

## Generational Perspectives

# How Millennials, Gen-Xers, and Baby Boomers save and invest

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Investors are often subject to behavioral biases that can lead to flawed decisions and choices. Being aware of these biases – and understanding how they arise from your background and life experiences – can help you make better investing decisions and achieve your financial goals.

When we make important decisions about the future, we start with the information and data available to us now and rely on our experiences, education and intuition to come up with the best possible answers. When we don't have the right information up front, or place too much weight on the wrong factors, decisions may not work out as well as we expect.

Similarly, researchers must also try to be objective when faced with new data and changing circumstances in order to avoid drawing conclusions that may one day be shown to be false or misleading. In many fields of study, unbiased judgement is difficult because the [interpretation of data is inevitably subjective and can itself result in bias](#).<sup>1</sup> For example, we often place more weight on information that supports our beliefs, and tend to discount factors that contradict them.<sup>2</sup>

In the United States, public companies from a range of industries in the high tech, automotive, energy and consumer goods sectors have corporate offices or production facilities in smaller cities and towns. In such areas, the company is often the main employer and a major contributor to the region's economic wellbeing. Employees and their neighbors often purchase shares in the company for reasons that include their familiarity with the company, the good things that it does for the community and sometimes just because many local people talk about the company. The high level of share ownership is evidence of confirmation bias and, perhaps, home bias. These biases can increase risk, because the decision to invest is based more on local information than on the prospects for the company as a whole.

Our biases are shaped and reinforced by our experiences. People that have similar characteristics, such as age range, gender or economic background, tend to demonstrate similar biases. This helps to explain why groups such as boomers, millennials and generation Xers have distinct outlooks and tendencies when it comes to investing.

## Economic environment shapes generations

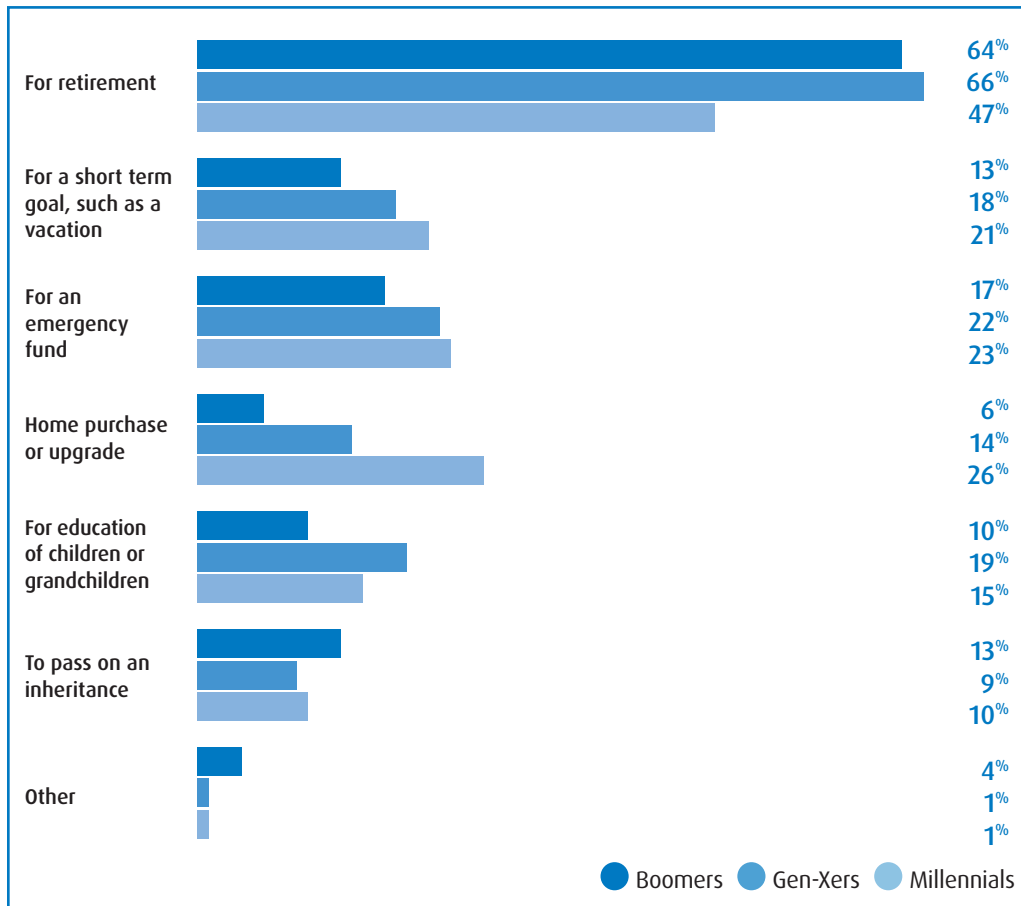
The financial crisis of 2007–2008 has left millennials feeling less secure and more cautious about financial matters than previous generations.<sup>3</sup> The crisis happened just as they were starting to come of age and take on financial responsibility. This experience has made millennials more fiscally conservative, and as a group they have a strong preference for saving, just like their grandparents and great-grandparents who lived through the great depression.<sup>4</sup>

Baby boomers, on the other hand, have greater confidence in their investments over the long run. Historically strong average returns have helped them prepare for retirement, and they are now prepared to ride out the ups and downs of the market.<sup>5</sup>

## Attitudes, behaviors and financial goals

A survey was commissioned by the BMO Wealth Institute to ask millennials, generation Xers and baby boomers about their attitudes and behaviors around saving and investing.<sup>6</sup> When each of these groups was asked about the financial goals for which they are saving and investing, retirement was the most frequently cited response, noted by the majority (59%) of all the individuals surveyed.

### What financial goals do different generations invest for?<sup>7</sup>



Source: BMO Wealth Institute survey by Validatell Technologies Inc., August 2017.<sup>6</sup>

While saving and investing for retirement is important for millennials, it was highlighted by less than half of them (47% of respondents) compared to both generation X (66%) and baby boomers (64%). For millennials, shorter term goals, such as saving for a vacation (21%) or to purchase a new home or upgrade an existing home (26%), were also highly cited reasons to save and invest.

