone. It's very different to paying someone to do a video for you. Very different. Obviously the first few is absolutely terrifying. It is definitely outside everyone's comfort zone. Well, not everyone, because most people, but the more you do it, the easier it gets.

David McDonald - IMAP (24:37):

So, Pedro that's interesting.

I know often we hear advisors saying their main source of new clients is referrals, you know, their clients, their existing clients are happy and they tell their friends, et cetera.

So for the younger people particularly, is technology then social media or an app or whatever, a better way of getting them in?

Pedro Marin Ramirez, CFP - Marin Wealth (24:58):

Absolutely. So I started my business with zero clients, zero funds... Nothing. This was around three years ago. I've got around a hundred and thirty clients right now. And that was all based from little spend.

It was all mostly marketing I spent money on videos, on pictures, on pretty much establishing an image online that was worth someone looking at it. So effectively, I believe that in order for me to get someone's trust, you have to be seen as the real deal.

Like spending the right amount of money in the visualisation of your website. I use a lot of Instagram, so a big chunk of my referrals have come from my own clientele, but Instagram and LinkedIn has been my major source of referrals.

Pedro Marin Ramirez, CFP - Marin Wealth (25:55):

Every time I ask, these people say "yes, there's absolutely a market there". And it's because with social media its like you are there, you are right next to them. So when you're talking to someone, it's like literally they feel like you are in front of them. So they trust....

That barrier of trust gets lower very quickly. And they go, okay let me see more about Pedro. Let me enquire, even follow you for a few years before they actually click on your message and say something. So I think for myself personally Instagram has been one of the best tools I've had in my arsenal.

James Kingston - Blackrock (26:30):

Yes we've seen a similar trend across all our clients. Establishing your brand in social media is the best way to grow your business, and get yourself out there. And we actually do a lot of workshops with clients here, and in the US on how to market yourself.

David McDonald - IMAP (26:46):

Oh, we lost James on this call. Well that's unfortunate, but perhaps a time that we could end the podcast anyway assuming that James is not able to join us again in the next few minutes,

I just say wish to say thank you to James Kingston from BlackRock and Pedro Marin Martinez from Marin Wealth for a really good discussion today and one on an issue that obviously all advisors need to think about in terms of building their business and keeping the business into the future.

Just before we go, I want to end the podcast by highlighting the IMAP 2024 Portfolio Management conference being held in Melbourne and Sydney in March.

This conference provides an opportunity to hear from leading fund managers, economists, and other market experts on key trends impacting your portfolios now and in the medium term..

Please visit the IMAP website **https://imap.asn.au** for all the details. Thank you.

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