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The Millennial Investor: Mutual Funds versus Exchange Traded Funds

by

Terrell McLendon

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**University of Arkansas, Fayetteville
Finance, 2016**

**An Honors Thesis submitted in partial fulfillment of the requirements for the degree
Bachelor of Science in Business Administration in Finance**

**Sam M. Walton College of Business
University of Arkansas
Fayetteville, Arkansas**

May 14, 2016

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The Millennial Investor: Mutual Funds versus Exchange Traded Funds

Introduction

Investing is an endeavor that has been preformed throughout time by individuals in every modern generation. It is a means to retire early, put money to work, speculate on underlying securities, gain a sense of protection and security, and afford desirable things. As the burden to plan for retirement shifts more heavily towards the individual and away from the employer and state, investing has become more of a necessity than a hobby. For the upcoming generation of Millennials, this is likely to be even more valid.

People have the choice to invest, or not, in many different investment vehicles. Mutual funds and exchange traded funds (ETFs) are two common types of investments. A mutual fund is a group of assets actively managed by a fund manager. These funds allow the investor to buy into a basket of investments to diversify their risk in any one security. An ETF is a more passive investment mode, tracking the performance of a particular sector without the need for constant management. Similarly to mutual funds, the index tracking of ETFs diversifies the risk on any one security.

An investor has the liberty of choosing how to execute trades, whether that is through a personal broker or on an online trading site. Placing trades through a broker gives investors the benefit of advice from an informed party. This approach suits many people who do not know much about investing, or would rather have someone else make their investing decisions for them. There are, however, additional costs for the advisor's services. Online investing sites allow investors to make trades at their own discretion at a relatively inexpensive cost. This method of placing trades is highly convenient and can fit into busy lifestyles.

Millennials have a unique and vital position in the investing world. These individuals, commonly referred to as Generation Y, "were born between 1980 and 2000. Early events in the Millennials' lives were globalism; the attacks on September 11, 2001; and the Internet Age" (National Endowment for Financial Education, 2015). Many Millennials have just settled in to their first full-time jobs. Therefore, they are making the money that could go towards investing for the first time in their lives. There is some available research on the psychology of the Millennial generation as it pertains to their money habits (Wells Fargo Millennial Study (2014), Mottola (2014), The Millennial Count (2010)).

This research does not expand into the realm of specific investment preferences of Millennials. Specifically, there is limited literature available on whether a Millennial would prefer to invest in a Mutual Fund or an ETF. Additionally, there is little literature over how the majority of Millennials prefer to place their trades, either through on online investing site or an advisor. This research seeks to answer the following questions and fill the gaps in existing research.

This research will be initiated with a development of the hypotheses. Then it will cover a review of literature on the following topics: the Millennial generation, mutual funds, ETFs, personal financial advisors, and lastly online investing sites. Then the research plan and methods will be explained, followed by the research results. An analysis of results will describe the data found in this research. There will be a brief conclusion followed by the limitations of this research and recommendations to affected parties.

The distinct purpose of this research is to determine if:

1. Millennials in the U.S., specifically those ages 25 to 35, prefer investing in exchange traded funds to mutual funds.
2. These Millennials prefer investing online to working with a personal financial advisor.

Development of Hypotheses

It is hypothesized, first, that Millennials, specifically those between the ages of 25 and 35, will prefer ETFs to mutual funds primarily due to their lower transaction costs. Since ETFs merely track indexes, the management costs are minimized. Another reason to support this hypothesis is based on the assumption that Millennials are able to accept more risk as compared to older generations. Their time horizon until retirement is longer, allowing them to shoulder higher levels of risk for the benefit of potential gains.

Secondly, it is hypothesized that Millennials will prefer to place their financial trades through online investing sites to using a personal financial advisor. There is a vast amount of research available that asserts Millennials are distrusting of the financial services industry and prefer to make their own financial decisions (Egan, DeVaney, Cussen). Evidence of this will be presented in full later in the literature review section of this research. In addition, it is hypothesized that Millennials are willing to forego the professional recommendations of advisors in return for a less costly method of investing.

This study is particularly important for financial advisors and institutions that generate money from the investments of clients. If they know where to focus their attention, say advertising the potential gains of a low cost ETF, or promoting the well managed style of a mutual fund, the advisors' efforts are likely to be more fruitful. Additionally, this research is relevant for investors. The literature review section of this research will clarify the differentiations of mutual funds and ETFs, as well as financial advisors and online trading sites.

Research Approach Overview

First, this research will review the existing literature available over pertinent sub-topics. This will include the Millennial generation, mutual funds, ETFs, online investing, and personal financial brokers. The limitations in the available research in these topics

will be illuminated. Then, this research will seek to fill those gaps. In addition, this research will discuss the areas of controversy among academics within these topics. Next, the findings on the popularity of mutual funds versus ETFs as well as personal brokers versus online sites will be presented in the analysis section. The research will end with recommendations to all relevant parties and a brief conclusion.

Review of Literature

This research can be broken down to many sub-topics, including the Millennial generation, mutual funds, exchange traded funds, online investing sites, and financial advisors. Some of these subjects have a vast amount of available scholarly literature, such as mutual funds. Other topics, such as Millennial investing, are lacking in text. Additionally, there are some disagreements among researchers and certain studies concerning these topics. These areas of controversy will be discussed in the literature review below.

