The difference between millennial and baby boomer investors

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Money coach Barbara Knoblach works a lot with millennial clients. ‘If I were to look at the average of all millennial clients versus older clients, I’d categorize the millennial cohort as growth investors and Generation X and baby boomers as balanced investors,’ she says.

When it comes to investing, what’s up with millennials and their money?

As members of this tech-savvy generation begin to hit their mid-30s, many are choosing to invest differently than previous generations.

Barbara Knoblach, an associate at Money Coaches Canada in Edmonton, works with a lot of millennial clients, so has observed trends she doesn’t usually see in Gen Xers (born in the early 1960s) or baby boomers. Not surprisingly, this group expect their investments to be accessible via online banking or online brokerage services, so they wouldn't be pleased just receiving a paper statement in the mail like mom or dad. They're also better informed about potential pitfalls in investing than many older clients.

"They have a better grasp that they should be paying attention to investment fees, whereas many older clients are just oblivious to what they're paying," Ms. Knoblach says. "Millennials generally have a better understanding of the types of advisors out there and specifically engage my services because they know I won't be collecting commissions on their investments. Finally, because most of them have less money than older clients, they're paying attention to products that have low minimum investment or low recurring investment requirements."

Ms. Knoblach finds that most of her young clients are quite okay with putting their funds into low-fee, passive investment vehicles that will be tracking the market. Older clients, closer to retirement, are often more concerned about the performance of their investments and more inclined to switch investments that have not been performing well.

"Millennials understand that they can ride out any ups and downs in the markets and as such tend to be rather disciplined around their investments, rather than selling in a panic because the markets pull back," says Ms. Knoblach. "I've encountered quite a few older clients who express a strong desire to beat the market to make up for ignoring their investments too long or for past bad investment decisions. I don't tend to see this in younger clients."

When it comes to risk, she finds millennials don't act uniformly. She says some young clients take quite a bit of risk, while others are risk averse, which is the same for older groups. Affluent young clients with inherited wealth tend to be rather conservative to preserve what they already have, while millennials with no inherited wealth frequently put their money into more aggressive growth investments because they need to accumulate wealth, nor do they have a large amount of money to fret over. She also observes that when their money is self-made, many young people feel invincible and able to regenerate what they have lost.

"If I were to look at the average of all millennial clients versus older clients, I'd categorize the millennial cohort as growth investors and Generation X and baby boomers as balanced investors," she says. "However, this may also be due to advice these groups have received from various advisors."

While Ms. Knoblach has clients of all ages who care about the social and environmental consequences of their investment decisions, younger clients tend to discuss it more. She notes they show a certain level of skepticism around investing in ethical funds. As one client put it, just because a fund is labelled "ethical" doesn't necessarily make it a better choice. It may come with a higher fee and subpar performance compared to a "regular" fund.

Interestingly, she says many of her young clients tend to invest in the Canadian or North American market only. They tend to shy away from emerging markets because they see them as unpredictable and are also concerned over exploitation of workers in these countries.

Ms. Knoblach finds most of her millennial clients are looking for education on investing, possibly because they lack experience to make decisions confidently on their own, plus they're wary of being sold products at financial institutions.

“They’re looking for unbiased information as to which options are available to them,” she says. “Then they want to reach a decision that isn’t coupled to the pressure of an immediate sales transaction.”

Ted Rechtshaffen, president of TriDelta Financial Partners, a financial planning firm in Toronto, would agree his young clients are looking for someone to learn from, as well as transparency on fees or on any motivations to lean more in one direction versus another.

“Millennials want more depth of analysis and proof that what you’re advising them is the right thing for them,” he says. “They’re more questioning because they’ve grown up in a world more skeptical of business.”

He places his millennial clients into two categories: One is self-made, often technology-related, high-net-worth (HNW) individuals while the other is children of clients whose parents want them to become educated about investments, possibly because they’ve inherited a bit or are working and have some money.

“Mortgages and debt tend to be a big part of their planning concerns, not on retirement,” says Mr. Rechtshaffen. “If I’m a wealthy 30-year-old, there’s a lot of pressure on me to buy a house, so that seems to be a significant financial goal. Then, it’s about getting better investment returns. For the HNW ones, there’s more tax focus but not as much as other investors.”

He finds millennials tend to be very focused on technology-related investments, particularly if they’re tech-savvy themselves. Other interests include marijuana stocks, cryptocurrency and blockchain – very hot sectors of the market. He also finds his young clients aren’t risk averse – just the opposite.

“My view is that they’re much more risk-oriented, more focused on 15-per-cent returns, whereas my boomer clients might be focused on 7 per cent,” says Mr. Rechtshaffen. “It’s a big difference. I spend a lot of time trying to talk them down from big bets.

“It’s more male than female. Twenty-five-year-old males are more risk-oriented than most people, just by nature. One of my jobs is to try and get them to diversify. As great as any sector is in the economy, it doesn’t last forever.”

Cherise Berman, principal at Bespoke Financial in Toronto, says her millennial clients tend to be more hands-on with their investments and more inclined to set up a discount brokerage account or invest directly with a fund company.

“They’re very comfortable using technology such as opening accounts online,” says Ms. Berman. “They don’t really require the same face-to-face meetings that other generations might prefer. We usually connect by e-mail and then meet digitally using FaceTime or a virtual meeting room. Millennials are quite comfortable not meeting in person.”

She also finds this generation to be more passive investors looking for low-cost investment funds, such as exchange-traded funds. But she doesn’t see millennials as more or less risk averse than previous generations.

“The biggest factor on risk is their experience,” she says. “Because they haven’t experienced a major market correction, they might be inclined to take on more risk. Quite often they haven’t had a lot of investment experience, especially if it’s new money that’s inherited or from the sale of a business, so they’re cautious in deploying their investments. They want to invest a little initially and then add. We usually recommend investing over a specific period of time so they can get comfortable.”

Ms. Berman believes that millennials do invest with more of a conscience, frequently putting a portion of their portfolio into socially responsible investments. She also sees them as knowledgeable people, often doing their own research.

“They might come with a portfolio and say, ‘This is what I’m thinking of doing,’” she says. “Is there anything I’m missing? Millennials are driving change with online investing. I have some clients who do their investing online, but they still want that second opinion. They’re coming to us for a broader perspective.”