

Our Human Capital Disaster

Three big trends will exacerbate the advisor talent shortage

It may not be news that the advisor community is facing a labor shortage just as demand for professional advice is peaking. What is news is the scale of that shortage, and three overlooked trends are already playing out with the potential to make that shortage a catastrophe.

Men account for the overwhelming majority of existing advisors—around 80% or even more among some sectors of the advisor community. Moreover, a very large chunk of advisors—43%, according to Cerulli—are in or nearing their traditional retirement age. Finally, the percentage of advisors who are women has not appreciably increased since the industry began keeping track of that statistic.

In our recruiting efforts we've been tracking three mega trends that are likely to make this difficult situation even more challenging as we try to figure out how to get more potential candidates interested in our industry. In this article we'll explore those three trends and conclude with the only plausible solution.

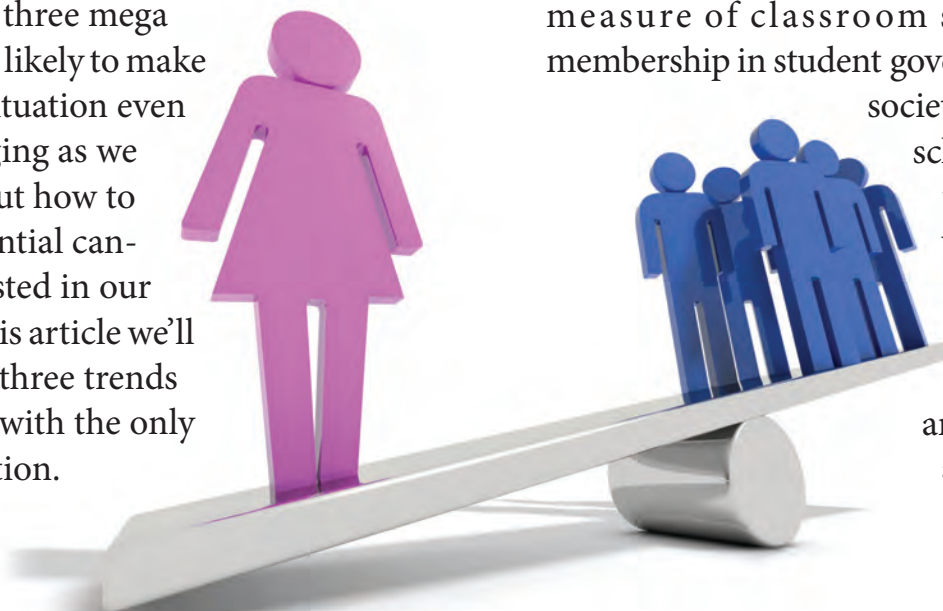
Here's a spoiler alert: That solution involves people without a Y chromosome.

Trend 1: Fewer Men

Male academic success is plummeting, resulting in fewer males to replace the retiring (and the dying)

Since the 1970s, boys have been languishing academically while girls' test scores have been soaring. In her book, "The War Against Boys," author Christina Hoff Sommers zeroes in on statistics that paint an alarming trend: Women in the United States are earning 57% of bachelor's degrees, 60% of master's degrees and 52% of Ph.Ds.

Girls have been outshining boys on almost every measure of classroom success—grades, membership in student government and honor societies, participation in school newspapers, in the amount of homework completed and number of books read. Meanwhile, boys' test scores and graduation rates are falling off a cliff.



Many universities are trying to avoid what they call the enrollment tipping point, which is when the ratio of female to male students reaches 60/40. According to Sommers, when male enrollment falls to 40% or below, women begin to flee college campuses as they start to resemble retirement villages, with crowds of women competing for a handful of men.

Why It Happened

Much of the decline in male academic success has its roots going back to the 1970s, when it was thought that in order to have a gender-equitable society, normal male behavior was problematic in the school environment. Schools placed a greater emphasis on teaching boys to be less volatile, competitive and aggressive. Dodge ball is almost non-existent. Many schools have cut back on physical outlets altogether.