### Top financial goals that Americans are investing for:

Retirement

**59%**

Emergency fund

**21%**

Short-term goal such as a vacation

**17%**

Home purchase or upgrade

**15%**

Education for children

**14%**

## Generational differences go beyond retirement goals

The key generational difference of spending priorities between baby boomers, generation Xers and millennials was in part highlighted in a conversation between Malcolm Gladwell, best-selling author and writer for *The New Yorker*, and Bill Gurley, a significant early investor in car-sharing services, at the 2015 SXSW Conference in Austin, Texas. Gurley asserted that millennials don't care about cars, that their parents are frustrated they won't get their driver's licences, and that millennials view cars as a utility, not as a social statement.<sup>8</sup>

This is quite a contrast to the baby boomer generation. Boomers buy more sports cars than any other generation and enjoy their cars and the time they spend driving.<sup>9</sup> Gurley also noted that these trends have helped lead to the rapid growth of car-sharing services.

It is not that millennials don't want to own cars; they are just making decisions about spending their limited resources in ways that differ from the decisions that their parents and grandparents made. Rather than forgoing car ownership, many are simply delaying it.<sup>10</sup> Economic circumstances have led to other choices that include marrying later,<sup>11</sup> obtaining higher levels of education<sup>12</sup> and taking advantage of the rapidly developing sharing economy.<sup>13</sup>

## Saving and investing are not the same

There is an important distinction to be made between saving and investing, as these two terms are often used interchangeably. Saving is the act of setting aside funds for a purpose other than day-to-day spending. Investing involves earning growth from these funds that can be used to accomplish chosen goals. Savings occur in the short term, while investing is a longer-term discipline to make the most of savings over time.

Survey participants were asked to describe their saving and investing preferences. It is interesting to note that respondents were usually on one side or the other of this short-term vs. long-term approach to saving and investing. When asked about their top three saving or investing options, a significant number of respondents chose short-term savings options that include putting the money aside to decide later (22%) and accumulating funds in a term-deposit or savings account (19%).

