For Millennials, Alternative Investing Is Already a Tradition

MILLENNIAL INVESTORS GRAVITATE TOWARD ALTS: SURVEY

So long Woodstock. Hello Burning Man.
The burgeoning cohort known as the millennial generation will soon surpass yesterday’s baby boomers as the largest segment of the investment marketplace.¹

As they receive their share of the $30 trillion wealth transfer now underway, they comprise a generation that is 77 million strong. Born after 1980, they are working professionally or pursuing advanced degrees. Where their money is concerned, they get most of their investment advice from peers, media and advisors.¹

Eighty percent are already signed up in employer-sponsored retirement plans, according to a 2015 report from Bank of America Merrill Lynch.

ON THE RISE

Lucky millennials also have the potential to become the wealthiest generation in history.

In addition to receiving their fair share of the looming wealth transfer,² many from this most-educated generation in history have done exceedingly well. They currently represent 14.7% of investors with more than $2 million in income-producing assets, just behind baby boomers, according to a Nielsen survey.³

Their knack for attracting wealth is also driven by their penchant for finding entrepreneurial opportunities. Roughly 8% of millennials own their businesses; indicating that a greater percentage of their net worth is less liquid than the assets of baby boomers at this point in their careers.

MILLENNIALS LIKE ALTERNATIVE INVESTMENTS

Risk-averse and research-oriented, a strong majority of millennial investors are interested in alternative investments, according to a recent survey by the Affiliated Manager Group (AMG), as reported in ThinkAdvisor.⁴ Eighty-three percent expressed openness to a range of alternative investment strategies—including hedge funds, private equity, real estate funds or other non-traditional investments—compared with 52% of older investors.

More than half of millennials said they already invested in alternatives, the AMG survey pointed out, while 69% said they would like to know more about their benefits. Sixty percent of millennials in the survey said they were willing to pay more for oversight of their investments, and 90% of those who already received advice said they

THE BIG IDEA

From a wealth management perspective millennials may someday be labeled “The Luckiest Generation.”

In addition to receiving their fair share of the looming wealth transfer, many from this most-educated generation in history have done exceedingly well professionally.

Despite their youthfulness, roughly 8% have their own businesses. Less enamored with traditional investments due to their near-term experience with the 2008 recession, this risk-averse cohort appreciates both alternative investments and professional advice, recent surveys show.

More than half of millennials said they already invested in alternatives, while 90% of those who already received advice said they relied most on financial advisers for portfolio diversification ideas.

According to Jeff Kelley, senior vice president, Equity Institutional, “Greater education about the diversification role of alternatives in retirement planning can go a long way toward facilitating communications between advisers and their millennial clients.”
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relied most on financial advisers for portfolio diversification.

On the flip side, the AMG survey noted, some 30% of millennials—significantly more than any other age cohort in the study—said they would either reduce their equity exposure or pull out of the market entirely in the event of a 20% drawdown.

“Importantly, greater education about the diversification role of alternatives in retirement planning can go a long way toward facilitating communications between advisers and their millennial clients,” says Jeff Kelley, senior vice president of Equity Institutional. “Millennials, like other investors, turn for help to professionals who can help them determine which ideas might fit with their retirement goals.”

Other surveys from Bankrate Money Pulse and Broadridge Financial Solutions also showed how millennials were gravitating toward alternative assets. Key findings included:

• Only 33% currently invest in the stock market
• 59% plan to use alternative investment firms in the next five years
• 59% will not invest in an asset they do not understand
• 74% plan to use an alternative investment approach over the next five years

The surveys also showed that millennials are comfortable receiving investment advice from robo-advisers as well as traditional advisers.

TYCOONS IN TRAINING

The preference for professional advice quickly comes into play once a millennial crosses the threshold into the Mass Affluent. As the best-educated generation in history, millennials tend to be more adventurous and entrepreneurial than their older counterparts, TD Ameritrade’s Millionaires in the Making points out.

<table>
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<tr>
<th>Mass Affluent Millennials</th>
<th>Potential High Net Worth Millennials</th>
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<td>Between the ages of 18 and 39</td>
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<td>Have investable assets between $25,000 and $500,000</td>
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<td>With more than $500,000 worth of investable assets</td>
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<tr>
<td>And an annual household income between $50,000 and $149,999.</td>
<td>And an annual household income of $150,000 or more.</td>
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Source: TD Ameritrade’s Millionaires in the Making
Millennial investment preferences though are fundamentally different from those of prior generations, according to AMG, as reported by NASDAQ:\(^7\)

- **Asset Allocation**: Millennials seem more conservative than older generations where equities are concerned. On the other hand, millennials allocate nearly three times as much of their portfolios toward alternatives (17%) than older investors do (6%)

- **Return Expectations**: Millennials expect to earn significantly more than baby boomers, yet they also maintain a higher average cash allocation in order to meet the millennial investor's average annual return expectation

- **Investment Knowledge**: No surprise here. The most-educated generation in history is more than twice as likely to call itself “extremely” or “very” knowledgeable relative to baby boomers.

- **Retirement Horizon**: Millennials are much more likely than older investors to be concerned about having enough money for their retirement years (69% vs. 28%).

**THE ADVISER CONNECTION**

Woefully overlooked, this younger generation has attracted the interest of only 18% of financial advisers in the U.S. Age may have something to do with it: Average ages for advisers and millennials are about 50 and 28, respectively.

Millennials, though, want a different type of financial advice than their forebears. Forty percent cited a desire to employ new investment strategies – not higher return – as the prime mover for engaging with an adviser.

**MILLENNIALS WILL NEED PROFESSIONAL ADVICE TO SUCCEED**

With alternative investments like real estate, precious metals and private equity on the increase, retirement-minded millennials and their advisers are also becoming aware of the need for using specialized custodians for their retirement diversification strategies.

According to Mr. Kelley, “Managing payments, documentation and reporting can become more complicated in the world of alternatives. Not all custodians have the ability to track the contributions and distributions of these complex alternative transactions.” On the other hand, he continued, “A qualified custodian can handle the administrative details while the focus of millennials and their advisers can remain where it should be — on growing assets for retirement.”

For advisers, millennials and alternative investments seem to be a good fit. A targeted communications effort from an entrepreneurial adviser can help satisfy millennials’ appetite for new ideas.

As millennials proceed through the workforce, financial advisers will need to adapt their alternative investment retirement approach to suit this expanding cohort. “Emphasizing how millennial investors don’t have

**TAKEAWAY**

Overlooked millennials have attracted the interest of only 18% of the financial advisers in the U.S., according to research. They seem to be searching for a different type of financial advice than their parents, though. Forty percent cited a desire to employ new investment strategies – not higher return – as their motive for engaging with an adviser.

With alternative investments like real estate, precious metals and private equity on the increase, retirement-minded millennials and their advisers are also becoming aware of the importance of using more specialized custodians for their retirement portfolios. According to Mr. Kelley, “A qualified custodian can handle the administrative details while the focus of millennials and advisers can remain where it should be — on growing assets for retirement.”

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to go it alone,” Mr. Kelley added, “can go a long way.”

Equity Institutional (through Equity Trust Company), Mr. Kelley concluded, offers custodial services for IRAs, qualified retirement plans and non-retirement custodial accounts for both alternative and traditional assets.

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