The 1970s also saw the advent of progressive teaching standards that divorced themselves from old-fashioned pedagogy—structure, discipline and skill—and fact-based learning. Instead, the trend moved to classrooms that were not teacher-led, favored creativity and focused on enhancing children's self-esteem. Author Sommers notes that, "This new enlightened teaching style encourages teachers to 'teach the student, not the subject' with precepts such as 'good teaching is not vase-filling; rather fire-lighting.'"

Sommers tells a story of a Chicago public school teacher's experience reinstating the old style of teaching, which is condensed here:

Mrs. Dougherty was a highly respected sixth grade teacher who could always be counted on to bring the best out in her students. One year she had a class she found impossible to control, seemingly un-teachable. She began

to worry that many of them might have serious learning disabilities. One day when the principal was out of town, she entered his office and looked into the files that listed student IQs. To her shock she found a majority of the class was way above average in intelligence. A large cluster was in the high 120s, several scored in the 130s and one of the worst classroom culprits was, in fact, brilliant. He had an IQ of 145.

Mrs. Dougherty was furious because she had been feeling sorry for these kids and was going easy on them. She went back to her class and read them the riot act. She doubled the homework load, raised the standards and gave draconian punishments to any malefactor. Slowly, performance began to improve. By year end, this class was the best behaved and highest performing of all the sixth grade classes.

The principal was delighted and asked Mrs. Dougherty what she had done. She told the truth about looking up the children's IQs. The principal forgave her and congratulated her. Then he said something surprising. "I think you should know, Mrs. Dougherty, that those numbers next to the children's names are not IQ scores. They are their locker numbers."

The old-fashioned pedagogy gets amazing results, Sommers concludes. This is especially important for boys, for without such frameworks, boys will drift. And when they drift, it is nearly always downward. England and Australia have had these same issues with boys falling off a cliff academically and concluded that progressive methods in education are a prime reason why their male students are so far behind the girls.

British educational leaders now believe that the modern classroom fails boys by being too unstructured, permissive and hostile to the spirit

spirit of competition that provides boys with the incentive to learn and excel, according to Sommers. She warns that the looming prospects of an underclass of poorly educated, barely literate American boys has yet to become a cause for open concern among American educators or political leaders as it has in the U.K.

Labeled and Medicated

Besides our teaching system failing boys, we also see a trend of squirmy boys, more so than girls, being labeled with a quick diagnosis of attention deficit hyperactivity disorder (ADHD), which results in many boys being medicated. In his book “Boys Adrift,” author Leonard Sax explains that the syndrome we call ADHD has probably always been with us. Despite some claims to the contrary, ADHD was not invented 30 or 40 years ago by drug companies eager to sell more medications.

In his book “Why Gender Matters,” Sax told a story of a boy who needed to be on multiple medications for ADHD when he was in school. However, while assisting a professional hunter in Zimbabwe, he didn’t need the medications at all, even when he had to sit motionless in the bush for long periods of time. Now the boy has gone on to college and has published poems and short stories in his college’s journals—without taking any medications for ADHD.

In 2007, boys were 30 times more likely to be taking medications than they were in 1987, Sax wrote in “Boys Adrift.” Studies suggest that these stimulant medications prescribed for ADHD may adversely affect children, with studies showing a negative impact on learning and motivation.

Another factor that may be affecting boys’ performance is frequent video game use, which has shown to have similar effects on the brain

as ADHD medication. Sax explains that video games stimulate a part of the brain called the nucleus accumbens in much the same way that crack cocaine affects the same area. Video games have the power to displace and distort the motivation of boys and young men so that they no longer have the same interest in real-world success.

For an independent advisor to build a book of business takes self-motivation, drive and academic achievement. Current trends show that boys are being assaulted on all fronts, pointing to fewer young men qualifying to be candidates for our industry. Sommers said of the job market impact, “All of the net job growth in America has been generated by positions that require at least some post-secondary education. The new passport to the American dream is ‘education beyond high school.’ And today, far more women than men have that passport.”