### Top three saving and investing preferences of Americans:

Buy and hold for the long-term

**38%**

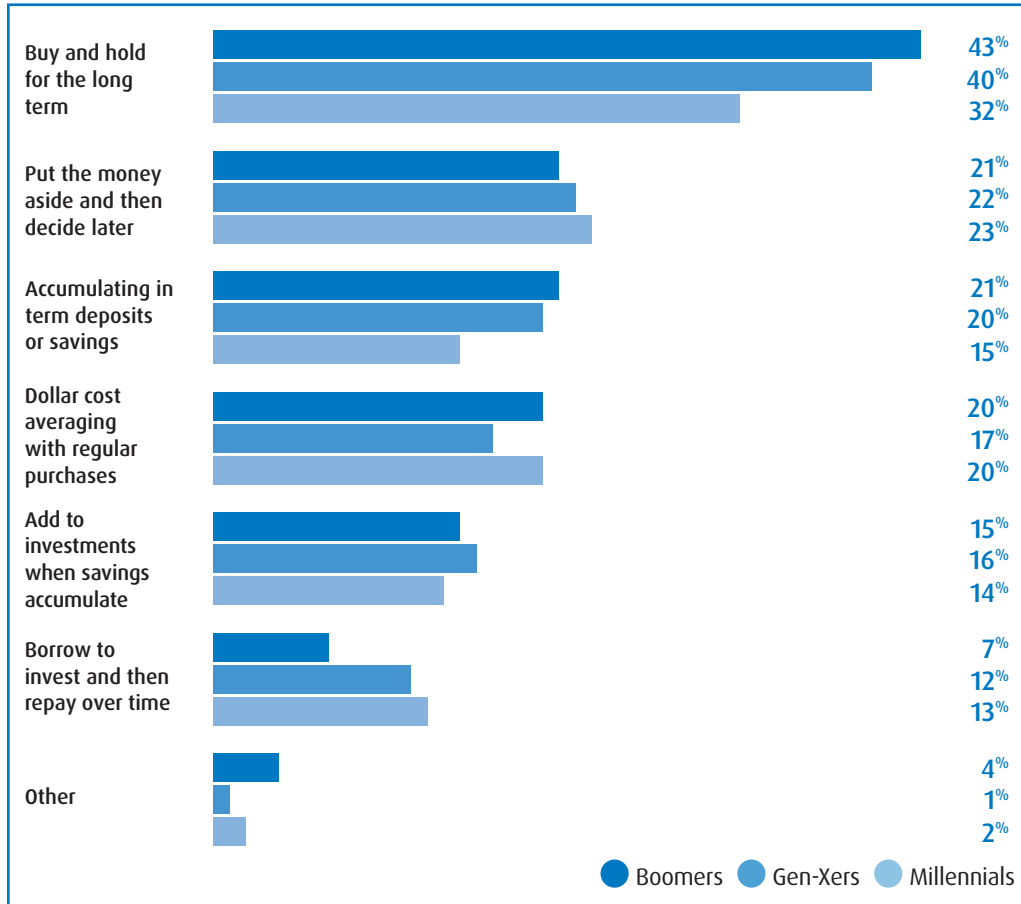
Put money aside and decide later

**22%**

Accumulate in term deposits or savings

**19%**

### Top three saving and investing preferences of the generations<sup>7</sup>



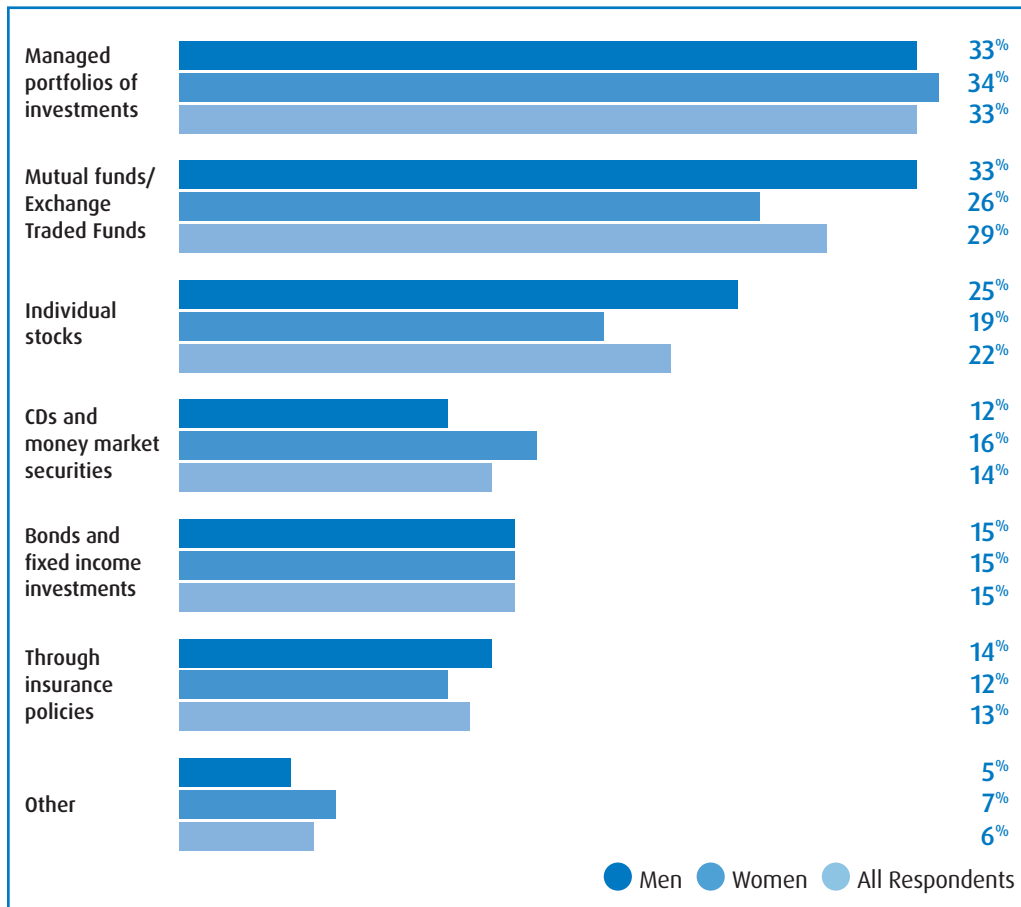
Source: BMO Wealth Institute survey by Validatelt Technologies Inc., August 2017.<sup>6</sup>

Millennials were notable in that they were more likely to be short-term in their approach, as they were less inclined to buy and hold for the long term (32%) as compared to generation Xers (40%) and baby boomers (43%).

### Different investing choices

Differences are also highlighted by the types of investments that survey respondents preferred. A high proportion of respondents indicated a preference for investments that rely on the expertise of professionals, such as managed investment portfolios (33%), and mutual funds or Exchange Traded Funds (29%).

## How money is invested, by gender<sup>7</sup>



Source: BMO Wealth Institute survey by Validatelt Technologies Inc., August 2017.<sup>6</sup>

In this survey, women tended to be slightly more conservative, with 16% of respondents selecting CDs and money market securities, compared to 12% for men. Women were also less likely to invest in individual stocks than men (19% vs. 25%).

## Market movements and bias

It would be nice if our investments grew at a steady, predictable rate over the long term. Unfortunately, markets go up, go down and sometimes stay relatively unchanged. How savers and investors react to these changes depends considerably on the investment approach they choose. A recent quantitative analysis examined why many investors do not achieve the investment returns they expect, and noted that investment results depend more on investor behavior than on the way their funds perform.<sup>14</sup> Benjamin Graham, an investor and professor of finance who influenced the investment strategies of [Sir John Templeton](#), [Charlie Munger](#) and [Warren Buffet](#), said that **the investor's chief problem – and even his worst enemy – is likely to be himself.**<sup>15</sup>

How each of us works through our investment decisions and the emotional ups-and-downs that result from changing market values depends largely on our behavioral biases. When markets are going up we have a tendency to buy in, and when they are in decline, fear can lead us to premature selling.

In addition to **confirmation bias** (looking for information that confirms our pre-existing beliefs), there are other biases that negatively impact investor behavior.<sup>16</sup> These include:

- Attention bias** Companies and products that are mentioned more frequently are favored by investors.
- Home bias** The tendency to purchase investments in companies that are locally known or recognized.
- Anchoring bias** Basing future investment decisions on non-fundamental information, such as the price at which a security was initially purchased.
- Hindsight bias** A mistaken belief that past results were obvious and could reasonably have been predicted.
- Fear of missing out (FOMO) bias** Worrying about not being part of a positive investment trend.
- Disposition bias** A preference for cashing in on accrued gains rather than cutting losses by selling securities that have decreased in value.
- Representativeness bias** The belief that results obtained in the short term will continue into the future.

