INVESTABLE ASSETS OF TOMORROW

Getting to Know Gen-X and Millennial Investors

By Chris Ciompi and Jay Jacobs, CFA®

Many of our clients ask us for insights about younger investors, specifically investors who are in the millennial and generation-X generations. We believe that our clients are anticipating the greatest wealth transfer in U.S. history from the baby-boomer generation to their children, mainly members of the millennial generation. Our firm conducted a survey with a third-party vendor, ORC International, in late Q2 2016. The goal was to shed light on behavioral differences among generations when it comes to investing.

Gen X does not receive nearly as much media coverage or attention as the millennials or baby boomers. Additionally, our clients have told us that as gen Xers move into their prime earning years, advisors are interested in learning more about what makes this "in-between" generation tick. Hearing these common questions, we too became even more curious about gen Xers and millennials.

Table 1: Fast Facts—The Survey and the People We Surveyed

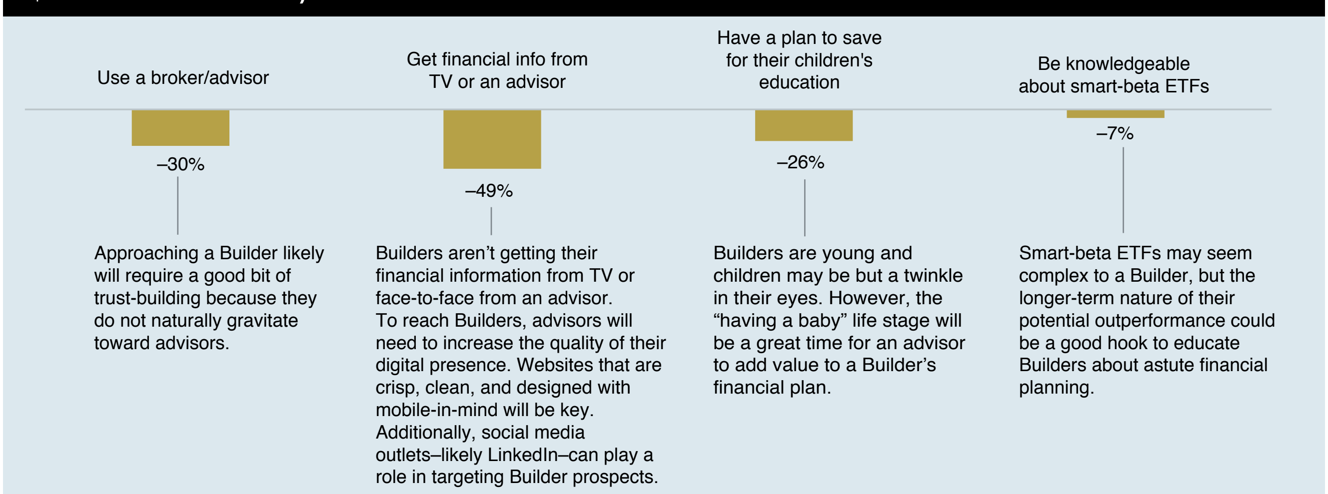
Number of survey respondents	2,250
Minimum level of investable assets to qualify for the survey	$100,000
Birth years of the millennial generation*	1985–2000
Number of members in the 21+ millennial generation*	~70 million
Birth years of generation X	1968–1979
Number of members in generation X	~60 million

*Note: Survey excludes millennials ages 16–20 born 1996–2000

To empower our clients, we are determined to provide them with research and insights about markets as well as the macro environment in which we all operate. In analyzing our survey's data, four different groups emerged; we've named them Builders, Adrenaline Techies, Cautious Consulters, and Knowledgeable Xs. We believe that getting to know these easily identifiable and distinct groups will help our clients serve their clients better than they do today.

This article may look and feel a lot like consumer segmentation to some, and we recognize that consumer segmentations may not always have clear, actionable insights. But if a prospect walks into your office and he/she is AA years old and has $BBB,BBB to invest, knowing a few demographic preferences could lead to a richer, better conversation.