Trend 2: Fewer Babies

Low birth rates and young people’s failure to launch lead to prolonged dependence

For a country to maintain a steady population, it needs a fertility rate of 2.1. If the rate falls below 2.1, the country will decline in population, says Jonathan Last, a journalist and author of “*What To Expect When No One’s Expecting.*” America’s fertility rate currently sits at 1.93 and is dropping steadily.

My nephew is a prime example of today’s fertility dilemma. His wife has a Ph.D. in psychology and is a practicing child psychologist while he is a practicing attorney working monstrous hours as he seeks to become a partner at his firm. To date, they have no children. Last year in a discussion with my sister I asked how the prospects for grandchildren were looking. She paused and said, “Not good.”

Statistics provided by Last make sense as to why. Fertility rates of those living in cities are lower than in rural parts of the country. My nephew's wife ranks at the bottom of the fertility scale by being a highly educated Caucasian woman. (White females with a graduate degree have a 1.596 fertility rate. Those with a bachelor's degree hover at 1.632; high school graduates sit at 1.947, and those who have not graduated from high school come in at 2.447.)

The Emergence of Pet Parents

Owning a small white dog, my nephew also represents the trend of "pet parents," couples who fulfill their nurturing desires through a pet rather than a baby. From 1947 to 1985, fewer than half of Americans reported owning a pet. Today, pet owners outnumber parents four to one, according to Last.

As couples look for substitutes for children, they have also been abandoning religious precepts that were a part of their upbringing. "No religious affiliation" has a fertility rate of 1.8, while women who said that religion was "somewhat important" to them went up to 2.1. Women who said that religion was "very important" have the highest fertility rate of 2.3. When God said, "be fruitful and multiply" this more orthodox segment takes it literally.

The Parasite Single

According to Last's figures, Japan and Italy rank near the bottom for fertility, with both countries at a rate of 1.4. Making a bad situation worse for Japan is a new demographic type called the "parasite single." These are college-educated working women who live with their parents well into their 30s. They prefer to not spend their salary on rent but rather designer clothes, international travel and trendy restaurants. Unlike real adults, their entire paychecks are available for discretionary spending.

These pleasure seekers rely on their parents as servants. You see the same "pleasure seekers" in Italy, with Italian men staying home as long as possible while Mama cleans up after them, makes their favorite foods and does their laundry while they spend the saved time and expenses going to clubs with friends and playing soccer.

Parents share some blame by enabling their children, aiding them in avoiding adulthood and the responsibilities that used to be part of that picture—getting married, having children and raising them to be responsible, self-sufficient citizens.

The net result of all this is a growing fundamentalism in some areas of society, an implosion of moderate religion and a short run in secularism that will ultimately give way to population decline over several generations. Not to lose hope, it's entirely possible that America will resist the trap of modernity, which pushes people to eschew children in favor of more pleasurable pursuits. In an essay for New York magazine entitled, "All Joy and No Fun," Contributing Editor Jennifer Senior wrote, "In a world where pleasure is the highest value, children will never be attractive. But pleasure is a shallow goal and the well-examined life requires more. It demands seriousness of purpose. Nothing is more serious than having children."

Failure to Launch

Along with the examples of Japan and Italy, the United States is also experiencing a "failure to launch," but for our children the motives are more about hanging at home to pay down college debt or the listless male who lacks much, if any, motivation. "Adulthood is being independent of your parents," Sax says. "My concern is that we are seeing many more young men who

seem to value being comfortable and well-fed over being independent and grown-up.”

Where Will New Talent Come From?

