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Mind the Generation Gap

By Mike Van Wyk

INVESTMENTS & WEALTH INSTITUTE®

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Have you noticed how often the generations get mentioned in the news and on social media? Millennials letting loose with "OK, boomer," Gen Xers sandwiched between caring for growing children and aging parents, or Gen Zers worrying if it's left up to them to save the world—generations often are our lens on current events.

The generations are also a good framework for understanding U.S. investors. Four generations account for more than 90 percent of the total U.S. population, and each one has distinctly different imprints, attitudes, and financial needs.

The financial imprint of each generation is an ongoing narrative that influences how its members engage with investing. Market performance and economic tailwinds have been distinctly different for each generation. Acknowledging that narrative is an important part of connecting to each investor and creating the right financial plan.

Financial life events are key opportunities to provide value to investors. It is at these moments that wealth is created or destroyed, and investors are 13 times more likely to engage in a new financial relationship.

WHY DO GENERATIONS MATTER?

Financial advisors who know the generational imprints of current or prospective clients are tapping into immensely relatable, easily organized, and endlessly actionable insights. Baby boomers, Gen Xers, millennials, and Gen Zers together represent more than 90 percent of the total U.S. population and more than 95 percent of the workforce. These four generations provide an important lens through which to view the United States (see table 1).

Table 1

DEFINING THE GENERATIONS

	Age in 2020	Population
Boomers	56–74	70 million
Gen X	40–55	66 million
Millennials	24–39	74 million
Gen Z	23 and younger	74 million

More likely than not, each of us belongs to one of these generations, and each of us more likely than not feels a sense of connection to the common experiences we share with others from our generation. We reminisce about the movies, sports teams, and music from when we were growing up. When our generation is in the media, we tune in to see how we are being described. And cross-generational competition has become a national sport, particularly between millennials and boomers.

The fact is that each of us has two identities: our biological fingerprints and our generational imprints. A fingerprint is personally precise and an imprint is culturally shared. The imprint isn't as precise—all millennials don't take away the same lessons from the Global Financial Crisis, for instance—but it is nonetheless impactful. These shared cultural experiences create a lasting impact that bonds us and influences the way we behave at each stage of life.

UNDERSTANDING THE GENERATIONS

Consider for a moment the different contexts in which each of the generations grew up. Boomers likely were raised in rural or suburban areas with little visible diversity. Most didn't attend college and most married in their early twenties. By contrast, most Gen Zers grew up in metropolitan areas and almost half are people of color. They are attending college in record numbers and most will delay marriage until their early 30s—if they marry at all.

Now add cultural backdrops to those demographic indicators (see table 2). Boomers came up in the post-World War II expansion, Gen Xers were youngsters during the Watergate aftermath and the Gulf War years, millennials were in school for the September 11 attacks and the 2008 Global Financial Crisis, and Gen Zers have endured the rise of domestic shootings and now COVID-19.

The financial imprint for each of the generations is equally distinct (see figures 1 and 2). The market backdrop for each generation during their working years has impacted their financial expectations deeply. Boomers have seen the market consistently build wealth over time, experienced the opportunities created by economic growth, and lived through market corrections and recoveries. The primary lesson a boomer has absorbed is that those who invest patiently over time can build wealth.

Gen Xers tend to have a more cynical view toward investing. Gen Xers don't

Table 2

IMPRINT ON THE GENERATION

	% growing up in cities	% white	% graduating college	Defining culture events (from article)	Additional culture events	Imprinted personality
Boomers	64%	82%	25%	• Post-WWII	Space travel, JFK and MLK assassinations, Woodstock	Enduring
Gen X	77%	70%	29%	• Watergate • Gulf War	Fall of the Berlin Wall, Challenger explosion	Skeptic
Millennials	82%	61%	39%	• 9/11 • 2008 Global Financial Crisis	Wars in Iraq and Afghanistan, emergence of social media	Navigator
Gen Z	87%	52%	not applicable	• Domestic shootings • Coronavirus	Protests (gun laws, climate change, Black Lives Matter)	Truth seeker

feel that the market has worked as well on their behalf as it has for baby boomers—an attitude driven largely by market performance during their working years between the late 1990s and the late 2000s (see figure 1). Despite this, many Gen X investors do believe in investing as the best way to create long-term wealth, and they are committed to staying in the markets.