Millennials

The Millennial generation is positioned uniquely in comparison with past generations. This generation grew up in the Information Age, with access to virtually any sort of information they desired. As the name hints, the generation consists of individuals who were born in the years surrounding the turn of the century. Cussen (2014) expands on some of the perceived social and psychological characteristics of Millennials:

The future for Generation Y is more uncertain in some respects than for any previous generation, and its members have quickly learned that there are few, if any, absolutes that they can count on. Their ability to succeed financially will depend upon many factors, including economic and political conditions and whether they can overcome the perceived sense of entitlement that much of society has branded upon them. (para. 9)

Although Millennials are classified as a collective generation, Millennials differ significantly depending on their age, making it hard to analyze them as a whole. The individuals born between 1986 and 1992 were getting their first jobs right as the Great Recession of 2007 to 2009 was occurring or just ending. Conversely, Millennials born after 1992 were likely still pursuing an education (National Bureau of Economic Research). Despite these differences, a commonality is that “their investing wallets will likely only grow bigger” (Aparna Narayanan, 2015).

Growing up, many Millennials witnessed their parents taking on the weight of saving for retirement. “As a result of the Great Recession of 2008, a strong majority say that taught them that they need to save now in order to survive economic problems down the road” (Wells Fargo Millennial Study, 2014). The Wells Fargo Millennial Study was conducted in order to assess behaviors, attitudes, and satisfaction related to debt, saving, investing, and retirement of Millennials. This study surveyed over 1,600 U.S. adults

between the ages of 22 and 33 in 2014. It will be cited frequently throughout this research.

According to the Wells Fargo Study, only about half of Millennials have started to save money for retirement. This begs the question “*why?*” If this generation has seen the impact the changing economy, as well as the recession, had on their parents, why are they not being proactive and starting to save early? Some sources say the generation, as a whole, is scared and uneducated about the financial market. According to a new Capital One ShareBuilder survey, “93% of Millennials say that both distrust of markets and lack of investing knowledge make them less confident about investing” (Egan, 2015).

However, according to multiple studies, the most prevalent reason Millennials are hesitant to invest is that they are more concerned with covering their debt obligations. “Millennials are struggling under the pressure of debt, with 42% saying debt is their biggest financial concern currently. Four in ten (39%) say they are overwhelmed with debt, compared to 23% of Boomers” (Wells Fargo Millennial Study, 2014). Debt has become a more pressing issue for this generation because “Millennials were much more likely than Boomers to have paid for their college education via student loans- 54% vs. 32%, respectively” (Wells Fargo Millennial Study, 2014). As a result, a large majority of the generation lives paycheck to paycheck, leaving no additional funds to invest.

Another source corroborates the findings of the Wells Fargo study by claiming that “the effects of the Great Recession can also be seen with Millennials in the reduction of credit card debt and home and car purchases, as lenders have tightened up their requirements for loans and extensions of credit” (Cussen, 2014).

Perhaps another reason that Millennials are hesitant to invest is due to a lack of funds, not because of debt commitments, but because of seemingly low incomes. The 2012 FINRA Investor Education Foundation’s National Financial Capability Study found that a striking 65% of Millennials made less than \$50,000 per year (Mottola, 2014). In today’s world of rising costs of living, salaries at such levels leave slim margins for immediate investing after bills and taxes are paid, among other expenses. Keep in mind, this is if they even care to invest. Those who have not made investing a priority are quoted saying they anticipate to begin investing around the age of 35 (Wells Fargo Millennial Study, 2014).

Just as all Millennials are going through different walks of life, they also reacted to the recession and the ensuing economic pressures in varying fashions (Burststein, 2013). In Sharon DeVaney’s article, *Understanding the Millennial Generation*, she lists a few ways Millennials responded to the recession. “One example is social protest. Other examples include Millennials moving back in with their parents, delaying marriage, delaying buying first homes, and starting their own businesses” (DeVaney, 2015). This could be expanded to justify that Millennials are not very well represented in the investing world because they are protesting against the economic uncertainty they grew up witnessing. An analysis by State Street found that Millennials are holding a significant chunk, 40%, of their portfolios in cash despite historically low interest rates

(Egan, 2015). To them, the cash holdings may feel like a safeguard against uncertain economic events. However, it is presumable that financial experts would argue that this cash safety net is hurting them, as inflation slowly decreases the value of that cash.

A notable phenomenon that Millennials interact extensively with daily, which other generations did not, is social media. “Much of the pressure that Millennials feel to conform to the financial habits of their peers comes from social media, where financial milestones such as home and car purchases are routinely posted for all to see and envy” (Cussen, 2015). This broadcasting of big purchases and fancy trips abroad could entice a Millennial to partake in these expenditures rather than investing the money in the financial markets. This is a fairly new hindrance and few studies are available for review on this topic.

Male vs. Female Millennial Investors

The Millennial generation has been broken down into many demographic subgroups such as race, religion, tax bracket, gender, and many more. The gender of a Millennial, as it pertains to investing, is particularly noteworthy for this research. This demographic analysis of individuals unfairly stereotypes all the men and women in the generation. In virtually all studies, all women are perceived to invest in the same way as other women. In reality, some females may have investing tendencies that would be more accurately classified as a male investor, and vice versa. Despite this, it is interesting to analyze how the majority of men and women Millennials handle their finances. This research will incorporate secondary aspects of this.