Figure 1: How Much More Likely Are Builders to … ? (% more/less likely versus other segments—Millennials and Gen Xers, >$100K in investable assets)



For starters, see table 1 for some fast facts about generation X and millennials.

Builders

Millennials	Age 21–36
Individual's investable assets	$100–250K
Market size*	$270 billion

*Source: Equifax (2015), based on estimates

The Builders have just begun to save and invest financial assets. Because of this, they:

- Demonstrate a lack in education about some financial strategies such as smart-beta exchange-traded funds (ETFs)
- Are extremely fee conscious, prioritizing low fees over other investment vehicle features
- Do not yet seek out financial advisors' services

As Builders continue to acquire their financial assets, education will be key so they can increase their financial IQ (see figure 1).

Adrenaline Techies

Millennials	Age 21–36
Individual's investable assets	>$250K
Market size*	$980 billion

*Source: Equifax (2015), based on estimates

Frequent trading and trading as a hobby imply that Adrenaline Techies may be short-sighted in their quest to grow their nest eggs. Their high comfort level with investing in a variety of financial instruments could imply a degree of overconfidence, which can be addressed with education about financial solutions and the costs of frequent trading (see figure 2).

Adrenaline Techies prefer to consume information differently than others, and they often:

- Choose to interact with robo-advisors and apps rather than financial advisors and

Figure 2: How Much More Likely Are Adrenaline Techies to … ? (% more/less likely versus other segments—Millennials and Gen Xers, >$100K in investable assets)

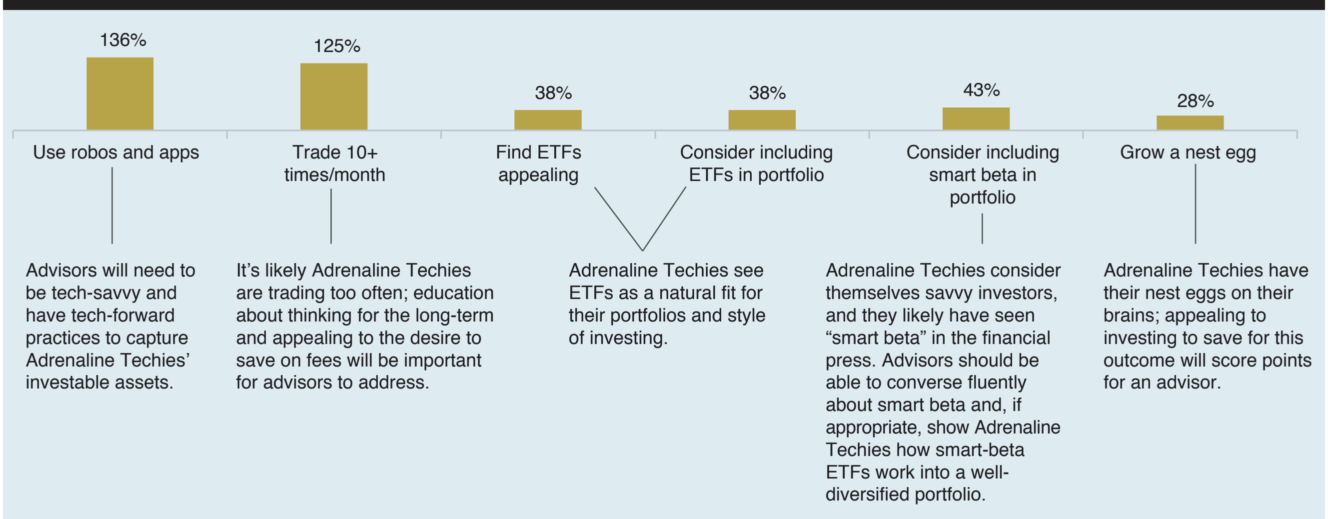


Figure 3: How Much More Likely Are Cautious Consulters to … ? (% more/less likely versus other segments—Millennials and Gen Xers, >$100K in investable assets)

