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| Investing in Millennials

Thomas Martin
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“It’s a generational thing.” The adage that is most commonly applied to music, dance, or pop culture has more recently found itself ringing true about the way people handle their money. An overwhelming majority of the millennial generation is opting out of investing in stocks, largely due to low amounts of excess cash compared to former generations. Instead, they are putting excess cash into savings where they are trading returns on investment for security and access to their funds while other alternatives to traditional investing are explored. It is a unique hand that the generation has been dealt after growing up through multiple market crashes that allowed them to witness the savings and retirement funds of their parents and grandparents basically vanish overnight. As a generation that helped to usher in the technological age, they are not unfamiliar with trying new things or adopting new methods. Now, they will see if the same can be said about investing or if the ways of old have become a staple for a reason.

Subject to many stereotypes, millennials have been described as lazy, oversensitive, or lacking loyalty to organizations (Hayes). They have become a generation of trendsetters, and it is not uncommon for a new trend to be looked at with contempt by those on the outside, looking in. If you ask a millennial, they feel they are judged harshly, which may be fueling the drive to find better and easier methods for some of life’s more complicated answers. When you move beyond the stereotypes typically associated with the generation, millennials today are 18 to 35 years old, and make up more than one third of the job force in America (Fry). They were the first generation to grow up with computers as part of their educational curriculum, and have seen the world change from analog, to digital, to mobile in almost every way. The generation is unique for many reasons, but not the most prestigious of which is the astronomical debt they have been saddled with, most notably their student debt. According to the US Census Bureau in 2013, college loan balances for millennials were three times higher than loan balances were in just

1989 (Shell). A deeper dive into the numbers reveals that millennials hold a higher student debt than any previous generation in history, averaging around \$30,000.00 per person (Farrington) with a quarter of millennials over \$30,000.00 in debt, 11 percent of millennials over \$100,000.00 in debt, and only 22 percent of millennials who could consider themselves debt free (Arenge, Perry, Tallevi).

It becomes a steep hill to have to climb, and not only are millennials buried in debt, but low average salaries also make overcoming it difficult. According to the Bureau of Labor Statistics in 2017, the mean salary for Americans in the age range of 25 to 34 was just \$39,416 (Josephson). Paying off an average of \$30,000 in student loans on this salary becomes increasingly difficult, especially when you consider that the cost of living has continued to rise each year. While cost of living is very dependent on where you live, when you consider \$50,500 annually is considered low income in Los Angeles, or \$47,127 annually is needed to live comfortably in Indianapolis (DePietro) it becomes a difficult puzzle to figure out between salary, debt, and cost of living. The result is that a majority of valuable early working years are spent paying off debts from the past, rather than building for the future.

However, debt is not the only challenge facing millennials. One of the roadblocks preventing them from entering investments is psychological in nature. Millennials saw firsthand the 2008 financial crisis. Before that, older millennials who had the opportunity to see a stronger market, also saw the eventual crash of internet stocks in 2000 (Shell). With mountains of debt, and witnessing harsh times in the stock market, millennials have been reluctant to invest. It is difficult to trust something that you have seen fail multiple times in your young life. Instead, millennials have turned to their own savings accounts as their future nest egg, at least for the foreseeable future. When asked, 66 percent of millennial respondents said that they would rely

on their savings accounts in 20 years, not investments (Martin). This sentiment becomes problematic, as 60 percent of millennials have less than \$10,000 saved for retirement (Shell). The idea of relying on personal savings is a departure from other generations like Gen Xers who said they would rely on 401(k)s and Boomers who answered pensions and social security (Varathan). All in all, 80 percent of millennials are not investing in the stock market, and 41 percent claim it is because they do not have enough money to do so (Stahl). However, even for those who do invest, it was found that they are opting not to take risks; 85 percent of millennials investors choose to "play it safe" with investments (Martin). As a generation playing catch-up, adding in additional risk in their early years for the chance at higher returns could result in the difference they need.

If 80 percent of millennials are avoiding the stock market altogether, the question quickly becomes, why aren't millennials investing? As stated previously, many believe they do not have enough money to invest, but 34 percent also claimed they do not know how to invest (Weiss). The feeling of unfamiliarity is especially interesting. While not limited to one gender, 75 percent of young women specifically, believe investing is confusing and they also view the typical investor as an "old white man." 60 percent of men agreed, and close to half of men also viewed a typical investor as an old white man (Weiss). The "old white man" designation further highlights the divide in perception among the millennial generation, and shows that when millennials do think of the stock market, they do not see themselves. It should also be noted that some of the inherent uncertainty aimed towards Wall Street from millennials is self-inflicted due to unrealistic expectations and over-confidence. Millennials expect an average annual return of 13.7 percent compared to more seasoned and experienced boomers who expect nearly half of that average annual return at 7.7 percent. Compounding the detriment of this outlook, is the

finding that millennial investors are 4 times as likely as boomers to consider themselves highly knowledgeable (Hsu). With extremely high expectations and over-confidence in the logic behind those expectations, it builds a situation for quick disappointment and deeper resentment for the stock market. As millennials retreat to personal savings, they are ultimately failing to see the big picture. Interest rates on savings accounts have been miniscule since the 2008 recession, usually at 1 percent or less, while the S&P 500 has increased 188 percent since then (Varathan).

