Retirement Income
JOURNAL

Are fewer people seeking financial advice?

By Editorial Staff *Thu, Oct 11, 2018*

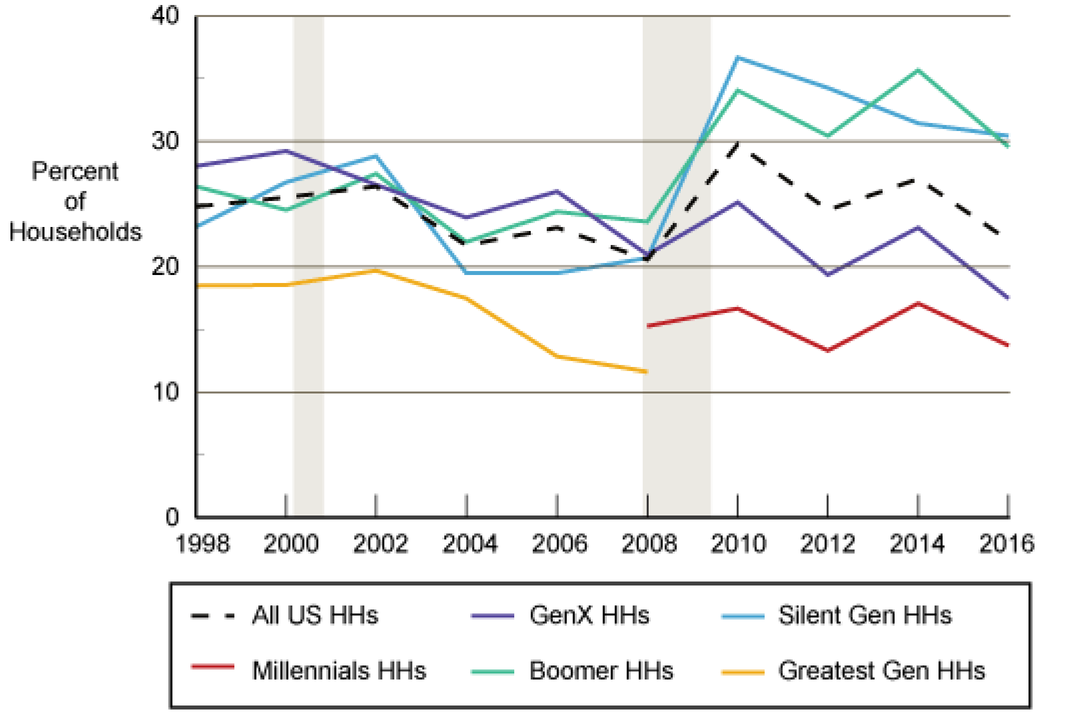
'After an extended period of good economic news—and right before recessions—people tend to believe that they do not need financial advice,' according to this brief from MacroMonitor, a publication of Consumer Financial Decisions, a unit of Strategic Business Insights.

Given the increasingly complex and critical nature of households' use of financial services and the growing pressure that limits time in which to research and make good decisions, one might think that households' use of professional financial advice would be increasing. In fact, however, the opposite is true.

After an extended period of good economic news—and right before recessions—people tend to believe that they do not need financial advice. Or, as the adage asserts, investors mistake a bull market for brains. Although it's true that that immediately following a recession the proportion of households that seek financial advice increases, overall, the proportion of households doing so remains consistent at about 25%, give or take 5%.