Millennials have gone through the twin experiences of the Global Financial Crisis, which made jobs scarce just as they were hitting the workforce, and the 11-year bull market that followed. But growth in economic output has not been as robust as experienced by previous generations (see figure 2). As a result, millennials are often financially conservative and have overly optimistic expectations for investment returns, creating a challenge for advisors. A typical millennial may want a conservative investment portfolio yet expects 12-percent annual returns from now until retirement.

Gen Z individuals are just now hitting their working years. They will be influenced by the market volatility sparked by the coronavirus pandemic. But don't underestimate the savviness of this generation, which is serious and, for now, more focused on making a difference than on investing for retirement.

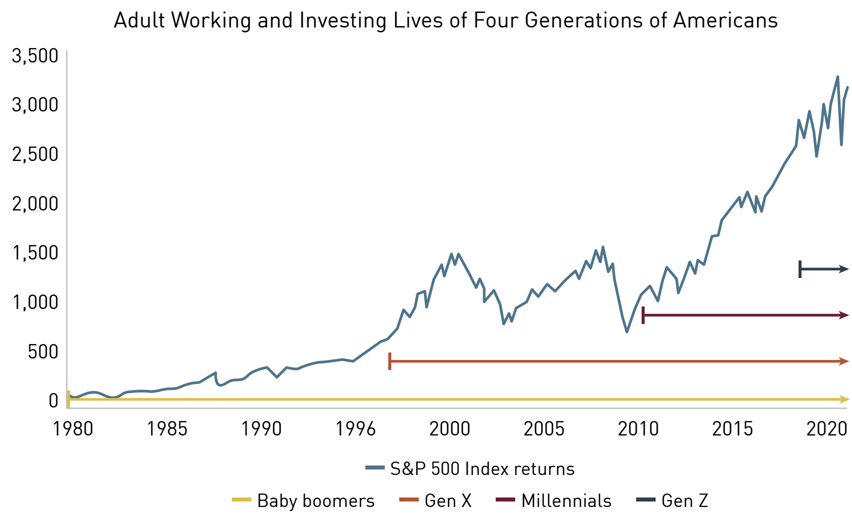
LIFE EVENTS AS KEY POINTS OF RECEPTIVITY

Each generation is navigating a different stage of life, with unique pivotal events that strongly influence their financial

Figure 1

S&P 500 VS. WORKING YEARS OF EACH GENERATION

Market performance vs. working years



Source: S&P indexes as of July 2020

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Figure 2

ECONOMIC GROWTH FOR AGES 18–33 FOR EACH GENERATION

Per capita inflation-adjusted gross domestic product growth

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realities (see table 3). These financial life events tend to come in overwhelming clusters. For example, a millennial may get married, have a first child, and upgrade to a home in a better school district, all in short time period. A Gen Xer may send a child to college, get divorced, and move to a new home. A baby boomer may experience the twin events of a health shock and retirement.

Financial goals, wellness, and assets all shift during these life events. Anticipating those changes and working with your clients to prepare them are crucial to driving loyalty and referrals. Reaching out to new clients who are experiencing those life events is a great way to gain a client. A recent study by McKinsey (2016) revealed that investors are 13 times more likely to move their money if an advisor reaches out to them when they are experiencing a financial life event.

CORONAVIRUS IMPACT

We began tracking reactions to the coronavirus pandemic by generation in early March 2020. At that point, social distancing was not universally recommended. Most people were still working as normal and stocking-up behavior had just begun.

Strikingly, our data show that millennials reacted much faster than others to the initial phases of the pandemic. They did not feel as physically vulnerable, but they were twice as likely in early March 2020 to have begun adjusting their social lives and to have stocked up on toilet paper and pantry items. By the end of March 2020, the differences between generations in stocking up and socializing had vanished. Everyone had adjusted, partly because of the spread of the pandemic, and partly because of state and local guidance. But millennials showed the most dynamic initial reactions, and that pattern of taking action persisted over the following few months.

By April and May 2020, the shutdown was causing severe economic stress. Almost 50 percent of millennials had experienced some loss of income, a much deeper impact compared with the third of Gen Xers and baby boomers who had lost income. At that point, the next set of behaviors began playing out (see figures 3 and 4). Baby boomers remained financially steady, increasing their savings while maintaining the status quo in their investment accounts. Gen Xers felt things out, making more financial moves overall than boomers but not changing their approaches between March and May 2020. In contrast, millennials accelerated into action. By May 2020, more than a third of millennials were buying into the market (three times more compared to March 2020), with another third moving assets into cash. One in five was refinancing a mortgage.