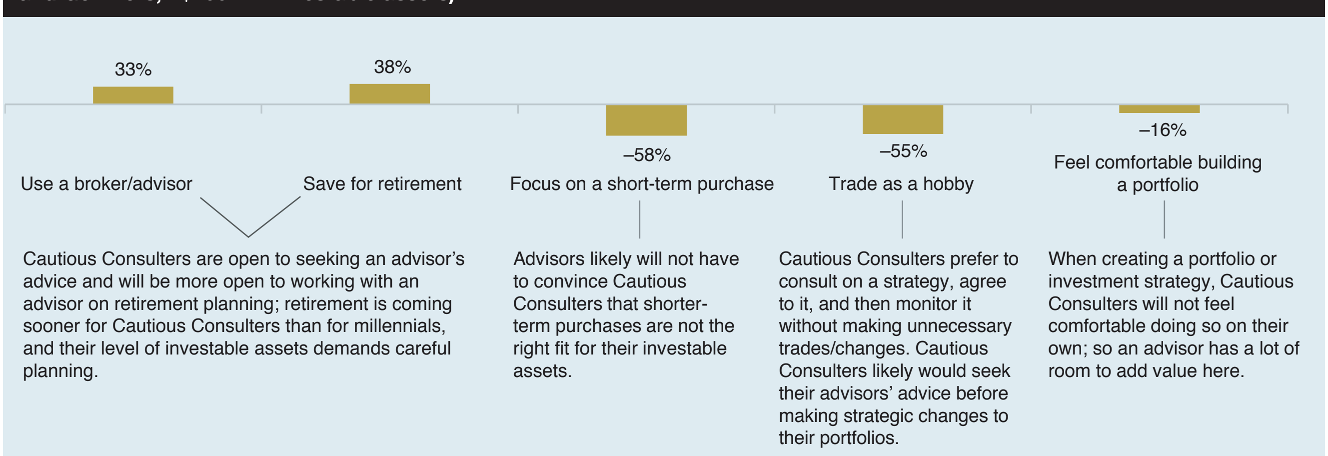
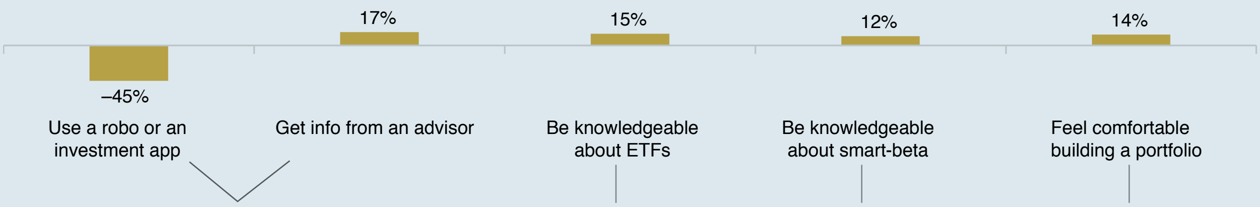


Figure 4: How Much More Likely Are Knowledgeable Xs to … ? (% more/less likely versus other segments—Millennials and Gen Xers, >$100K in investable assets)



Knowledgeable Xs are much less likely to use technology to drive their investments; they value advice from an advisor and are strong targets for advisors seeking to grow their businesses and add value to clients with >$500K of investable assets.

Knowledgeable Xs have come of age along with ETFs, so it's not surprising that they are aware of ETFs, how they work, and the potential benefits they can provide.

Knowledgeable Xs know about and understand smart-beta ETFs; it is possible they already have discussed this type of ETF with their advisors.

Armed with more experience than their millennial counterparts and more investable assets than the Cautious Consulters, Knowledgeable Xs understand how to build a portfolio; however, it is still likely they will seek professional advice to do so.

