Millennial investing behavior

White paper

Connecting with Millennial investors

Millennials may need help with their unique financial concerns. Their Baby Boomer and Generation X parents may as well. **Position yourself to help both generations.**

Key highlights

1

Millennials think and act differently about money than previous generations

2

Many tend to invest like someone twice their age — cautious, conservative and averse to risk

3

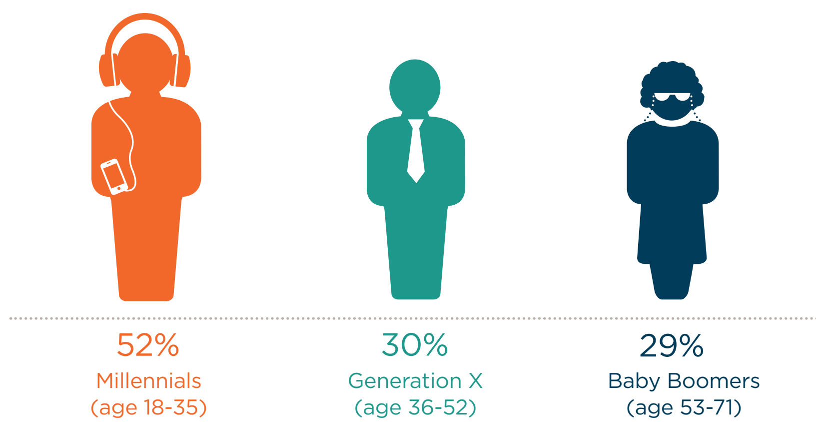
Many have close relationships with their parents, creating opportunities for advisors to connect across generations

Summary

Millennial attitudes toward money and investing largely reflect the events that have shaped their young lives—terrorist attacks, a financial crisis, debt accumulation and more. Many in this generation have entered adulthood with an aversion to taking financial risks and a preference for safe havens, whether in the form of stable value accounts in their 401(k)s or childhood bedrooms in their parents' homes.

Many Millennials are more risk-averse than older generations.

% of long-term investors with "very conservative" risk tolerance.



Source: "2017 Global Investment Survey: Summary of U.S. Results" Legg Mason Global Asset Management

For both Millennials and their Baby Boomer or Gen X parents, financial independence seems further away than ever before. Many Millennials see a more uncertain financial future for themselves due to an overhang of debt and fears of investment losses in volatile financial markets. The parents of these Millennials worry they'll need to provide perpetual support to their children, placing their own financial future in jeopardy.

For both generations, there are reasons for optimism and steps they can follow to help guide them towards financial independence. Financial advisors can play an important role in the unique relationship between Millennials and their parents to help entire families plan for the future on firmer financial ground.

By the year 2020, the number of Millennials in the U.S. (those born between 1980-1996) is expected to surpass the number of Baby Boomers, according to projections by the U.S. Census Bureau.

This news is significant because it will mark the end of an era in U.S. society—the Baby Boomer generation, long renown for its large size and pervasive influence on all aspects of American life, has been overtaken by its children, the Millennials, whose values and behaviors differ from their parents in significant ways (see chart below).

The differences between Millennials and earlier generations in how they approach decisions about money and investing are challenging many traditional rules of financial planning.

Projected population in 2020

Millennials: **72.8 million** (Peak year 2036)

Generation X: **65.3 million** (Peak year 2018)

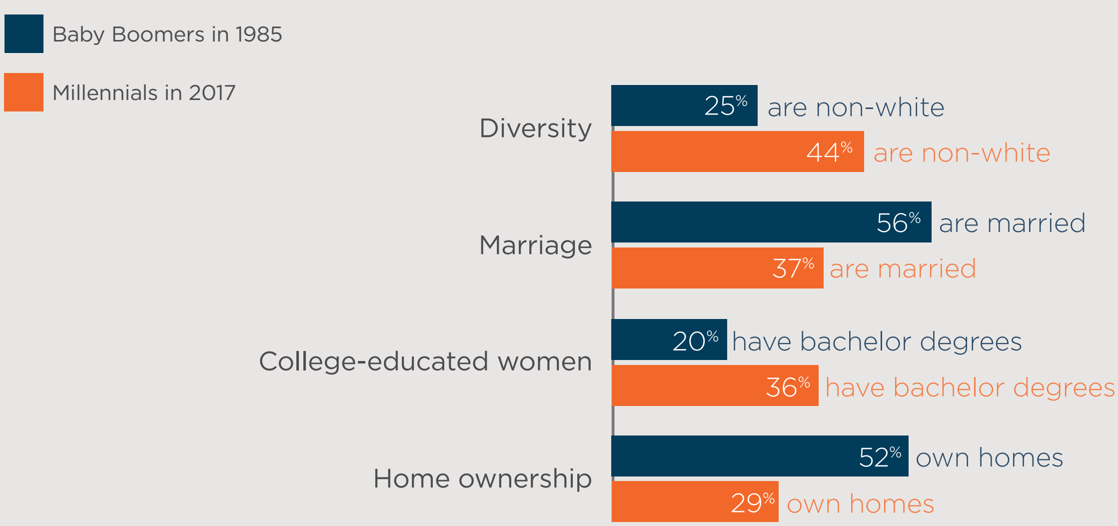
Baby Boomers: **71.3 million** (Peak year 1999)