March and May 2020 also were months when 20 percent of Gen Xers and millennials were trying out new investment advisors. The coronavirus pandemic triggered shifts in financial goals, financial wellness, and asset mixes similar to those made during life events. And as with traditional financial life events, it was a key opportunity for financial professionals to describe their value to a receptive audience.

CROSS GENERATION

A final thought is the encouraging fact that the majority of millennials and Gen Zers are willing to work with their parents' financial advisors (see table 4). Baby boomer and Gen X parents are

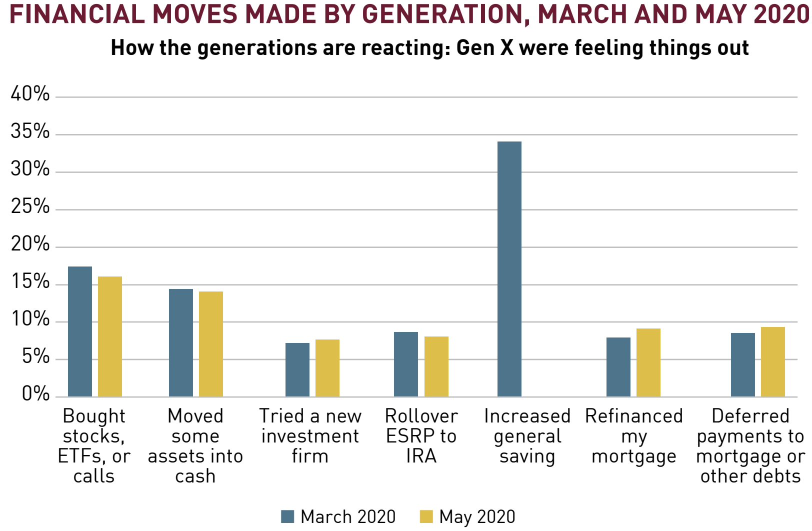
Table 3

COMMON LIFE EVENTS BY GENERATION

	Common life events by age	Average number of life events per year
Gen Z	• Start a job • Change job • Move	3.1
Millennials	• Change job • Marriage • Buy a home • Have a child	2.7
Gen X	• Divorce • Inherit money • Health shock	1.8
Boomers	• Retire • Health shock • Divorce	1.1

Figure 3

FINANCIAL MOVES MADE BY GENERATION, MARCH AND MAY 2020



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great resources for financial advisors who are seeking to engage the younger generations. Be aware, though, that millennials and Gen Zers have different expectations than their parents. They are seeking advice that is relevant to the financial life events they are navigating now—for example, building an emergency fund to create more resilience or choosing whether to buy to a new home in a better school district.

The younger generations also have different expectations than their parents for how an advisor will interact with them. They expect digital fluency and flexibility, and the social distancing due to the coronavirus has accelerated this trend. Clients now expect advisors to connect with them efficiently and authentically in both digital and in-person interactions.

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Figure 4

FINANCIAL MOVES MADE BY GENERATION, MARCH AND MAY 2020

How the generations are reacting: Millennials were increasingly taking action

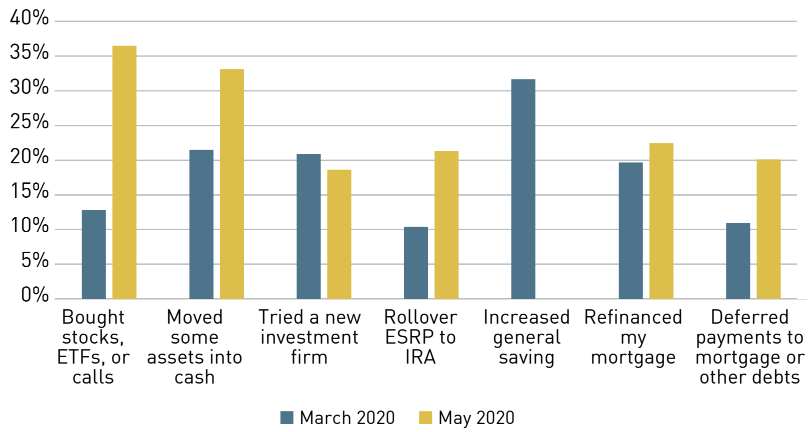

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Table 4

CROSS-GENERATIONAL ENGAGEMENT

	Are often children of ...	% willing to work with parent's advisor
Millennials	Boomers	62%
Gen Z	Gen X	55%

REFERENCE

McKinsey. 2016. Money in Motion. https://www.businessinsider.com/mckinsey-report-on-changes-in-asset-management-industry-2016-11.

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