Table 2: Advisors Opportunities and Challenges with Builders, Adrenaline Techies, Cautious Consulters, and Knowledgeable Xs

The Groups		Key Opportunities/Challenges for Advisors		A Path to Establishing Trust
Millennials (Age 21–36)	Builders	Opportunities	• Need greater financial education • Haven't planned for near-term events such as children's education	• Demonstrate a commitment to educating clients on financial concepts • Help this group plan for upcoming expenses such as children's education • Increase expertise in and utilize digital communication methods such as social media, e-mail, Skype, and apps
		Challenges	• High sensitivity to fees • Not accustomed to getting financial information from advisors/brokers	
	Adrenaline Techies	Opportunities	• Need more-disciplined investment approach • Focused on growing their nest eggs and need guidance	• Educate investors on potential pitfalls of overtrading to quickly build nest eggs • Use smart-beta ETFs to demonstrate potential advantages over plain-vanilla robo-advisors and apps • Build technology-enabled platform and communicate via new media such as podcasts and apps
		Challenges	• Have a do-it-yourself mentality • Likely to use robo-advisors and apps	
Gen X (Age 37–48)	Cautious Consulters	Opportunities	• Likely to use an advisor/broker • Focused on long-term investment goals such as saving for retirement	• Create long-term, low-turnover portfolio strategy for achieving retirement goals • Educate investors to build their financial knowledge and comfort levels • Avoid short-term, high-risk trade ideas
		Challenges	• Will require extra hand-holding in explaining portfolio construction • Will be hesitant to make changes to their portfolios	
	Knowledgeable Xs	Opportunities	• Are not drawn to robo-advisors or apps • Rely on financial advisors/brokers for information	• Reinforce the benefits of ETFs; convert mutual fund portfolio to one based on ETFs • Provide clients with high-quality insights on a regular basis • Demonstrate your firm's and your value-add versus other firms and other advisors/brokers
		Challenges	• Prefer mutual funds but want features common in ETFs • Likely to already be entrenched with an advisor/broker	

- Consume much of their information via apps and podcasts.

Adrenaline Techies are likely to be drawn to tech-enabled investment platforms that use new-media communications to share insights.

Cautious Consulters

Gen X	Age 37–48
Individual's investable assets	$100–500K
Market size*'	$1.5 trillion

*Source: Shullman, *Insights into Luxury Affluence and Wealth* (2014), based on estimates

The Cautious Consulters have a very high likelihood of wanting to rely on a financial advisor to achieve their financial goals. They:

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- Are the most likely to use brokers or advisors
- Do not like to trade often
- Are saving much more for retirement than for pleasure or short-term purchases
- Have little knowledge of and a low comfort level with specific investment types

These characteristics suggest that Cautious Consulters want to seek the advice of financial advisors to guide their portfolios. Advisors can also move toward earning their trust by providing some financial education; see figure 3 for more detail.

Knowledgeable Xs

Gen X	Age 37–48
Individual's investable assets	>$500K
Market size*	$5.4 trillion

*Source: Shullman, *Insights into Luxury Affluence and Wealth* (2014), based on estimates

The Knowledgeable Xs use advisors/brokers rather than technology for their investing and depend on their advisors for financial information. Their higher net worth and longer experience with investing likely has led to much greater knowledge of different investment types; see figure 4 for more detail.

Despite a preference for mutual funds over other investment types, Knowledgeable Xs value the following things more than the other groups, indicating they could potentially benefit from a more ETF-centric portfolio:

- Low management fees
- The ability to trade throughout the day
- Transparency
- Tax efficiency

Table 2 summarizes the key opportunities and challenges for advisors when working with these groups.

Chris Ciompi is the senior vice president, head of marketing of Global X Funds. He earned an MBA from Duke University and a BA from Rice University. Contact him at cciompi@globalxfunds.com.

Jay Jacobs, CFA®, is the vice president, director of research of Global X Funds. He earned a BA from Emory University. Contact him at jjacobs@globalxfunds.com.