Source: U.S. Census Bureau, 2017 National Population Projections Datasets

As an example, Millennials would be expected to invest with more emphasis on riskier assets like stocks, given their longer time horizon to retirement. Instead, many Millennials are showing themselves to be averse to risk and are avoiding stocks, much like investors who are nearer to or already in retirement.

To begin this discussion of Millennials and their differences with older generations, let's define who the Millennials are and explore more about what they believe and how they behave.

Young adults, now and then



Source: Pew Research Center tabulations of the 2017 Current Population Survey Annual Social and Economic Supplement (ASEC) from the Integrated Public Use Microdata Series (IPUMS). Home ownership data from "The Changing Economics and Demographics of Young Adulthood: 1975–2016" U.S. Census Bureau, April 2017.

Meet the Millennials

Millennials are generally defined as children born in the last two decades of the 20th Century, between 1981 and 1996.[1] The first Millennials entered adulthood in 1999, just as the calendar was about to turn to the next millennium.

As with previous generations, Millennial beliefs and behaviors have been shaped in large part by the trends and events that have occurred throughout their young lives. But where Baby Boomers and Gen X generally thrived in a world of sustained growth and expanding opportunities, the significant events Millennials have experienced created more fear and uncertainty.

Consider when many in this generation entered the workforce. For many of the first Millennials, their career paths began in the early 2000s, after the biggest technological innovations had become integrated into our workplaces and our lives. Millennials have always known a world where there is email, Internet access and, more recently, wireless and mobile connectivity.

Many of the oldest Millennials began investing for the first time when they entered the workforce in the early 2000s, so they missed the longest and strongest bull market for stocks in U.S. history (1987-2000). They also never experienced the ravages of inflation in the 1970s and early ‘80s.

Millennial profile

Education
37% have bachelor’s degree or higher

Employment
77% are employed

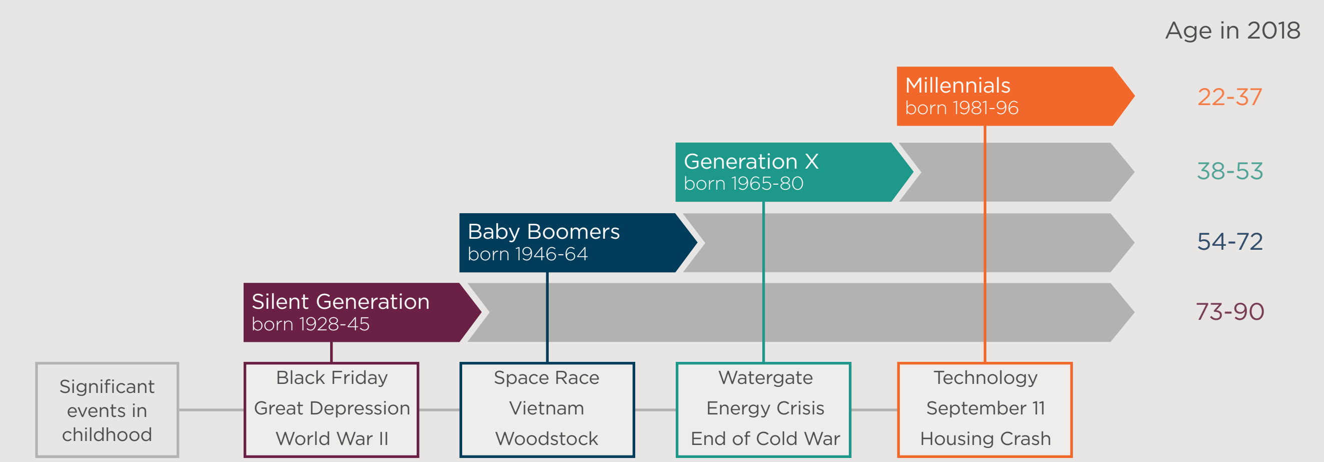
Debt
59% have student loan debt upon graduation

Personal Income
Median: $34,837

Wealth
Median net worth: $11,100

Source for education, employment and income data: U.S. Census Bureau, April 2017. Source for debt data: Institute for College Access & Success, 2017. Source for wealth data: Federal Reserve Board, 2016.