According to an article over the investing habits of Millennials, “Men feel more inclined to keep up with their friends in terms of material goods while women tend to be more frugal and place a higher emphasis on saving money” (Cussen, 2015). A study conducted by InvestmentNews and Kiplinger found that “men were more likely than women to say they have an above-average risk tolerance” (Bodnar, 2016). The study also showed that “62% of respondents consider themselves ‘extremely knowledgeable’ about their investments. However, men were much more likely to say this than women (70% versus 53%)” (Bodnar, 2016).

Another source reports “overall, Millennial women seem to be less satisfied and optimistic with their current financial situation than men. They were more likely to feel worried about starting and building a career in their desired profession and less satisfied about their employment outlook” (Wells Fargo Millennial Study, 2014). Dejectedly, this finding does not come as a surprise. When you look at the statistics, women reportedly net a lower yearly salary than their male equivalents. The AAUW’s *Simple Truth about the Gender Pay Gap* addresses this disparity. According the to study, “women working full time in the United States were paid just 79% of what men were paid, a gap of 21%” (Hill, 2016).

Mutual Funds

By definition, a mutual fund is “an investment security type that enables investors to pool their money together into one professionally managed investment” (Thune). The exact origin of Mutual Funds is somewhat uncertain, but many scholars trace them back to a Dutch merchant named Adriaan van Ketwich in 1774. Ketwich allegedly first practiced pooling money together to minimize risk and make investing feasible for all classes of people, not just the wealthy (IFIC, 2016). Other historians point to King William I of the Netherlands as the originator of closed-end investment companies in 1822 (A Brief History of the Mutual Fund, 2005). To be clear, even though modern day mutual funds are open-end funds, they originally were traded as closed-end investments.

Despite the exact origin, it is indisputable that mutual funds have been highly popular in the modern investing world. In 1924, the first U.S. based modern mutual fund was created. It was named the Massachusetts Investors Trust, and eventually headed the founding of the well-known MFS Investment Management firm. As a result of a stint of high returns, mutual funds grew in popularity in the 1980s and 1990s (Mutual Funds Still King, 2008). Presently, the mutual fund market holds trillions of dollars in the U.S. alone (A Brief History of the Mutual Fund, 2005).

Just as Ketwich intended centuries ago, mutual funds still provide liquid and low cost shares of financial assets, which enables an increasing amount of individuals to invest (Mutual Funds and the U.S. Equity Market, 2000). However, it is important to note that the professional management of mutual funds comes at a cost; fees and taxes will diminish the net return of the security.

The Wells Fargo study (2014) was able to generate some relevant statistics, finding that “nearly one-in-five Millennials report that all of their retirement savings are in stocks or mutual funds. At the other end of the spectrum, nearly a third have a quarter or less of their retirement savings in stocks and or mutual funds, while a quarter of Millennials aren’t sure where they are invested” (Wells Fargo Millennial Study, 2014). This study grouped stocks and mutual funds together making it hard to decipher how much of those percentages accounted solely for mutual funds. This research seeks to address this gap by asking Millennials to specifically indicate what they are invested in, without grouping investment vehicles in the same category.

In comparison to mutual funds, ETFs have had a much shorter life in the United States. However, ETFs have been rapidly increasing in popularity (NASDAQ).

Exchange Trades Funds

ETFs, by definition of the NASDAQ, “are funds that track indexes, like the S&P 500. When you buy shares of an ETF, you are buying shares of a portfolio that tracks the yield and return of its native index” (NASDAQ).

ETFs are a relatively new way of investing. They originated in the 1980s in response to program trading, where institutional investors purchase and oversee baskets of stocks (Bansal and Somani, 2002). The first U.S. ETF, the Standard & Poor's Depository Receipt (SPDR), was created on the American Stock Exchange. ETFs offer the diversification that mutual funds enjoy, yet with seemingly lower costs. The lower costs are primarily due to the exclusion of management of the securities, which subsequently cuts tax expenses, operating costs, and even volatility. "The main difference between ETFs and other types of index funds is that ETFs don't try to outperform their corresponding index, but simply replicate its performance. They don't try to beat the market, they try to be the market" (NASDAQ).

Since the ETF's movement is highly reliant on the benchmark it tracks, changes to the portfolio are rarely made. This makes this form of investment attractive to a more passive investor and diminishes the need for a middleman, being the fund manager. Some sources deem them "the most successful financial innovations of modern times" (Review of Business, 2002). ETFs are convenient as they can be traded on major exchanges throughout the day. Much like stocks and other popular investment methods, ETFs can be bought and sold with strategies like limit and market orders, short selling, and buying on margin, among others.

When compared to mutual funds, "both of them are a basket of securities, and in both cases they are a way for a person to diversify their holdings. The main difference between the two is that a mutual fund is only priced at the close of the trading day, and an ETF trades just like a stock throughout the day" (Reeves, 2016).

