The Next Generation of Wealth Management

Disruptive Forces in Investing

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Anu Rajakumar: Before the global pandemic and accompanying financial crisis of 2020, much had already been written about the investing behavior of millennials, the catch-all term for those reaching young adulthood in the early 21st Century. This next generation captures those who came of age during 9/11 and its aftermath, the great financial crisis of 2008, and the exponential growth of technology, as the Digital Age was quickly adopted. All these events have drastically impacted every facet of our society, including how the next generation and those beginning their investment journeys, now, seek to advance its wealth. So, what are next generation investors doing to manage their portfolios differently than their parents' generation before them, especially, now, amid the volatility caused by the COVID-19 crisis? I'm Anu Rajakumar, back from maternity leave. I'm joined today by Josh Bronstein, a senior vice president and wealth manager at Neuberger Berman. Josh has been recognized by Forbes as a top next generation wealth advisor and is here to help us understand more about how our current disruptive environment is impacting the psyche and investment approach of the next generation. Josh, thanks for joining us

Josh Bronstein: Thanks for having me, Anu, and welcome back and congratulations on the newest addition to your family.

Anu Rajakumar: Great. Thank you so much. You know, Josh, it's great to be back, especially for this topic, which hits close to home for me, personally, because, you know, as you know, I started the first day of my asset management career in mid-September 2008, which was pretty wild, um. And having lived through that as a young person certainly shaped my investment philosophy, and I think probably other residual behaviors, too. And maybe you can relate here on that – on that, as well. So maybe just to start us off, how have you managed through the volatility these past eight months? And maybe touch upon some of the types of conversations that you're having with clients across the generational spectrum.

Josh Bronstein: Well, like you, Anu, I started my career at an interesting point, 2006. I started at Moody's in the structured finance group, rating residential mortgage backed securities and collateralized debt obligations. Those are some buzz words that may ring true with some more seasoned investors and maybe the next generation of investors have read about them in textbooks. But it was a very volatile period. And what that experience provided me was an understanding of how critical liquidity and risk management is to understanding client portfolios and the investment process. And I've carried that through throughout my career, since then, and – and more importantly, in 2020, when we experienced significant market stress, what we noticed was that older investors actually seem more comfortable with the volatility because they had been investing over multiple cycles. While younger, next generation investors, they were having trouble, uh, being comfortable with the market gyrations on a daily basis. And you can remember it was a very volatile period during February, March and April. But what we felt as investors – and we communicated this with clients, as well – was that we saw a divergence between the market and the economy emerging in March and April. And we felt that the fundamentals of these companies were still strong and high-quality, and there had been a lot of indiscriminate selling. And we didn't want to have – to be an emotional seller into a market of stress. So, we were talking about volatility and the massive stimulus that was – that the market was providing to stabilize asset prices. And we didn't think that the recovery would happen this quickly or this rapid. And what we've experienced has been extraordinary, and I think we're very fortunate that we were calm throughout this process and communicative with our clients about how we invest and how we invest for the long-term.

Anu Rajakumar: Thanks, and you mentioned earlier that this next generation of investors appeared to be a little bit more risk averse and cautious during the volatility earlier this year, while some of your more seasoned investors were less so. You know, that's interesting considering how for younger investors it seems like you should be in the market for longer. You should almost be, uh, prepared to be more aggressive, take your chances with the market knowing that you have – time is on your side. So maybe you could touch upon some of the key concepts that younger investors, next generation investors, should be keeping in mind, particularly in these volatile spells. And maybe also just discuss how else next generation investors behave differently than their parents' or grandparents' generations before them.

Josh Bronstein: You hit on a lot of good topics. And the key is to focus on the long-term and to stay fully invested. And the textbooks would say that a younger investor, early in their professional career, should take more risk and be more aggressive and do it appropriately. And what we've noticed is that younger investors tend to be a little less comfortable doing that. And, we also try to explain to our diverse client base, but more so younger investors – is that it's impossible to time the market. What's more critical is your time in the market. And as I mentioned, earlier, to remain fully invested is critical to an overall portfolio success over the long-term. There's been many studies by various financial institutions about trying to time the market, remaining fully invested. I'll highlight one, which tracked the S&P 500 over a 20-year period. And it showed that if you missed out on the 10 best up days over that 20-year period, your total overall portfolio return would be cut in half. That is significant and material and very impactful to long-term risk adjusted returns. And it just shows how I guess the opportunity cost of coming in and out of the market can really hurt your portfolio growth over time.

