Trends & Ideas

PRIVATE CLIENT SOLUTIONS

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Larbi Moumni, CFA

Millennial Education and Advice FTW

If you don't know that the acronym FTW stands for "for the win", then there is a chance you may not be part of the millennial generation. You guessed it, this report is about millennials! In Canada, millennials comprise a major portion of the labour force and, households under the age of 35, held $983 bln in assets as of 2016. Investing habits of those born between 1981 – 1996, otherwise known as millennials according to the Pew Research Center, are quite distinct compared to other generations. In this edition of *Trends & Ideas*, we dig into what this generation is doing with their money.

Perception

We started off by looking at surveys conducted in Canada and the US to find out the investing habits of millennials. It is important to note that within the millennial cohort, people can be at different stages in their lives from being students, starting a job or being far into their professional careers. Some studies indicate that this generation is drawn towards less volatile investments such as cash. One survey from Bankrate.com, compiling data from 1,000 American respondents, showed that 30% of millennials claimed that cash was their favourite long-term investment while other cohorts picked stocks. A survey conducted by the Ontario Securities Commission (OSC) found that while 80% of millennials are saving, only around 50% are actually investing. Additionally, 6 in 10 Ontarian millennials expressed not knowing enough about investing. Some reasons supporting millennial investing habits include 1) fear from recent market turbulence, 2) financial illiteracy and/or 3) difference in financial goals. Millennials with investable assets have been through two major financial corrections: older millennials through the dot com bubble and most through the 2008 financial crisis. They have seen firsthand the impact this has had on their close relatives and the financial hardships their parents may have been through. Another reason why millennials either do not invest or may prefer cash could be due to financial illiteracy. Millennials may not understand that the returns with equities can exceed those of cash and bonds over the long run; and when incorporating the erosive impact of inflation, cash returns can be much lower. Finally, millennials today may just prioritize different financial goals compared to older generations such as paying down debt, saving up for a house or just setting money aside to cope with higher costs from transit, shelter or education.

Millennials

Source: Shutterstock.com

Reality

This being said, when accounting for retirement plans, reality could be far from the surveys. According to an Employee Benefit Research Institute report from 2017 (this looked at over 26 million 401(k) participants), around 75% of retirement portfolios for people in their 20s held stock funds. We also found a more comprehensive survey from Morning Brew, a newsletter with a millennial audience, which asked their readers about their investing habits and received 9,800 responses from North America and Europe. The top four financial goals for millennials were to earn a Grad/Master degree, buy a car, get married and buy a primary home. When it came to investing, almost 9 in 10 respondents said they invested their wealth (countering previous surveys), with almost half investing in the tech sector, and 1 in 10 investing in health care, energy or real estate. Within the tech sector, respondents highlighted Amazon.com (AMZN-US), Apple (AAPL-US) and Alphabet (GOOGL-US) as their top three picks. However, when it came to their knowledge of investing, only around 2 in 10 were confident in their investment abilities (in line with the OCS survey). Financial illiteracy may also be the reason passive investing has become more popular. As such, around 7 out of 10 respondents preferred to speak with an investment advisor over robots, or robo advisors.

Please read domestic and foreign disclosure/risk information beginning on page 3.

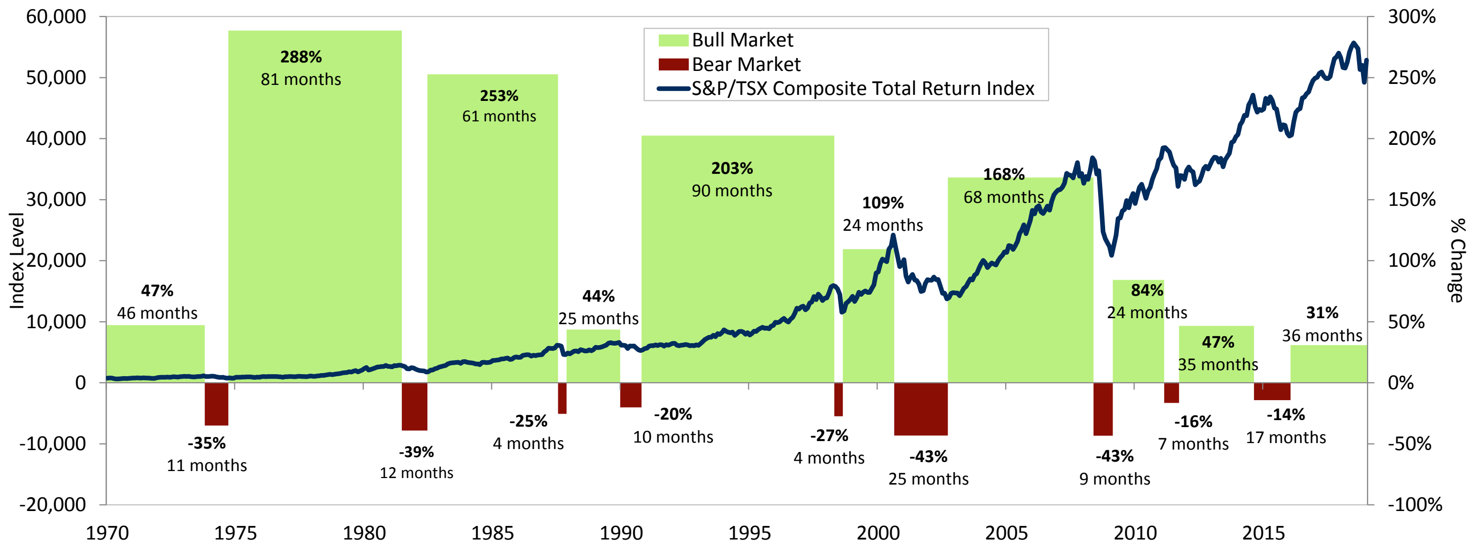
In Conclusion, Take the Long Term View and Get Advice

For millennials holding cash, we believe a reminder about how the risk-return payoff of holding equities works may help. While equities can be volatile in the short run, they tend to pay off in the long run. During times of volatility, it is important for millennials (and investors of all ages for that matter) to take a step back and look at the bigger picture. The stock market goes through bull and bear markets depending on the good and bad times of the global economy. Looking at the chart below, it is important to remember the following:

- Bear markets are shorter in duration and magnitude than bull markets
- Bull markets follow bear markets and stock prices recover from their lows
- In the long run, stocks allow investors to achieve their financial goals

The chart clearly demonstrates that bull markets (in green) are much more significant in terms of duration, averaging 49 months versus 11 months for bear markets, and in terms of magnitude given average returns of 161% for bull markets and negative 31% for bear markets. While the stock market has its ups and downs, the longer term trend is upward with the S&P/TSX averaging ~9.1% per year since 1970, including dividends.

Canadian Bull & Bear Markets



Source: Bloomberg, Raymond James Ltd. As at January 31, 2019 using monthly total return data.

In order to understand the importance of investing in equities at a young age when one's time horizon is longer, we believe millennials require more advice than ever. If the surveys are accurate in suggesting millennials lack financial education and investment savvy, then we advise clients meet with their financial advisors in order to set their financial goals at an early stage in order to be prepared for both long- and short-term goals from buying a house to saving up for retirement.

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