Scholarly sources have varying opinions when it comes to the relationship between ETFs and Millennials. One site discusses why Millennials are attracted to ETFs:

Having little disposable income to speak of it should come as no surprise that Millennials are highly focused on costs, and as a result many of them are avoiding individual brokerage accounts and instead pursuing the comfort of low cost index funds and ETFs. In many ways they care as much about fees and expenses as they do with performance. (Money Management Executive, 2014)

Another source agrees saying "given the very low costs associated with ETFs, they are the ideal investment for beginning investors who either don't have a lot of experience or have a lot of cash to put in the market" (Reeves, 2016).

According to Schwab's Annual Study, "young investors seem to be on the leading edge of ETF adoption and use" (Business Source Complete, 2015). Participants of this survey allocated "roughly a fifth (21%) of their total portfolio to ETFs." What is remarkable is that this percentage has increased from 16% in 2012. Other studies confirm this assertion by finding that Millennials are invested in ETFs more than any other generation:

A survey by Cogent Research of investors with more than \$100,000 to invest found more than 40% of Generation Y investors said they owned at least one exchange-traded fund. Nineteen percent of Generation X investors and about 10% of Baby Boomers reported they owned an ETF. (Investment News)

As a disclaimer, this might purely be due to the fact that ETFs are a relatively new investment strategy. Baby boomers and individuals in Generation X did not grow up with ETFs being popular sources of investing, unlike Millennials.

Research stating, and supporting, that Millennials do not like investing in ETFs specifically could not be found. However, reasons supporting the belief that Millennials are not interested in the financial markets as a whole were discussed earlier. Essentially, if the generation is uneducated or uncertain about financial markets in general, then they are subsequently unaware of the benefits ETFs offer.

Personal Financial Advisors

Two common ways of investing in securities, mutual funds and ETFs (or other vehicles), include using the advice and brokerage of a financial advisor or executing the trades personally through an account on an online investing site. This section of the literature review will outline the existing literature on financial advisors as they pertain to the Millennial generation.

There are millions of individuals in the Millennial generation. This being said, it is imperative for financial advisors to tap into this group in order to ensure prosperous future careers. “Millennial investors represent both the greatest challenge and opportunity for mutual fund managers” (Connelly, 2013). This statement could be applied more broadly to the financial industry as a whole. According to an article titled *Money Habits of the Millennials*, “Millennials are more interested in having a personal connection with those who manage their money than ever before, despite their comfort with the use of mobile and online technology to perform many investing functions” (Cussen, 2015).

This statement may come as a surprise, as many stereotype Millennials as technology centered, solitary beings. However, this concept is further emphasized by other scholars saying that “while Millennials value online resources, similar to Boomers, they prefer face-to-face interaction for things like setting up a new investment account, creating a financial plan, or conducting investment transactions” (Wells Fargo Millennial Study, 2014). The same study found that these results are not sufficiently backed up by action from Millennials. The study contends that “a small percentage of Millennials use a financial advisor. The percentage of Millennials using a financial advisor doubled from last year to 16%” (Wells Fargo Millennial Study, 2014). So, even though it was discovered that many Millennials do not currently invest by means of a financial advisor, it is notable that the percentage that do is increasing sharply. According to the study, the most common reason that Millennials do not elicit the advice of a professional is that the costs and fees are too high. These results represent the opportunity for advisors to capture this generation by offering affordable prices for face-to-face services.

There are many financial companies that are already actively seeking the commerce of the Millennial Generation through creative methods. Jennifer Connelly published an informative article titled *Embrace Multimedia to Attract Millennial Clients*,

which describes an interesting competition at New York University’s Tisch School of the Arts. At Tisch, students were encouraged to create short films that made mutual funds enticing to individuals in their twenties. Despite the fact that virtually none of the student participants actually invested in mutual funds, twenty-five videos were submitted. “One of the winning entries was a homage to James Bond about a fund manager. Agent 007%, who squares off against the Evü Task Force (ETF), is after the secrets of his actively managed portfolio” (Connelly, 2013). Videos such as this one have proved successful among Millennials, especially when posted on fund managers’ websites, YouTube, and social media platforms. “If managers embrace the technology and engagement with companies they trust that Millennials have grown up with, they can successfully grow their assets by appealing to this relatively untapped investor base” (Connelly, 2013). Basically, advisors should promote their services online in order to meet with potential investors in person.

Figure 1 depicts the sources of information Millennials use to aid in their financial decisions. The chart compares the Millennials’ answers to those of Baby Boomers. The biggest source of information, at 57%, for Millennials was from parents, spouses, or family members. In contrast, Baby Boomers received most of their information from personal finance experts. This information set deviates from what some researchers believe to be true, that Millennials rely on the advice from financial professionals for investing decisions. This research will seek to provide a more specific answer to this discrepancy.