Anu Rajakumar: Wow, that is actually really significant. And I just want to reiterate that phrase that you said. It's really not about timing the market; it's about time in the market. You know, it's clear that many next generation investors, you know, they're quite interested in aligning their investments with the values. So, I'd like for you to talk a little bit about the adoption of ESG investing, or environmental social and governance investing, amongst this set of investors.

Josh Bronstein: Yeah, it's become a huge source of capital, a huge source of interest over the past few years, especially, and really driving the conversation. But to quantify things, Larry Fink, of BlackRock, as quoted that there's an estimated $24 trillion, going through this wealth transfer process from the baby boomers. And we're really in the early innings of this process. So, there's significant capital that is being shifted from one generation to the next. And what we're noticing from this next generation of investors, with significant decision making ability and significant capital, is that not only do they want their money to work for them, they want their money to work purposely and have a real impact, whether it's on their local community, social issues, environmental, governance issues, minority-driven businesses. But they really want the capital to have a purpose. And you're seeing more and more money flow into this space than ever before. It used to be more of a niche. Neuberger Berman has been investing in this space for a long time, and has across the entire platform a proprietary screening process where we are looking across all different metrics to make sure that our investments are sound and follow a strict disciplined process because this is an everlasting concern and a motivation for a lot of investors, individual and institutional.

Anu Rajakumar: Yeah, sure. We've certainly seen that plenty on the institutional side. You know, another key point I wanted to explore is really the use of technology with the next generation of investors. You know, in this age, one can develop portfolios at the tap of a finger. So, I'd just like to know how does your approach, to new investors, change versus your approach with more seasoned investors? You know, and just, Josh, broadly speaking, are you noticing that more seasoned investors are also evolving and increasingly incorporating the latest technological advances available to them when it comes to investing?

Josh Bronstein: Well, this past crisis over the past nine months has accelerated a lot of those trends. Before the crisis, we always felt that communication was key, and we wanted to be proactive, rather than reactive with our client base. So, traditionally, it was podcasts like this, or short videos, or email blasts. But with the advent of social media, we've been able to communicate to the diverse client base in a variety of channels. What's key is that we're getting pertinent and valuable information. And we're being a filter for what we think is critical for people's behavioral finance and understanding, the investment philosophy, and getting comfortable. Because there's so much information out there, readily available, it's very hard to kind of sift through all that noise. And we try to do that for our clients and share what we think is valuable content. Additionally, with the advent of Zoom and different video conferencing capabilities, we've been able to meet with clients seamlessly around the world and have more and more dialogue with them than we've had before. And – and the technology is only enabled these conversations and we've been able to be more proactive. So, I think this – this accelerated the trend, but it's been very helpful for our business and for our clients to maintain a constant and active dialog with us.

Anu Rajakumar: Yeah, that's really good point. That in some ways, you know, this pandemic and this situation has allowed for increased communication and sort of dialogue, thanks to – to technologies like Zoom. So, Josh, as we wrap up, here, I'd love for you to share some thoughts on what next generation investors can learn from more seasoned investors? And also vice versa. What are some things that more seasoned investors can perhaps learn from the next generation? And then just any final thoughts that you may want to share on how investors should be approaching the current investment landscape.

Josh Bronstein: We touched on a few of them, but just to recap. For – for newer generation investors, it's – it's having a long-term perspective, and understanding what you own. Not trying to time the market, compounding is your friend, and getting more comfortable with volatility because that is here to stay. And those are lessons as any investor can benefit from reinforcing. But I think this next generation of investors should really keep that in mind as they think about allocating capital. For the more seasoned investors who have been investing over multiple market cycles, I think with this period, over the past nine months, has shown us is that the rate that technology can be adopted and how flexible businesses can be, is – is nothing short of incredible. And I think that businesses have never before have been this flexible, transient, and been able to rotate in a very nimble way. And I think that they should take that with them as businesses need to continue and innovate, and the technology adoption is so quick. Um, but I guess I would leave this with – with all investors as nothing remains known in these coming months or coming years, but what we do know – and I've reinforced this again is that the volatility is here to stay. Whether it's from the markets, in general, company specific, or the various geopolitical concerns, there's going to be volatility in the market and it's really critical to understand what you own and be comfortable with your own risk parameter that you've set out for yourself.

Anu Rajakumar: I think that's a great point to end on. So, Josh, thank you very much for sharing those insights for investors of all ages, and hopefully we'll see a smoother investing horizon in the years to come.

Josh Bronstein: Thanks, and it's been a great discussion and thanks for having me.

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