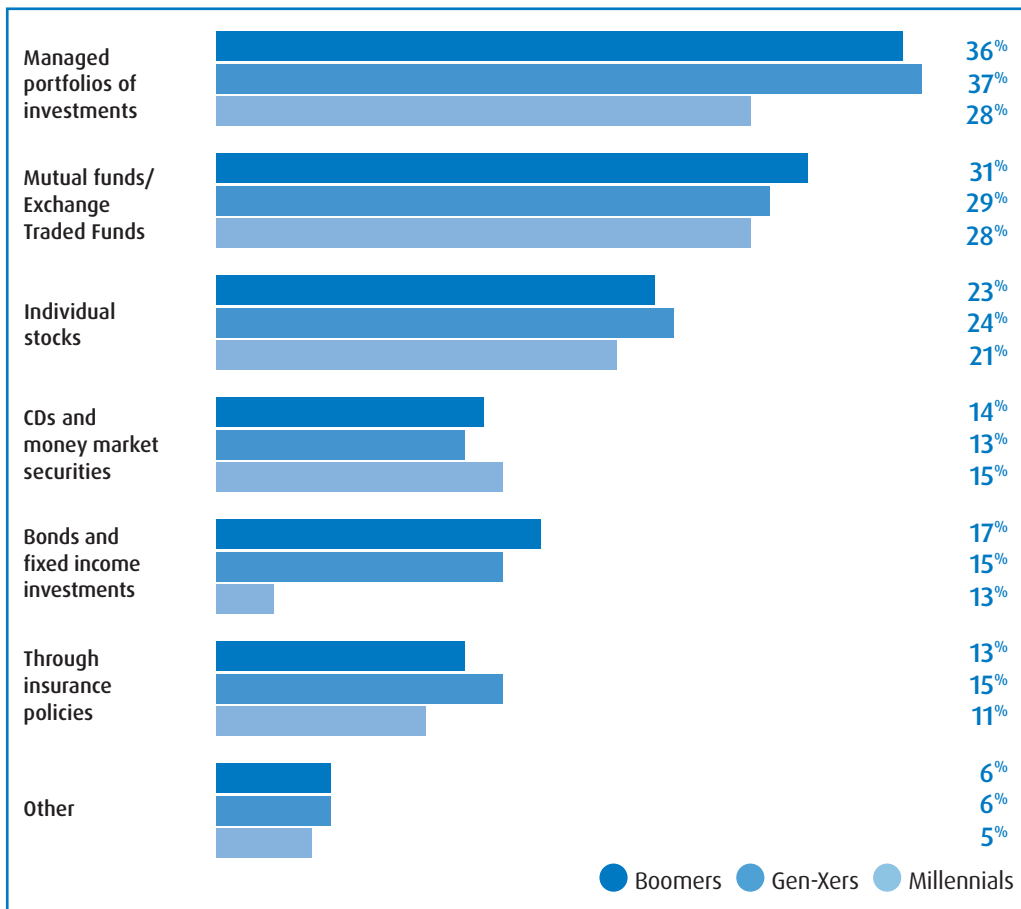
Investment professionals shape client portfolios to the desired outcomes of their clients, thus minimizing the downside impact that these biases may create. According to **Lesley Marks**, Chief Investment Strategist at **BMO Private Investment Counsel Inc.**, removing these biases from investment decision making will help deliver better long-term risk-reward outcomes for your investment portfolio.

## Overcome bias by a portfolio approach

Adopting a portfolio approach to investing is one way to address these biases. A portfolio approach spreads investments out over a number of areas, so that you don't have all of your eggs in one basket. Risk is reduced through a more diversified portfolio, and owning a greater variety of securities helps to reduce attention bias. Home bias can also be reduced by specifically including regional representation beyond locally known companies. Disposition bias is addressed by looking at how the portfolio functions as a whole so that selling a single poor-performing security is less of a concern.

In the survey, the use of a portfolio approach was more frequently found among baby boomers and generation Xers than in millennials, as evidenced by a greater use of managed portfolios of investments. However, millennials did favor the use of mutual funds and exchange traded funds, and managed portfolios, over investing in individual stocks.

### How the generations invest<sup>7</sup>

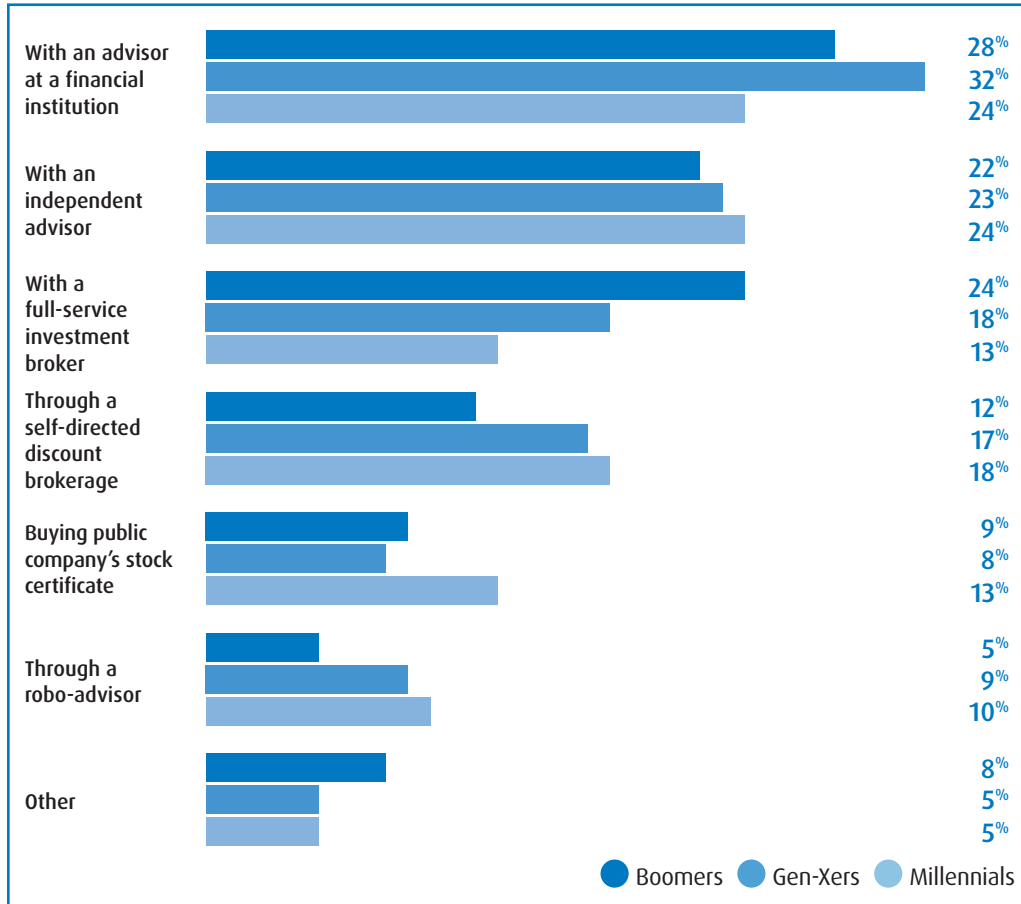


Source: BMO Wealth Institute survey by Validatelt Technologies Inc., August 2017.<sup>6</sup>

The majority of those surveyed choose to work with the assistance of a financial professional, with 28% using an advisor at a financial institution, 23% investing through an independent advisor and 18% investing with a full-service financial professional. The use of **robo-advisors** for investing was more common among millennials (10%) than generation Xers (9%) and baby boomers (5%).