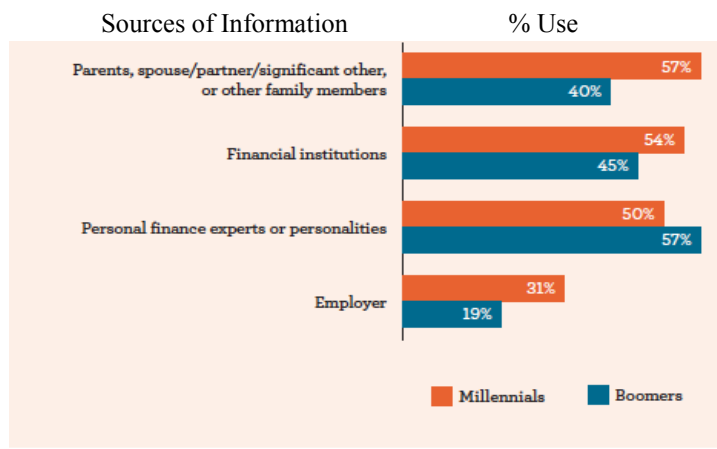


Figure 1: Sources trusted for credible information to help make decisions on finances (Wells Fargo Millennial Study, 2014)

Online Trading Sites

Online investing and investing websites are new innovations to the financial world. In recent years they have become very prevalent, as society has evolved into the technology age. According to the Wells Fargo Survey referenced above, “one-third of Millennials have used an online tool to help them determine how much they should be saving for retirement.” Of those who used the online website, “31% said it was helpful in

developing an investment strategy” (Wells Fargo Millennial Study, 2014). Online investing sites are highly convenient and suitable for investors who trust their own decisions rather than wanting the advice of a professional. Some researchers believe that Millennials are “choosing to follow either their own instincts or go along with their peers when it comes to investment choices, and have become somewhat distrustful of the financial advice given to them by their parents or financial professionals, who they often view as salesmen with only their own best interests at heart” (Cussen, 2015).

According to many sources, Millennials tend to have confident attitudes. They grew up in a society telling them that they can be whomever they want; to reach for the stars. This mentality has made an impression on them as “71% say they are in control and believe they can achieve their goals” (Wells Fargo Millennial Study, 2014). This mindset, along with the enticing cost savings of online sites, potentially puts personal financial experts in jeopardy.

Research Plan and Methods

Research Methods to be used to Address Hypotheses

Secondary research was utilized extensively in the Review of Literature section of this research. Gathering and reviewing the existing body of knowledge on the topics of the Millennial generation, mutual funds, ETFs, personal financial brokers, and online investing sites helped to lay a base for this research.

In addition, primary research was completed through a questionnaire survey to gather new data on the topics of the Millennial generation, mutual funds, ETFs, personal financial brokers, and online investing sites to explore the hypotheses of this research.

Research Plan

To address the hypotheses, a six-step research plan was applied:

1. Survey Questionnaire Development
2. Sample Selection
3. Administration of Questionnaire
4. Collection of Data from Questionnaire
5. Analysis of Data
6. Application of Results to Hypotheses

The questionnaire was developed using the Qualtrics software with the help of Nidhi Dahiya, the University of Arkansas Qualtrics specialist. Specific questions were developed around the hypotheses with the support of advisor Dr. James L. Webster. The completed questionnaire consisted of ten multiple-choice questions. Questions 1 through 3 were demographic-based, indicating the nationality, age, and gender of the respondent. Questions 4 and 5 were used to uncover the respondent’s frequency of investing. Questions 6 through 9 were specific questions designed to collect information on the

investment behaviors of respondents. The final question was used to reveal the method of trade placement. This questionnaire is included in the appendix of this research.

Survey participants were a convenience sample of MBA and Education graduate students at The University of Arkansas as well as a group of professional connections via LinkedIn. To address the 25 to 35 age range that the hypotheses seeks to tap, graduates students were chosen as the participants rather than under-graduate students. It was presumed that MBA students might have more knowledge about investing than the average graduate student. To offset this bias, graduate students in the Education program were added to the sample.

With the help of the University of Arkansas' Director of Academic Information, Kathryn Baker Parks, the survey was distributed electronically by email to the graduate students. In addition, the survey was published on LinkedIn where connections could elect to participate. The survey began with a statement of purpose for the research followed by an informed consent form. After respondents indicated that they had read and understood the consent form they were directed to the survey. The average length of time a respondent took to complete the survey was less than five minutes.

The analysis portion of this research was initiated by downloading the response results of the survey from Qualtrics to Excel spreadsheets. Questions were examined individually, as well as filtered to get more specific results, with simple percentage comparisons. Take for example the survey results for the question asking if respondents preferred an ETF or a mutual fund. To take a closer look at the question, a filter based on a previous question about gender was used to see what the female respondents answered, and then the males. These results were then compared to the assumptions of the hypotheses.

Research Results

Demographics of Respondents

There were a total of 51 survey responses submitted. Of these, only 40 of these were fully completed and were included in this research. The hypotheses seek to know about the Millennial investor in the United States. In accordance with this, the first question pertained to nationality. Of the respondents who completed the survey, all but three were U.S. citizens.

The hypotheses also seek to know about Millennials ages 25 to 35. Of the remaining 37 respondents, there were 23 responses from people below the age of 25, 13 responses from people aged 25 to 35, and 1 respondent between the ages of 46 and 55. This breakdown of survey responses by age is depicted in Figure 2.

