The young and the restless: Millennials prefer cash over long-term investments

The wealth industry has been attempting to update itself in order to attract the next generation of clients. However, experts have seen a lacklustre appetite for wealth management services amongst millennials as they continue to prefer cash holdings. **John Schaffer** finds out more

Private banks and wealth managers have, of late, been trying to attract the next generation of clients, amidst a vast transfer of wealth that's taking place. However, a significant challenge the investment management industry faces is that millennials, in general, have low appetite for investing. According to a survey by bankrate.com, only 26% of people under 30-years of age invest in stocks.

Liquidity is a key driver for this demographic. A 2014 UBS report (*Think you know the next-gen investor?*) reveals that millennials hold dramatically higher cash allocations and are weary of long term investing. The report revealed that volatility has made millennials savers, not investors, holding nearly twice as much in cash as any other generation. That sentiment has not changed much in 2016. Volatile markets paired with paltry returns provide little incentive for the next-gen to engage in investment portfolios. There are social drivers at play as well.

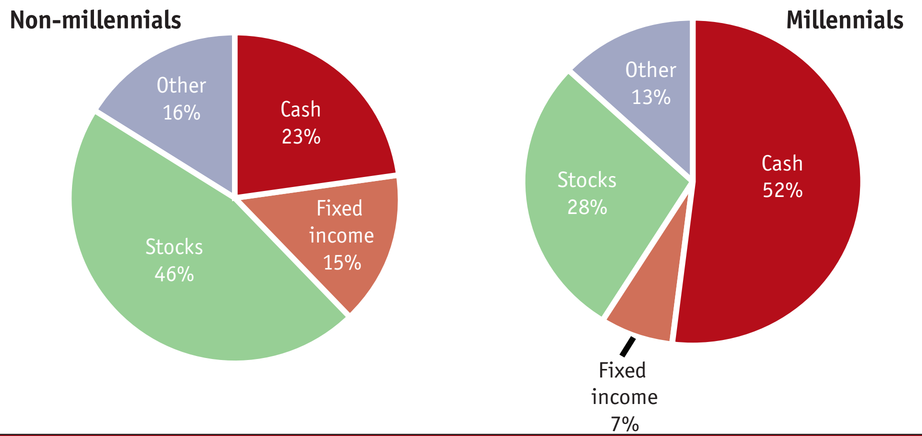
Deiken Maloney, director of goals driven investing, strategic development and implementation at Northern Trust, says there are "multiple reasons" why the younger generation are less keen on investing: "Millennials have gone through two financial crises and are coming out of college with the highest debt burdens. For many millennials, there isn't the money to invest as they need to pay off debt, and once they do have some savings, they're extra cautious about it because they want to hold cash as a safety net."

Maloney says their cash safety net is paired with a big value being placed on flexibility, and thus, a desire for liquidity. Millennials tend to be goals driven rather than wanting to invest to accumulate wealth. Alongside big student debt burdens, high housing costs in metropolitans have resulted in less disposable income for young professionals, largely cutting them off from the investment industry.

Maloney says: "Millennials are more interested in life experiences; being mobile. Making a first home purchase or buying a fancy car is not necessarily a top priority."

The disparity between the investor sentiment of millennials and baby boomers can be attributed to different market conditions.

NON-MILLENIALS V MILLENNIALS



Source: UBS: Think you know the next gen investor? (2014)

Nick Hungerford, CEO at automated advisory firm Nutmeg, agrees that the incentive for holding cash is as a safety net. He adds that there was more of an incentive to invest for the millennials' parents' generation. "If you were saving in the 80s, you would see your money going up continuously in a nice trend while investing in the FTSE," he says.

Maloney adds: "Think of individuals graduating in the late 90s – the market was doing well, people wanted to invest and they felt like they were missing out if they didn't. The same behavioural tendencies are not there for millennials, as they have seen the opposite side of the equation."

However, Hungerford says when it comes to investing, millennials favour higher risk investments alongside a majority of cash holdings in contrast to a traditional balanced portfolio. "You see new ways of investing, things like crowdfunding and P2P lending, as people are searching for that lottery ticket type route. Millennials are naturally more sceptical of the stock market, which feels like this nebulas idea to them. That's why they move towards higher risk investments, which promote the idea that you can be in-touch with the entities youre investing in."

Although Nutmeg is a relatively new entrant to the wealth management space, Hungerford says that its proposed investment strategy for clients is more traditional. He says these alternative strategies are "not what we believe to be the right behaviour", and he favours a diversified approach.

Maloney says that, amongst Northern Trust's millennial clients, there has been a growing appetite for socially responsible investments. He also notes a number of millennial targeted financial instruments such as ETFs that focus on technology companies, or hold companies that they are familiar with such as Facebook, Netflix and Amazon.

However, Maloney says that these funds are ill advised: "There's a fair amount of marketing involved. In some ways it's taking it too far – yes you have a longer term horizon but building a concentrated portfolio like that has increased risk and not necessarily compensated forms of risk."

Despite being a technology based wealth manager, Hungerford says that technology is not the most significant differentiator to attract younger potential clients to Nutmeg. He says the lower barrier to entry, with a starting point of £500 as opposed to the normal £500,000 entry level of most wealth managers, gives millennials an easy inroad into investment.

Maloney acknowledges that millennials are often clumped into one group but they have different needs dependant on an individual's wealth. With the anticipated transfer of trillions of dollars worth of wealth expected over the coming decade, Northern Trust is keen to attract millennials early.