Millennials have proven to be a resilient generation, and fast adopters of new ideas and technologies. They may look at the stock market negatively, but they have embraced other alternatives to traditional stock investing. Perhaps taking a page out of the Gen Xer's play book, millennials appear to have learned something from their parents and have not shied away from 401(k) plans. Even though 80 percent of millennials are not investing, more young people are saving for retirement today than they were 10 years ago thanks largely to widely available 401(k)s through employers with automatic enrollment (Stahl). This leaves many who may be averse to participating still having a stake in the market, which due to the automatic enrollment, can often go overlooked.

Though they may be averse, millennials have looked to more familiar avenues to explore Wall Street while utilizing their expertise in technology. With that, comes a rise to microinvesting which is a more accessible and automated way to start investing with as little as \$5, and you can do so right from an app on your phone. There's minimal risk, low investment requirements, and it is rooted in technology, all of which are characteristics sought by this generation. The microinvesting method has been largely embraced by millennials as shown by the app Stash, who reported that 60% of their 1.4 million users are millennials (Castro-Pagan).

As most businesses and utilities shift to a mobile platform, this becomes familiar territory that millennials can take advantage of to gain even more comfortability and experience in trading.

While they experiment in approaching the market, the answer to millennials' future nest eggs may be outside of Wall Street altogether. One of the most interesting recent market alternatives is the rise of cryptocurrency. One currency, Bitcoin, is widely known but scarcely owned. 60 percent of Americans have heard about the cryptocurrency, and despite a single bitcoin being worth as much as \$20,000 in December 2017, just 5 percent of Americans have actually invested in it (Leinz). The most interesting aspect of that 5 percent is the surprisingly homogeneous demographic. 71 percent of investors are male, and 58 percent of investors are millennials. Not unlike the feelings among millennials towards the stock market, a large portion of investors said that they chose to buy into bitcoin because they trust the cryptocurrency more than the US Government. In the end, investment in Bitcoin is fueled by millennials who saw a 1400% increase in price in 2017 alone, and 70 percent of those surveyed said they believe the cryptocurrency will be worth somewhat, to significantly more, five years from now (Leinz). Due to the volatility of bitcoin which can take dramatic swings in value in just a matter of hours, it will be a market that will be tested.

That volatility may ultimately drive some back towards Wall Street. Investing in the stock market is deep-rooted in our society, so it is hard to imagine it being supplanted. The best way to get millennials involved seems to be to appeal to their tech savvy backgrounds. A rapidly expanding technology that changes the way people can approach investing and financial advice are robo advisors. These are automated software programs that use algorithms at a far lower cost than a traditional human financial advisor (Collins). Predominantly, if not exclusively accessed through the web, robo advisors were built targeting and relying on millennials who grew up on

technology and rely heavily on it for their day-to-day activities. Combined with a chance to save money, and not having to trust human advisors, it was an almost immediate appeal to the millennial investor (Meola). In the early days of robo advising around 2013 and 2014, millennials made up 50-60 percent of the customer base (Kaya). This percentage has decreased in recent years, but it is likely due to more generations seeing the success and appeal of robo advising and entering the segment, than millennials opting out of robo advising as robo advising has only continued to grow exponentially. By the end of 2018, it is expected that more than \$435 billion in assets will be managed by robo advisors (Meola). Robo advisors appear to be a perfect blend between old and new when it comes to investing, and all signs appear to show that it will continue its meteoric growth.

As the alternative markets or methods are explored, one thing is certain. Millennials will soon be taking over the driver's seat. The ups and downs of the stock market are well-known throughout history, and millennials grew up witnessing two disastrous collapses in just one decade of their formative years. Distrust was ingrained through parents and grandparents losing their retirement funds, and as a generation that grew up in the height of the technological boom that accompanied the widespread use of the internet, millennials are seeking answers to avoid letting history repeat itself. They are reigning in the money they do have and exploring other means in which to apply it, either in the stock market itself, or in new markets entirely. They must be careful of overconfidence as the stock market has a way of correcting itself given time, and has survived generations in the past for a reason. The millennial generation in some ways is similar to the life of the stock market. It has ebbed and flowed, but through its continuous pulse in the economy it has found ways to overcome, much like millennials must do now through their own adversity and challenges.

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