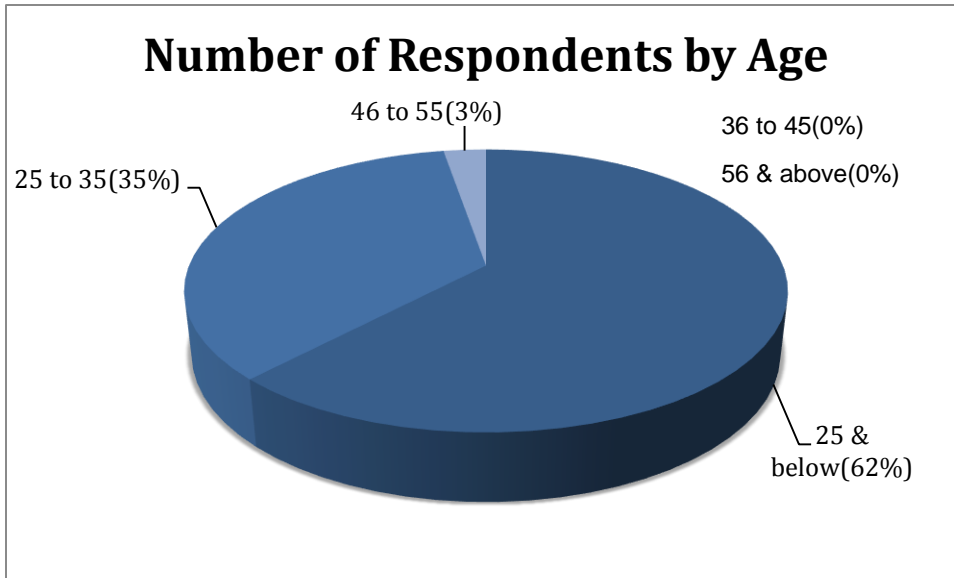


Figure 2: Number of respondents by age

The research plan was to mitigate the chance of having a majority of respondents in one particular gender by sending the survey to one largely female dominated graduate program, Education. This is in addition to a largely male dominated graduate program, the MBA. However, of the U.S. respondents, 27(73%) were males. There were 10(27%) females respondents. (Later in the synthesis this research will go into some analysis of how the males answered certain investing questions as compared to the females.)

Analysis of Results

Mutual Funds vs. Exchange Traded Funds

In general, when respondents were asked if they had ever personally made a financial investment in debt or equity, a majority of respondents, 26(68%), indicated they had. This means 12(32%) respondents had never made an investment decision before.

However, when asked if they planned on making a financial investment in the next ten years, 36(95%) responded “yes”, and only 1(5%) responded “no”. In retrospect, it would have been beneficial to leave a space for the “no” respondents to explain their reasoning for not intending to make a financial investment in the future.

When respondents were asked if they had ever personally invested in a mutual fund, the response was almost equal. 19(51%) of respondents indicated that they had, while 18(49%) indicated they had not.

Of the respondents who had personally invested in a mutual fund, 19(68%) indicated they had placed between 1 and 5 trades in the last year. 5(26%) had placed between 6 to 10 trades, and 1(5%), had placed between 11 and 15 trades. No respondents

specified that they had placed over 15 trades in the last year. Figure 3 illustrates the amount of mutual fund trades the respondents had placed.

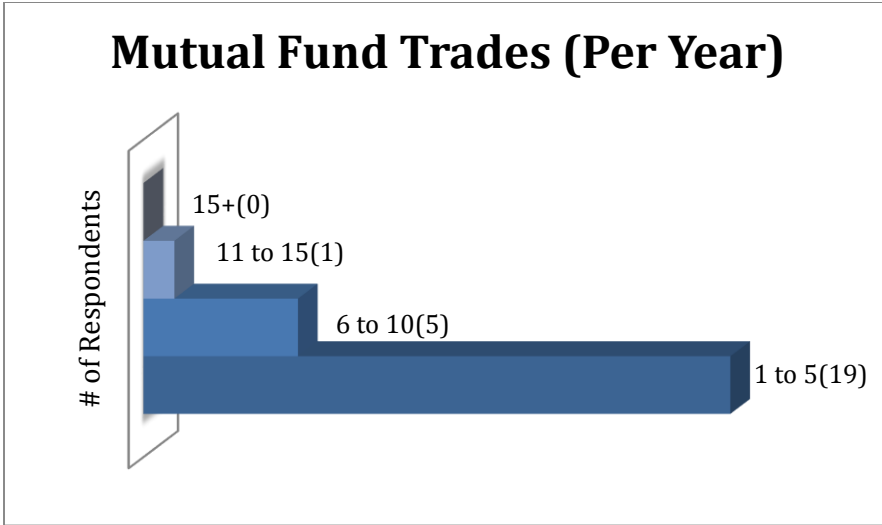


Figure 3: Amount of mutual fund trades placed (per year)

Despite the majority of respondents who had invested in a mutual fund, when asked if they had ever personally invested in an ETF the majority had not. 20(54%) of respondents indicated “no” while 17(46%) indicated “yes.” It is theorized that one reason that more people were invested in mutual funds than ETFs is that their employee-sponsored 401k plans directly invested their match into a mutual fund.

The 17 respondents who indicated that they had invested in an ETF were then asked how many trades they had placed in the last year. A majority, 9(53%), had placed between 1 and 5 ETF trades, 5(29%) placed between 6 and 10, 2(12%) placed between 11 and 15, and 1(6%) had placed over 15 trades. This is represented in Figure 4.