### Investing by yourself or with assistance of a professional, by generation<sup>7</sup>

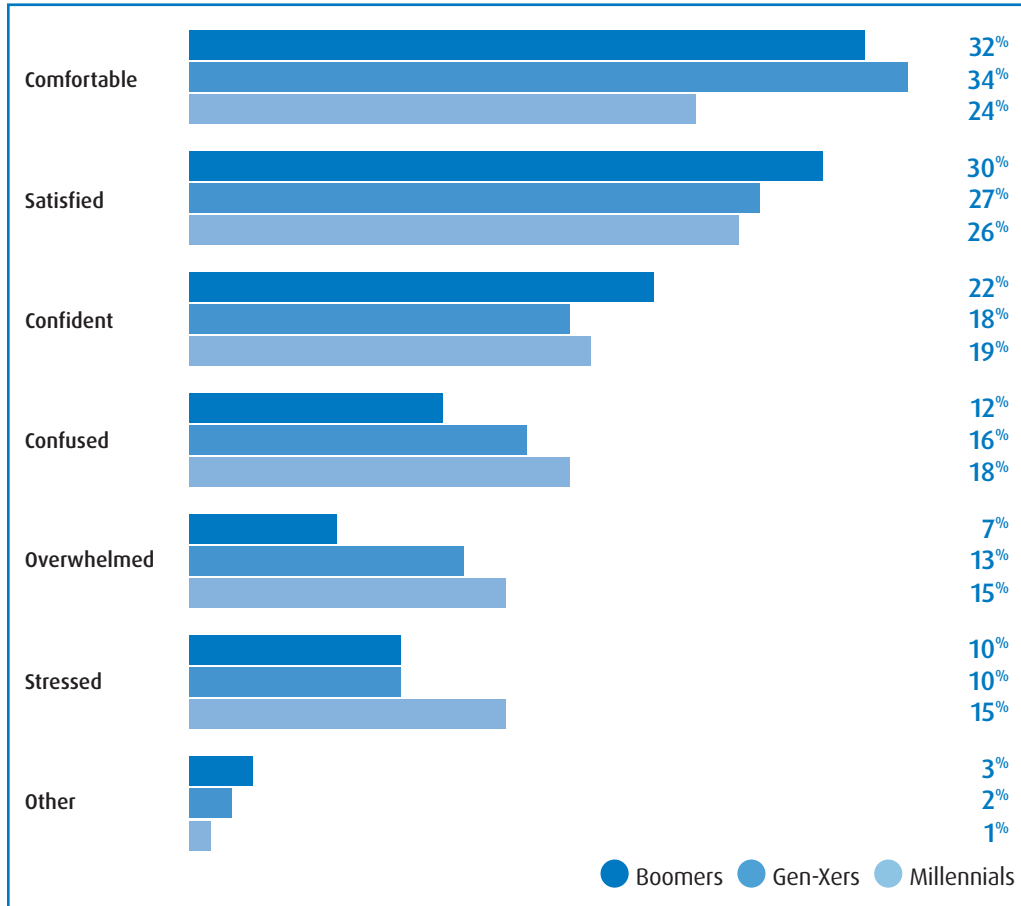


Source: BMO Wealth Institute survey by Validatelt Technologies Inc., August 2017.<sup>6</sup>

### Comfort with investments

Most of the people surveyed had positive feelings about their investing experiences. When asked how they felt about their investments, being comfortable, satisfied and confident topped the list. Negative feelings were cited much less frequently overall. But when the results were broken down by generation, a different trend emerged. Millennials explained that they are less positive and more apprehensive about investing than more mature and experienced investors. These concerns can be addressed through the creation of a wealth plan and by personal education about investments and investing behaviors.

### Feelings about investing, by generation<sup>7</sup>



Source: BMO Wealth Institute survey by Validatell Technologies Inc., August 2017.<sup>6</sup>

## Follow a wealth planning strategy

The many reasons why we choose to invest our savings are very personal. We often invest to be able to afford a comfortable retirement lifestyle. We also invest for goals such as home improvement, buying a car, a special vacation or to help children or grandchildren attend college or university.

Including all of your goals in a well-constructed wealth plan allows you to have a better idea of how much you should save, and how your investment choices can affect how these funds can grow. Depending on your current investments and your ability to save, your financial goals may be on the right track or have already been attained by following your wealth plan. When this happens, the need to earn a specific return may be reduced, allowing the focus to shift from actively seeking growth to risk reduction in order to preserve your investments for your long-term personal goals.

A wealth plan is designed to balance your ability to save with the investments that you make to achieve your personal goals. While the return that you earn on your investment portfolio is always important, investing is the means to achieving your goals, and returns should not be the goal itself. Focus on your long-term personal goals, rather than the regular movements of your investments. Doing so will make it possible to address **FOMO bias**. When a plan is on track it is easier to be more confident about your financial future.

