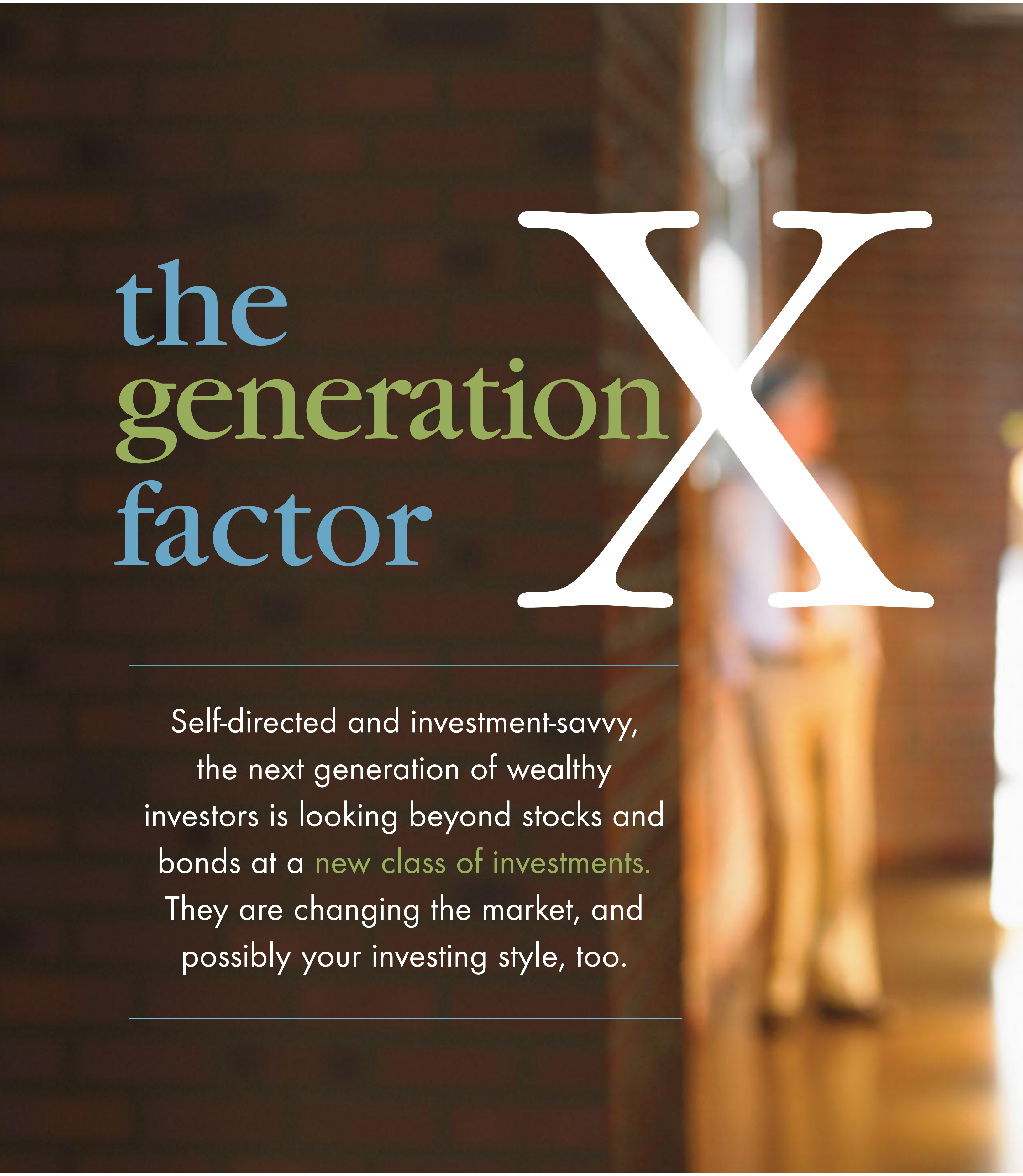

the generation X factor

Self-directed and investment-savvy, the next generation of wealthy investors is looking beyond stocks and bonds at a new class of investments. They are changing the market, and possibly your investing style, too.

Jonathan Hoenig wasn't your typical teenager. When other kids his age were throwing their money away on music and designer tennis shoes, he was spending his on stocks.

"I seriously began getting interested in investing when I was working at Starbucks in high school," Hoenig says. "I bought a few shares of Starbucks' stock, and when I was making more money on the stock than I was cleaning up coffee grounds on the floor, I thought, 'This might be for me.'"

He was right. Hoenig made money his mantra as a student at Northwestern University in Evanston, Ill., where he dubbed himself the "Capitalist Pig" with a campus radio show of the same name. The weekly program was picked up in 18 states and spawned a book, *Greed Is Good: The Capitalist Pig Guide to Investing*, pushing Hoenig's bold financial brand.

The genius of that brand? It targeted not retirement-bound baby boomers — the unofficial mascots for personal finance — but their children, Hoenig's peers: Generation X.

A New Generation of Investors

Popularized in Douglas Copeland's 1991 novel, *Generation X: Tales for an Accelerated Culture*, "Generation X" refers to individuals born between 1961 and 1981. Culturally, however, Gen X is more than a span of years. After all, Copeland describes the characters in his book as "under-employed, overeducated, intensely private and unpredictable," and that definition has stuck.