Defining the generations



Source for generational dates: Pew Research Center, 2018.

[1] There is no agreed-upon end-point for the Millennial Generation, so for this white paper we are using generational definitions from the Pew Research Center as of March 1, 2018. (See “Defining generations: Where Millennials end and post-Millennials begin” on the Pew Research web site.)

Key events in the adult lives of Millennials

2017
President Trump takes office

2015
Amazon becomes biggest U.S. retailer

2014
Youngest Millennials turn 18, entering adulthood

2013
Snapchat gains popularity

2011
Oldest Millennials turn 30
Desktop & laptop computer ownership peaks

2009
President Obama takes office

2008
Peak of housing crash & financial market crisis

2007
First iPhone released

Netflix begins streaming movies & TV

2004
Facebook launched

2003
Invasion of Iraq

2001
September 11 terrorist attacks

1999
Oldest Millennials turn 18, entering adulthood

Dot-com stock bubble

Millennials and money

Advisors who work regularly with Baby Boomer and Gen X clients may find more challenges when looking to build relationships with Millennial investors. But when you understand how Millennial experiences shaped their beliefs about money and investing, you can start to make connections that can lead to new client relationships.

A large amount are overburdened with debt

For many students and families, attending and affording college has meant going into debt. An analysis by the New York Federal Reserve Bank found that new graduates leave college with around $34,000 in debt on average.[2] The struggle to pay off this debt can shape how Millennials approach other financial decisions, such as when to begin saving or investing for their future.

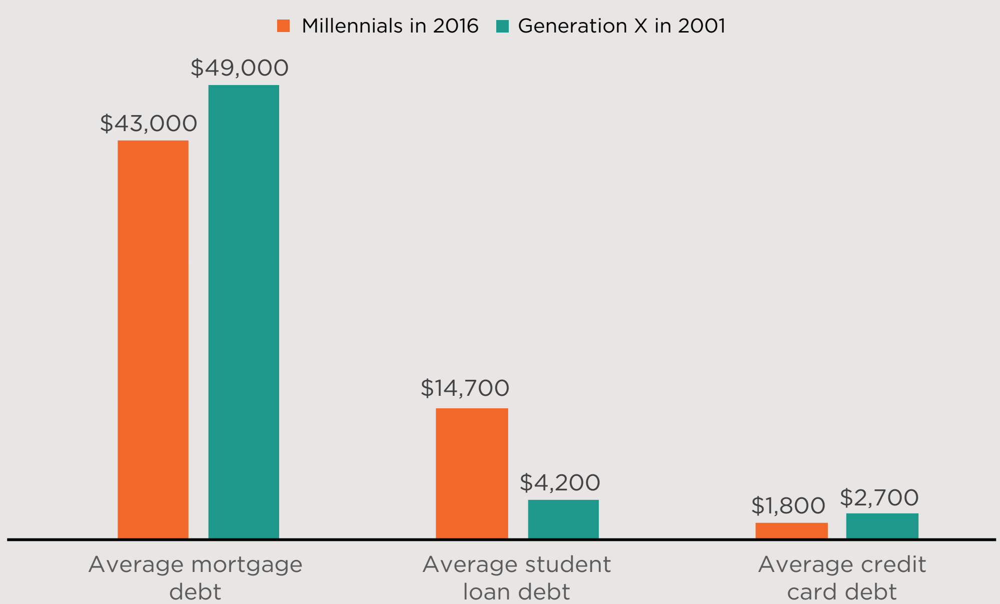
Recent college graduates report spending about one-fifth of their earned income toward repayment of student loans.[3]

Many are savers, not investors

The volatile and unpredictable nature of life in the last 20 years has made many Millennials more cautious and conservative, especially about money. As a result, many Millennials think of themselves more as "savers" than "investors." A recent BlackRock investor survey found that Millennials are more likely than older generations to say investing is too risky for them. But many don't realize that avoiding risk altogether can actually be a risky strategy.