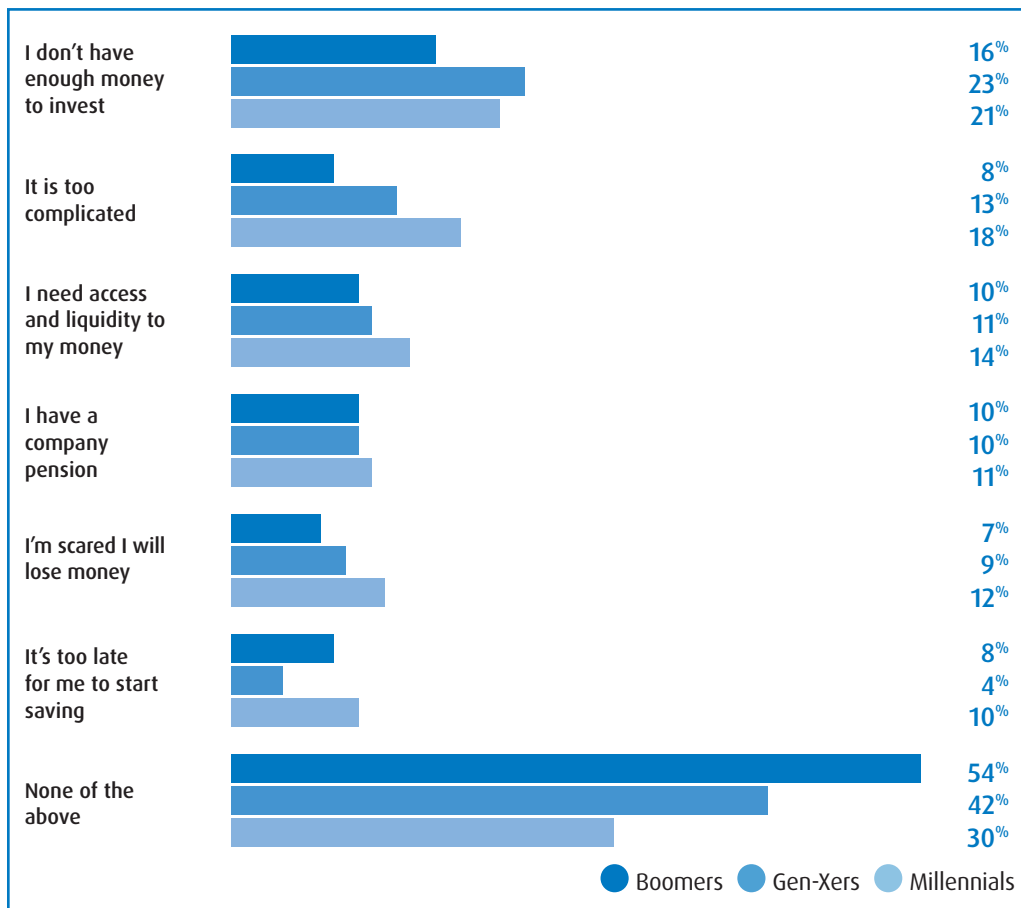
## Millennials benefit from wealth planning

The benefits of creating a wealth plan are just as great for millennials. While goals such as retirement may be a long way off, a wealth plan can help balance retirement planning with near-term goals such as a home or car purchase. For instance, paying off debts as soon as possible will save on interest costs, and saving earlier rather than later will have tremendous compounding effects to enhance one's net worth into retirement. The development of a wealth plan also helps to give more focus to both saving and investing. This can improve your financial confidence and put you on track earlier to meet your long-term goals.

## The need for financial education

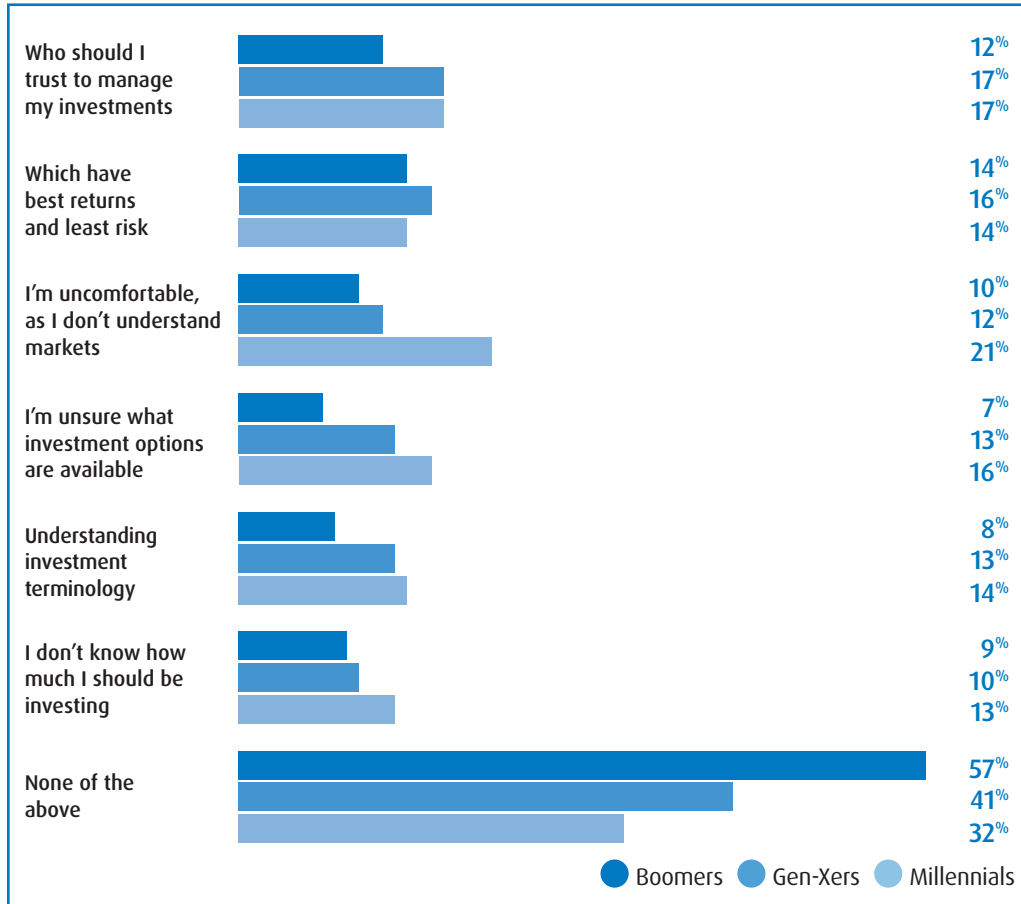
One of the main reasons cited in the survey for not saving or investing was that these disciplines were too complicated. Almost one in five millennials (18%) cited this reason, more than double the frequency among baby boomers (at just 8%). Some of the reasons why millennials find investing too complicated include a lack of understanding of investment terminology, not understanding markets and not knowing about available investment options.