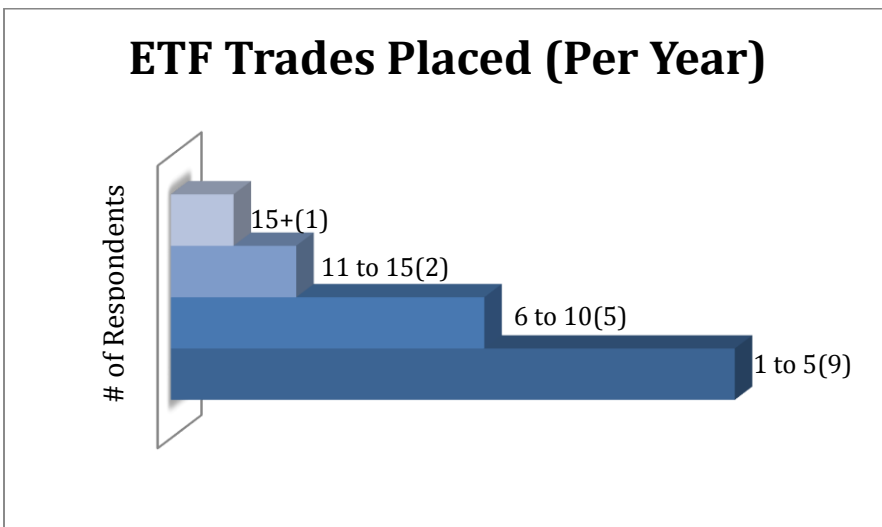


Figure 4: Amount of ETF trades placed (per year)

All respondents that were U.S. citizens were asked if they were forced to choose between a mutual fund or an ETF, which they would invest in. This was asked to everyone, including those who had never made a financial investment before and those who said they did not plan to invest in the next ten years. The prevailing answer choice was a mutual fund, as 22(59%). This left a minority of respondents, 15(41%), expressing that they would elect to invest in an ETF.

When the data is filtered for just those between the ages of 25 to 35, a mutual fund is still the dominating answer, this time by slightly less at 54%. This response towards mutual funds is even stronger for those under the age of 25. 63% indicated that they would choose a mutual fund over an ETF. There was not a single age group surveyed that collectively chose mutual funds over ETFs.

II. Online Site vs. Personal Broker

When asked whether they would elect to use an online investing site or personal broker, respondents indicated that their preferred method of placing trades was via an online site. 19(76%) responded this way, while 6(24%) responded that they favor investing with a personal financial broker.

Conclusions

It is vital to the financial industry to understand and capture the Millennial generation as they will make up a large number of the investors in the near future. Understanding their motives, goals, and preferences allows interested parties to target them and be more successful in offering them securities and services most suited for their interests.

As found in this research, the majority of respondents who had invested in a mutual fund had not invested in an ETF. 20(54%) of respondents had never invested in an ETF while 17(46%) indicated they had. Furthermore, the U.S. citizen respondents were asked if they were forced to choose between investing in a mutual fund and an ETF and the prevailing answer choice was mutual fund. 22(59%) respondents answered this way, leaving 15(41%) of the respondents expressing that they would rather invest in an ETF. For those specifically ages of 25 to 35, a mutual fund was still the dominating response, yet by slightly less at 54%. This data nullifies the hypothesis that Millennials would prefer ETFs to mutual funds.

When asked, most respondents indicated that their ideal method of placing trades was through an online investing website. 19(76%) responded this way, while 6(24%) indicated that they prefer investing with a personal financial broker. These results, along with the secondary research, confirm the hypothesis that Millennials, ages 25 to 35, would prefer investing on an online site to using the services of a financial advisor.

In summary, by employing an analysis of qualitative data collected through an online questionnaire, this research found that:

1. Millennials, ages 25 to 35, prefer to invest in Mutual funds to ETFs.
2. Additionally, these Millennials prefer to place trades on an online investing site to using the services of a personal financial advisor.

Limitations

Through the review of a wide body of literature and collection and analysis, even more gaps were identified in available research that should be further explored. Limitations of this research were due to 1.) the structure and content of the questionnaire. It would be ideal if the questionnaire had been structured with open response options following the multiple-choice questions to allow respondents to elaborate on their answer choices. For example, a pertinent question asked respondents if they would invest in a mutual fund or an ETF, if they were forced to only choose one. An open response option allowing respondents to explain their answer choice would have been very informative and helpful when analyzing the results of the questionnaire.

Another limitation of this research was that 2.) the respondents to the survey were predominantly male. The primary focus of this research was on the Millennial generation as a whole, not broken down into gender categories. However, it would be educational and thought provoking if another study was done with a focus specifically on how gender translates into investing decisions, if at all. Moreover, the Millennial generation could be further broken down into other demographic categories and studied in terms of their investing habits.

Another limitation was 3.) the sample size of potential respondents. The sample size, just of two graduate colleges at The University of Arkansas and some LinkedIn connections was small and geographically limited to the state of Arkansas, predominately. Further research could, and should, be done to see if the findings of this research hold up when compared to bigger sample sizes, including other states or perhaps even other countries.