Stocks are the top long-term investment choice *for just* 17% of Millennial investors.[4]

Debt comparisons of younger households: Millennials in 2016 vs. Gen X in 2001



Source: "Accounting for Age: The Financial Health of Millennials" Federal Reserve Bank of St. Louis, Q2 2018.

[2] Press briefing on household debt, with a focus on student debt. Federal Reserve Bank of New York, April 2017. Page 22.
[3] Citizens Financial Group, April 2016.
[4] Bankrate's Financial Security Index, July 6-9, 2017.

Numerous are averse to risk

It's unusual to see risk aversion so prevalent among those who have a long time to ride out ups and downs in the financial markets. But many Millennials have seen two major market corrections during their adult lives (2000-2003 and 2007-2009). In this context, their aversion to risk makes sense.

57% of Millennials say their investment decisions are still strongly influenced by the financial crisis of 2007-08.[5]

But Millennial investors are paying a steep price for avoiding risk and not participating in the market. Many younger investors may need a better understanding of how risk and return work together and why compounding returns may be the key to achieving long-term growth (see chart below).

Many want to make a difference

The Baby Boomer generation sought to change the world as young people in the 1960s. In important ways, they did enact positive change in U.S. society during that time, including civil rights for minorities and equal opportunities for women.

Millennials grew up in a world molded by these changes—they are the most diverse generation in U.S. history and witnessed the election of the first African-American president. And like young people of every generation, they want to affect change in society in their own unique way—whether it's in the voting booth or on their smartphones.

Many of their financial choices reflect Millennials' desire to make a difference in the world. They shop at stores that donate money or goods to causes they care about, and they want invest in companies that share their values and beliefs.

A U.S. Trust survey of high-net worth individuals across generations found Millennial investors were more likely than other generations to invest in companies that are making a positive impact.[6] Assets in socially-responsible and sustainable investment funds have grown along with this rise in interest.

57%
of Millennials
would meet face-to-face with a financial professional to get information on investing for the long term.[5]

Generally, they're open to advice

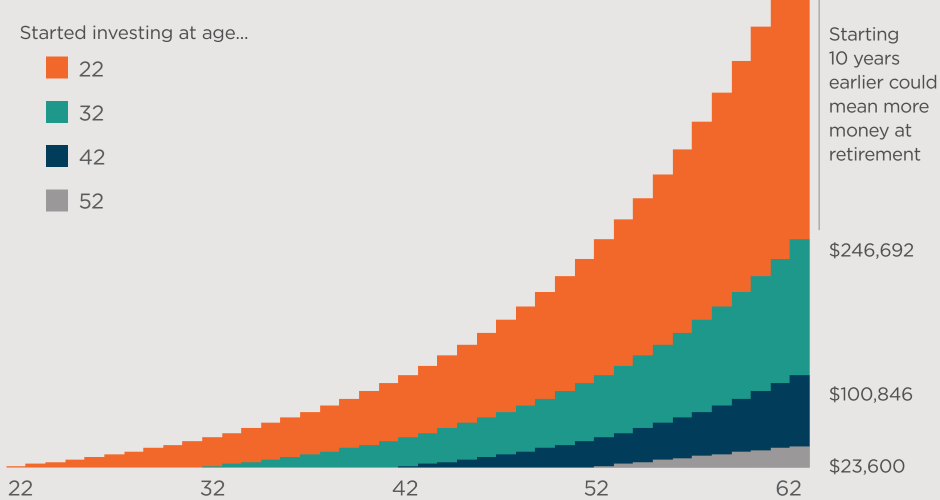
In the wake of the financial market crisis and housing crash, many individuals—and many Millennials, in particular—developed a deep distrust of Wall Street and financial institutions. But many Millennials also recognize the value of financial advice.

They're generally receptive toward working with advisors, but they're also likely to ask questions and will look to verify the advice they receive (often through a Google search).

Technology is pervasive in Millennials' lives, of course. Many have shown an interest in using "robo-advisors" to simplify their investment decisions. But even as robo-advice platforms gain greater acceptance, personal relationships

The power of compounding

Money at age of 62 if investing $2,000 per year and earning 8% on average annually in a tax-deferred account.



[5] "2017 Global Investment Survey: Summary of U.S. Results" Legg Mason Global Asset Management
[6] "2017 U.S. Trust Insights On Wealth And Worth", U.S. Trust/Bank of America Private Wealth Management

are still important—around half of Millennials want in-person contact with their financial advisors.