The myth of the slacker generation, however, is just that, according to Brian Jones. Jones, a certified financial planner in Fairfax, Va., and author of *Getting Started: The Financial Guide for a Younger Generation*, says Gen Xers are smart and savvy — even when it comes to investing money.

"Everybody's pretty down on the younger generations," Jones says. "The reality is we're a lot better off than our parents were 30 years ago." Gen X, he continues, grew up amid the meteoric rise of 401(k)s and mutual funds, and the result is a generation of affluent investors that better understands its money.

Generation X investors are also far more likely to have attended business school than any generation to precede them, which gave them a formal introduction to modern portfolio theory and finance early in their careers.

Gen X is doing financial planning differently, Jones says. "They tend to be a little more informed than their parents were." They tend to be better read, too, thanks to the Internet, which Jones says has shaped a class of do-it-yourself investors obsessed with research and independence — and fixated on the risk and rebellion that's expected of them.

"Young investors believe that anything is possible," says Hoenig, who writes for Smartmoney.com and *Trader Monthly*, and contributes regularly to Fox News Channel as a business analyst. "So while older-thinking investors tend to be almost instinctual naysayers who ask, 'Why?' those with a younger perspective think big and instead ask, 'Why not?'"

For these investors, thinking big means thinking beyond the traditional investments their parents swore by. They also tend to be less frightened by the market's ups and downs, understanding that time will help even out the effects these market downturns have on their portfolios. As such, more Gen X investors are investing in alternative asset classes and showing an interest in international equities. Diversification is this generation's call, and the marketplace is listening.

What's Alternative Is Attractive

Many wealthy Gen Xers pursue a diverse mix of alternative asset classes — including hedge funds, futures and private equity — in

"Young investors believe that anything is possible."

– Jonathan Hoenig, a Gen X investor, business analyst and writer.

hopes of big returns. In fact, they are twice as likely to have a portion of their portfolios allocated to private equity and hedge funds than older affluent investors, according to Northern Trust's 2005 Wealth in America study. And in their quest for diversification and returns, many more Gen X millionaires are exploring using new asset classes to diversify their portfolios. The results also show two-thirds of young millionaires anticipated allocating at least some new savings to alternative asset classes.

The study showed younger millionaires tended to be more aggressive on the investment side, according to Bill Whitt, director of Personal Financial Services strategic planning and market research at Northern Trust. Older investors came of age in the 1960s and 1970s, he points out, when municipal bonds and blue-chip stocks were standard. "Then there was the huge explosion of investment vehicles with access to asset classes that weren't available 20 to 25 years ago," he says. "Baby boomers' attitudes about investing were formed in a different world that was a lot less sophisticated with regard to investing."

Global Investments for a Global Economy

When young investors need to research investments, they turn less often to locally based financial planners. Instead, they click into their Web browsers to tap into information from sources across the country — and across the world.

One of those sources is 30-year-old Kara McGuire, a personal finance columnist for the *Minneapolis Star Tribune*. In March 2006, McGuire launched a blog, *Ka-Blog!*, to converse with readers about their financial decisions. Through those conversations, she's observed firsthand Gen X's emerging investment habits. "Having come of age during the tech boom and the Enron era, I think many young investors are less willing to put all their retirement eggs in their company's stock basket," she says.

Instead, many of them are turning to international equities to further diversify their portfolios and make them less vulnerable to the economic performance of just one country.

International equities received a lot of attention in 2006, according to Jones, due to their stellar performance. "I think with the younger generation, it's becoming a much smaller world," he says. "Investments go in and out of style," he notes. "Seven years ago, nobody cared about international investing. It was tech stocks they wanted. Now the situation has reversed completely."

Hoenig agrees and says he's seen old and young alike putting a great deal of money into foreign and emerging markets. Northern Trust's study bears that out, showing that 22% of affluent investors will likely increase their allocations in international equities and bonds.

Investing in the Tangible

Gen X millionaires also share an interest in tangible investments, such as art or real estate. These types of investments tap into a key motivation for affluent Gen Xers: materialism. "Real estate is tangible," Jones says. "You can go out and touch the house. Real estate's something you can see and enjoy." Gen X discovered real estate amid the barrage of home improvement shows that have peppered cable television over the past several years, and the run-up in prices during the real estate bubble sparked their imagination. "Home ownership is an integral part of the American Dream," Hoenig says, "and that's most certainly true from young people's perspective."

Whitt adds that investing in tangible assets taps into young investors' definition of success, which the Wealth in America study shows is closely tied to material wealth. "The Gen X millionaires are more focused on the material aspects of investing," he says. "Their professional success is a larger part of their personal success."

Lessons Learned

Like their baby boomer parents, the behaviors of Gen Xers tend to change things. Where the financial landscape is concerned, their taste for alternative asset classes has certainly started to catch on with investors of all ages.

Gen X investors understand the advantages of time — they tend to focus on investment as a long-term proposition and are more comfortable with taking a certain amount of risk as a result. But older investors who lack the luxury of time still can learn valuable lessons from their children. "Be open to new ideas," Jones says. "Just because you always did it '1-2-3' doesn't mean that's the only way there is to do things."

And while younger investors are forging their own path through the investment landscape, some advice remains true for both generations. "Making saving a priority, living beneath your means and taking a prudent, long-term approach to investing was sound advice for our parents' generation, and it is equally sound advice for today's young investors," Jones says. "Prudence is an approach that never goes out of style." ■

Diversification is this generation's call, and the marketplace is listening.