A final limitation is derived from 4.) the focus group of this research, the Millennial generation. Many Millennial are still in school, or directly out of school. This being said, most have not had adequate time to accumulate the wealth that is considered required for investing. High debt obligations, relatively low starting salaries, and the lack of time to research investment options restrict the Millennial generation in terms of investing.

Recommendations

The hypotheses of this research seek to know about the Millennial generation when it comes to investing in mutual funds and ETFs, and how they go about it, either

via an online investing site or a personal financial broker. There are quite a few parties that may find the results of this research of particular value.

A financial advisor makes a living by investing and managing other people's money. This being said, having clients is vital to their success. The Millennial generation is particularly imperative for advisors to understand and seize, as they will be the investors of the immediate future. This research reveals that a large percentage, (76%), of Millennials prefer, or would choose, to invest on an online site rather than meeting with a financial advisor. This does not mean that financial advisors should begin to consider other occupations, but that grasping the business of Millennials is more important than ever. Creative advertising on social media and other online platforms is key. The advertising should harp on the trustworthiness of the advisor, how effortless it is to have a professional manage your money, and how money can compound over time when invested in the right securities. Costs and fees should be clearly explained to avoid feelings of mistrust from Millennials. Once some accounts with Millennials are established, referrals will be central, as secondary research has shown that the generation tends to go to their peers for advice.

Online investing sites already have a clear advantage when it comes to capturing the business of Millennials. In order to preserve, or even grow, this lead, it is recommended to educate the generation of the perks of investing online. First and foremost, these sites should showcase the low costs of transactions relative to a personal advisor. The lack of an adequate amount of money is the biggest reason Millennials shy away from investing, so making it apparent that making trades online is cheaper could have a positive impact. The freedom and convenience of this method should also be highlighted. This generation loves to multitask to get things accomplished within a busy schedule, so this will likely appeal to their needs.

The results of this research do not recommend ETFs over mutual funds or an online investing site over a financial advisor to the Millennial generation. Instead, it is recommended that every individual in the generation familiarize themselves with what type of an investor they are in order to make an informed decision best tailored to their requirements.

Appendix

Millennial Investor Survey Questions

The purpose of this study is to get an idea of what Millennials, ages 25-35, prefer to invest in and how they like to do so. The data collected from this survey will be used in my Honors Thesis at the University of Arkansas and completely anonymously. Thank you for your participation and honest responses!

Informed Consent Form

Introduction

This study attempts to collect information about the investing tendencies of people in the millennial generation, specifically those ages 25 to 35. The data collected will be used in an University of Arkansas Honors Thesis.

Procedures

You will be asked a series of questions, all of which are multiple choice responses. The survey consists of 6 questions and will take approximately 5 minutes or less. Questions are designed to determine what and how you prefer to invest. This questionnaire will be conducted with an online Qualtrics-created survey.

Risks/Discomforts

There are no expected or foreseen risks associated with involvement in this study.

Benefits

There are no direct benefits for participants. However, it is hoped that through your participation, researchers will learn more about which investment vehicles millennials prefer to invest in, and if they are more likely to invest with a personal broker or an online site.

Confidentiality

All data obtained from participants will be kept confidential and will only be reported in an aggregate format (by reporting only combined results and never reporting individual ones). All questionnaires will be concealed, and no one other than the primary investigator and assistant researchers listed below will have access to them. The data collected will be stored in the HIPPA-compliant, Qualtrics-secure database until the primary investigator has deleted it.

Compensation

There is no direct compensation for completing this survey.

Participation

Participation in this research study is completely voluntary. You have the right to withdraw at anytime or refuse to participate entirely without jeopardy to your academic status, GPA or standing with the university. If you desire to withdraw, please close your internet browser.

Questions about the Research

If you have questions regarding this study, you may contact Terrell McLendon, at (512) 424-9412, tmclendo@uark.edu.

Questions about your Rights as Research Participants

If you have questions you do not feel comfortable asking the researcher, you may contact Dr. James L. Webster, (479) 575-6950, JWebster@walton.uark.edu. Or contact the Compliance Coordinator of The University of Arkansas' Institutional Review Board, Ro Windwalker, (479) 575-2208, rib@uark.edu.

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Questions

1. Are you an U.S. citizen?

- a.) yes
- b.) no

2. Please select the age range you fall in.

- a.) Below 25
- b.) 25-35
- c.) 36-45
- d.) 46-55
- e.) 56 and above

3. What gender do you identify with?

- a.) Male
- b.) Female
- c.) Prefer not to answer

4. Have you personally ever made a financial investment in debt or equity?

- a.) Yes
- b.) No

5. Do you plan on making a financial investment in the next ten years?

- a.) Yes
- b.) No

6. Have you personally ever invested in a Mutual Fund?

- a.) Yes
- b.) No

7. Have you personally ever invested in an Exchange Traded Fund (ETF)?

- a.) Yes
- b.) No

8. How many Exchange Traded Fund (ETF) trades have you placed in the last year?

- a.) 1-5
- b.) 6-10
- c.) 11-15
- d.) 15+

9. All things being equal, and if forced to choose only one, would you invest in a Mutual Fund or Exchange Traded Fund (ETF)?

- a.) Mutual Fund
- b.) Exchange Traded Fund (ETF)

10. What is your preferred method of placing trades?

- a.) Personal broker
- b.) Online Site

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