### Reasons for not saving or investing, by generation<sup>7</sup>



Source: BMO Wealth Institute survey by Validatell Technologies Inc., August 2017.<sup>6</sup>

### Reasons for investing confusion, by generation<sup>7</sup>



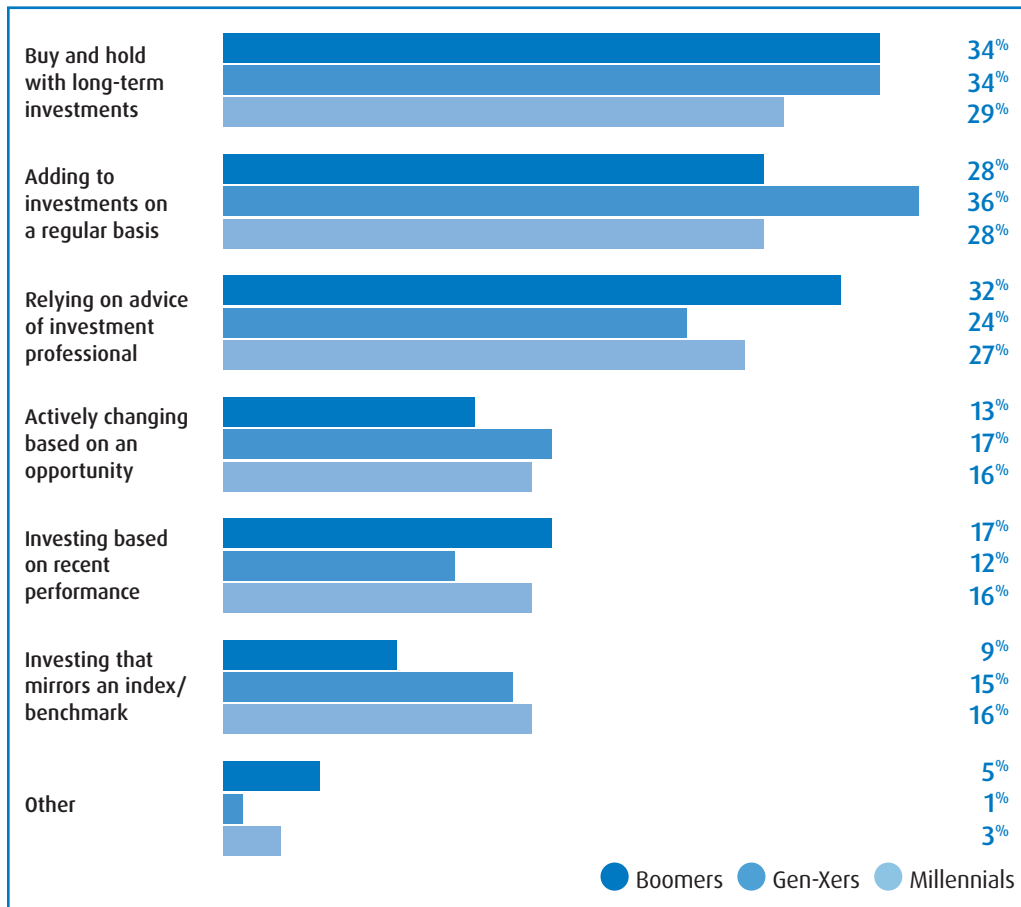
Source: BMO Wealth Institute survey by Validatelt Technologies Inc., August 2017.<sup>6</sup>

The most effective way to reduce these worries is to increase your level of financial education. There are many sources of such information available in the United States. These include consulting a financial professional and working with them to increase your level of financial knowledge. Your financial professional has many resources that they can share to help you to increase your financial knowledge and confidence. Resources are also available online from many sources, including private providers and the [MyMoney.gov](https://www.mymoney.gov) website,<sup>17</sup> from the Federal Financial Literacy and Education Commission.

## Improving the performance of investments

Survey respondents were asked to provide their thoughts on the factors that can make their personal investments perform better. The most frequently suggested ways included buy-and-hold strategies (32%), adding to investments on a regular basis or making additional savings (30%) and relying on the advice of a financial professional (28%).

### Factors that positively influence performance of investments, by generation<sup>7</sup>



Source: BMO Wealth Institute survey by Validatelt Technologies Inc., August 2017.<sup>6</sup>

Each of these strategies can be included in a personalized wealth plan created in consultation with your financial professional. Regular saving can be worked into the plan to show how this step can actively move you closer to your personal goals.

Generational differences emerged with respect to making investments that mirror an index or benchmark. Millennials when compared to boomers were more inclined to follow this strategy, and less likely to rely on the advice of a financial professional. This difference is highlighted by the use of robo-advisors by millennials (10% versus 5% of boomers) to help them meet their saving and investing goals.

### Factors that negatively impact investments

When asked about factors that could negatively impact the performance of their investments and reduce the ability to meet personal goals, global instability and uncertainty was cited by 43% of respondents overall. One in three millennials suggested this factor, while nearly half of the baby boomers surveyed (43%) did so. Other factors that were cited include personal/family/job insecurity, taxes and the investment mix chosen.