Figure 1

Have Obtained Professional Financial Advice in the Past Two Years



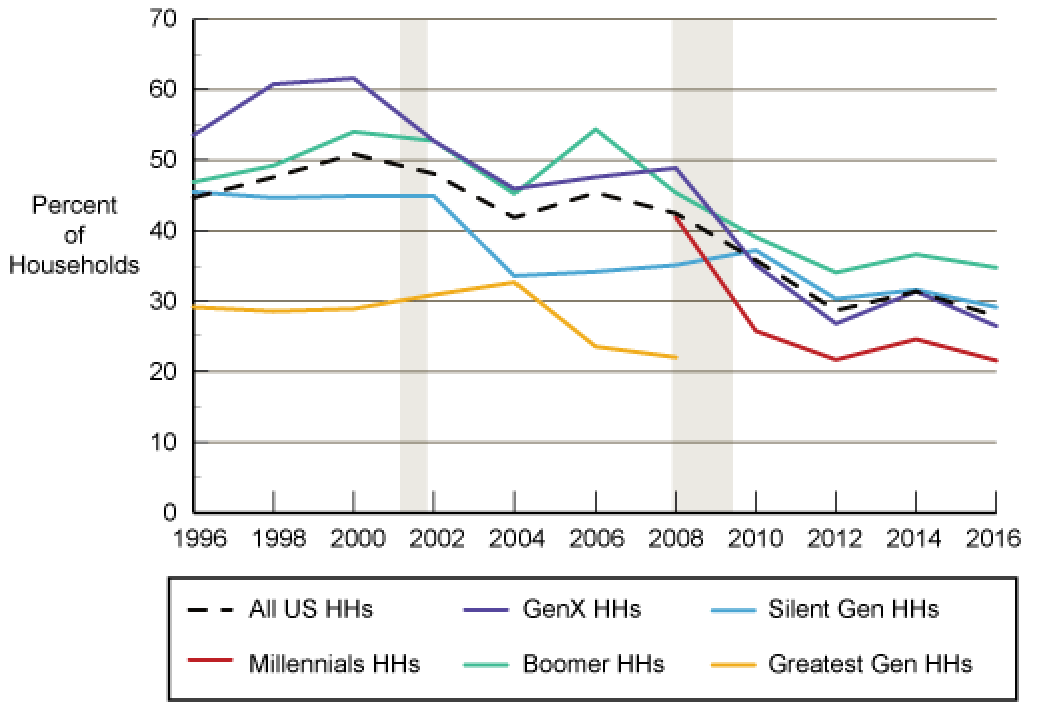
Note: Gray bars indicate periods of recession.

Source: The MacroMonitor

When one uses age cohorts to deconstruct households that obtain financial advice, a disturbing pattern emerges. Since the Great Recession, older age cohorts (Boomers and Silent/Greatest Generation) are more likely than all households to obtain professional advice; younger cohorts (Gen Xers and Millennials) are less likely to do so. The divergence is not attributable to the increasing need for advice among older cohorts. During the decade before the Great Recession, little difference existed in the proportion of households—except Greatest Generation households—obtaining professional financial advice by cohort. If the pattern of decline continues, Boomers may be the last age cohort to obtain professional financial advice. Ultra-high-net-worth households will always be an exception to this pattern; use of professional financial advice among mass-affluent households is likely in jeopardy.

Figure 2

Likely to Obtain Professional Financial Advice in the Next 12 Months



Note: Gray bars indicate periods of recession.

Source: The MacroMonitor

Evidence of this disturbing downward trend: The proportion of households that say they are somewhat or very likely to obtain professional financial advice in the next 12 months continues to decline from a high of 50% in 2000 to a low of just below 30% in 2016. Overall, recessions seem to have no impact on this trend. In fact, following the most recent recession, Boomers are only somewhat more likely and Millennials are less likely to be thinking about seeking advice. Because Boomers are such a large cohort, some decline may not be readily apparent; the numbers may be blinding some institutions to this trend. By the time Boomers enter their later years—when financial planning declines because plans are set—a more precipitous drop-off may become obvious.

Why are the use of and the propensity to use professional financial advice declining? Given the complexity and importance of households' effective use of financial products and services in order to survive and thrive in modern society, why is professional financial advice vulnerable?

MacroMonitor subscribers have access to this month's Segment Summary, *Households That Need Professional Financial Advice: An Opportunity?*, an analysis of households (with at least $100k in financial assets) that have not recently obtained nor are likely to obtain professional financial advice. Subscribers may also request the underlying set of data for the Segment Summary. For more information, contact CFD.