Making connections with Millennials and starting new client relationships can be a challenge in this age of information clutter and short attention spans. But financial advisors do have one avenue available to help them reach Millennial clients—through existing relationships with their parents.

Millennials and family

The Millennial generation also differs from previous generations in the close relationships many have with their parents. Where Baby Boomers and Gen X were famous for resisting parental authority and influence, Millennials generally see their parents more as role models.

"Who's your BFF?"

55%

of Millennials say either Mom or Dad[7]

Mom and Dad as "life coach"

One reason why parent-child relationships are so different for Millennials than prior generations is the hands-on approach the parents of these Millennials took in raising their children. As a result, Millennial children tend to have a high regard for their parents.

Many see their mothers and fathers as "life coaches" who will always be available to answer their questions and offer advice on the challenges they face, financial and otherwise.

Unfortunately, not all parents have been ideal role models for their children. Many Millennials have seen the worst from their parents too: low savings rates, high levels of debt and chronic overspending. These influences can help explain why some Millennials are ardent savers and tend to avoid the use of credit cards.

The "stay-at-home" generation

It has become more common for this generation to live at home with Mom and Dad for a few years after graduation. A lack of well-paying job opportunities and the weight of student loan debt makes the idea of living at home with parents appealing to many adult Millennials.

The prospect of these "boomerang kids" becoming permanent residents in the family home may cause distress among some Baby Boomer parents. They fear their children will never be able to achieve financial independence on their own. Plus, this is happening at a time when they're also struggling with their own challenges in planning for retirement.

31% of Millennials

lived with their parents in 2016, more common than any other living arrangement.[8]

A wealth transfer wave

Over the next 30 years, an estimated $30 trillion in wealth is expected to transfer to spouses, children and others across generations.[9] During this time, much of this wealth will go to Baby Boomers and Gen X members. But by 2030, the Millennial generation is expected to receive more wealth transfers than Baby Boomers for the first time.

Many financial firms and advisors see opportunity when all of this wealth changes hands. In many cases, the recipients of this wealth will develop new relationships with different financial advisors at the time of transfer. For this reason, many advisors will place priority on building ties with Millennials and children of Baby Boomers, hoping to be in the right place at the right time to catch a transfer of wealth when it happens within a family.

Nine out of ten Millennials would consider working with their parents' financial advisor.[10]

[7] Fusion, Inc. Massive Millennial Poll, 2015.
[8] "The Changing Economics and Demographics of Young Adulthood: 1975–2016" U.S. Census Bureau, April 2017.
[9] "The 'Greater' Wealth Transfer" Accenture, 2015. Most recent estimate available.
[10] "Millennials and Retirement: 2nd Biennial Report on Millennials and Retirement Planning" Insured Retirement Institute, September 2017.

Making connections with Millennials

In the unique family dynamics between young Millennial adults and their Baby Boomer or Gen X parents, financial advisors can play an important role in helping both generations find their own paths to financial independence

The intergenerational opportunity

Many Baby Boomer and Gen X parents feel financial pressures on three fronts: providing for their Millennial children, caring for their aging parents, and planning for their own looming retirement. Because of these multigenerational challenges, the entire family may find their financial independence in peril.

The intergenerational opportunity for financial advisors comes in helping their existing Baby Boomer and Gen X clients manage this squeeze on their time and financial resources.

Forging new relationships with their Millennial children can help. By working with Millennials to find a path to financial independence, advisors may relieve some of the stress felt by their Baby Boomer and Gen X parents and, as a result, help the entire family build a foundation for a secure and comfortable financial future.

Six ideas for connecting with Millennial clients

Adapted from Edelman, “Six Ways Financial Services Firms Can Reach Millennials,” March 2016.

Client takeaways

For Millennials

1 **Manage debt (student loans in particular)**
Strategies for the quick and consistent repayment of loans can help relieve Millennials of overwhelming debt burdens

2 **Turn saving into investing**
Helping Millennials see the types of risk they face throughout their lives may change their existing beliefs and behaviors toward investing

3 **Invest for long-term growth**
Put the power of compound growth to work in a portfolio that's suitable for their time horizon and risk tolerance

For their Baby Boomer and Generation X parents

1 **Gain financial independence**
Help relieve some of the multi-generational pressures by helping Millennial children step out on their own financially

2 **Plan for wealth transfer**
Develop a custom plan for the family to help make accumulated wealth available to all generations

3 **Protect your own financial future**
Make sure the client's own retirement needs are being met with an appropriate plan

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