#### Top three positive factors influencing investment performance:

Buy and hold for the long-term

**32%**

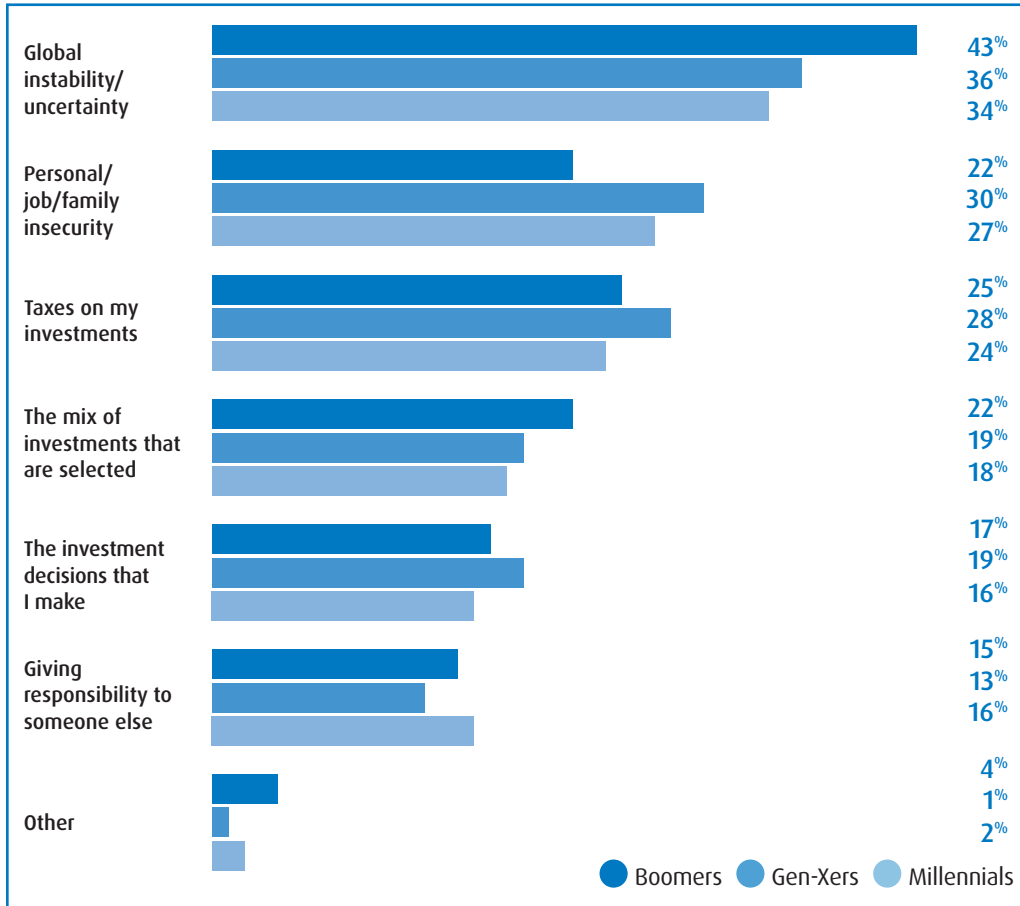
Adding to investments on a regular basis

**30%**

Relying on advice of investment professional

**28%**

Factors that negatively influence performance of investments, by generation<sup>7</sup>



Source: BMO Wealth Institute survey by Validatell Technologies Inc., August 2017.<sup>6</sup>

Having a wealth plan provides direction on how to invest, bearing in mind the factors that can influence the performance of investments. The plan can also demonstrate the value of rebalancing portfolios, or demonstrate the tax-effectiveness of certain types of investment such as qualified dividends and capital gains over savings interest and ordinary dividends.

## Reducing bias

Working with a financial professional is a great way to reduce the negative impact that personal biases can have on your investment portfolio and your ability to reach your personal financial goals.<sup>16</sup> Furthermore, working with a financial professional and having a plan can prevent some of those biases from creeping in when information is complex or decisions involve risk or uncertainty.

**Confirmation bias** is best addressed by looking for and considering alternative scenarios or options. A financial professional can help by explaining differing investment points of view and by sharing information and research from a variety of sources. Looking at alternatives to your initial investment beliefs may allow you to be more objective.

**Top three negative factors influencing investment performance:**

Global instability/uncertainty

**36%**

Personal/job/family insecurity

**26%**

Taxes on my investments

**26%**

**Attention bias** limits investment opportunities because the options that are immediately apparent are preferred. Adopting a portfolio approach that explicitly includes a wider variety of investment options ensures that your investment choices are broader and more balanced.

**Home bias** is similar to attention bias in that investment alternatives that are familiar and local are given priority. When considering investments from another geographical location, industry or sector, your financial professional can help you to take advantage of other opportunities. Financial professionals can help you learn about different investment options, and help with putting these options together in the broader context of your personal wealth plan. Adopting a broader portfolio approach also helps to reduce investment risk. This is especially important if your investment portfolio is disproportionately represented by companies and industries that are closely located and very familiar to you.

**Anchoring bias** often results in focusing on a factor such as the initial purchase price that is not relevant to the future performance of an investment. Focus instead on the current prospects for an investment to help determine how best to move forward. A financial professional is in a good position to evaluate investments as they have the resources to do this analysis based on the investments' current fundamentals. In this way emotions about movement relative to initial purchase prices will become less of a factor.

**Hindsight bias** – while looking backwards to learn from your investment history is a very important tool for your future success, believing that past results were easily predictable should be avoided. The objective voice of a financial professional can help you to discuss past investment decisions in their historical context. This will help to limit the tendency to look back with a greater degree of certainty than was originally present.

**Fear of missing out bias** – there are so many investment options available and choosing those that are appropriate in your circumstances requires being selective. This will mean that not all opportunities can be taken. Working with a financial professional will help you to find the investment alternatives that work within your portfolio and are best suited to your specific goals, balancing your investment objectives with your risk tolerance, liquidity needs and time horizon.

**Disposition bias** can be reduced by thinking about when to sell a security when making the original purchase decision. Within a well-constructed portfolio, these decisions have to be made on a regular basis as newer investment ideas and strategies replace older ones that have had their day. A financial professional can work with you to assess the regular need to make changes to keep your investment portfolio on track to meet your personal goals.

**Representativeness bias** often manifests when chasing a long-established investment trend. Working with a financial professional to look at future prospects for investment choices is wise because past performance is not necessarily a good indicator of future results.

To save and invest effectively, it is important to overcome the behavioral biases that influence rational decision making. A financial professional can keep you focused and on track with your financial goals by addressing behavioral biases that you may not even realize are influencing your investment decisions.

## Conclusion

Reducing the impact of your personal biases is an important part of achieving a better risk-reward balance when it comes to saving and investing for your future. Working with an experienced financial professional can help you to improve your understanding of the ways that saving and investing can help you achieve your personal financial goals.

## Footnotes

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- <sup>7</sup> Respondents in the survey may have selected more than one response, so the percentages in the table do not total 100%.
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