When discussing solutions to our declining population, one suggested remedy is to allow more immigration. However, when you look at historical sources of U.S. immigration such as Europe, many of these countries are in despair as well. Only Ireland and France have fertility rates above 2, with Ireland at 2.01 and France at 2.08. Europe’s need for immigrants is more dire than in the United States. Other countries from which we have received large influxes of immigrants such as Puerto Rico and Central and South America are also experiencing major drops in their birth rates. In Mexico, the fertility rate in 1970 was 6.72; by 2009 it was down to 2.07 with similar statistics mirrored throughout Central and South America.

Our former immigrant sources will not be able to fill our void in the coming years. Northern Africa and Middle Eastern countries currently have a surplus of immigrants, but most of them go to Europe. Europe, being not nearly as successful as the United States in assimilating immigrants, has a joke among demographers: “Democracy, immigration, multiculturalism: You may pick two.”

Even this supply of immigrants is not expected to last beyond 2050. Last paints a dim future for Europe as we know it today, noting that it will fade away in the next 50 years, replaced by a semi-hostile Islamic ummah. The name

Europe will remain, but multiculturalism will push out the original cultures.

Trend 3: More Takers, Fewer Makers

High—and extended—jobless rates lead to an untenable social safety net

As America dabbles with European-style social services, we see big increases in social safety nets. Economists will tell you that an increasing number of responsible people subsidizing those who are irresponsible isn’t a sustainable model because it perpetuates irresponsibility. One safety net affecting our future recruiting pool is the unemployment insurance benefit.

When Franklin Delano Roosevelt set up unemployment insurance it started at 16 weeks of coverage. Today, we are up to as high as 99 weeks in many states. For many on unemployment insurance, the temptation to turn it into a 99-week sabbatical is too hard to resist.

From a recruiter’s perspective, when you become jobless, it is essential that you make the most of your time by interviewing and seeking a new position, preferably within two months. As time marches on, the job-seeking candidate becomes less desirable to employers. When you start getting to the six-month mark of unemployment, employers start looking at your job skills as stale. They also start to wonder if there are other reasons why you have not found a job. This is supported by a new Fed report that found that if you’re jobless for six months or longer, you only have a 10% chance of ever finding another job.

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For those that go the sabbatical route and wait until the end of the 99 weeks before they seriously look for employment opportunities, they have missed the boat and are likely to fall into the category of “permanently unemployed.” The press always talks about the unemployment rate, or the U-3, but what you rarely hear about is the U-7 rate, which includes “discouraged workers” who are not looking for work and thus no longer in the labor force. That rate is currently running at 16.2%.

According to the World Bank, long-term unemployment with continuous periods of unemployment extending for one year or longer between 2009 and 2013 averaged 31.3%. As of June 2013, a staggering 36.7% of the unemployed had been out of work for longer than six months.

The National Bureau of Economic Research warns that the chance of being called for a job interview falls by 45% as unemployment lengthens from one to eight months.

Lengthening unemployment insurance is enabling people to be permanently unemployed as they delay efforts to look for a new position. When given freebies, human nature is geared toward taking what it can for as long as it can. One tragic consequence is this: Besides encouraging people to be dependent, extended unemployment insurance strips away the dignity that comes with going to work every day.

The Solution

Our industry is already struggling to fill the void of retiring advisors. In the near term, we are dealing with fewer qualified male candidates. In the longer term, there will be fewer candidates over all due to a declining population and a growing class of permanently unemployed.

Despite these grim statistics, there is a huge area of opportunity. According to the Labor Department’s Women’s Bureau, a number of previously male-dominated professions—tax preparers, accountants and auditors, financial

managers and insurance underwriters—are now dominated by women. This is the result of a number of factors. Women are graduating from business schools in increasing numbers and seeking higher-paying jobs. Another factor, according to Caren Goldberg, a management professor at American University’s business school, is that these segments of the financial services sector are perceived as more flexible and friendly to women.



Hardly a week passes that I don’t see an article in one of our industry publications addressing how we need to attract more women into the financial advisor arena. Going forward we need to double our efforts in this direction. There’s no reason or excuse not to.

And quite frankly, our survival depends on it.

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