The dawn of the new economy

The rise of millennial investors is changing the face of the capital markets. Here's what asset managers and investment firms need to do to adapt and stay ahead.

Packed with statistics, charts, and unique insights.

Benjamin Auctus | 2022 whitepaper

BA
Benjamin Auctus

Contents:

Why Millennials Matter: Attracting and Retaining an Untapped New Capital Market 3

Demographic Destinies 5

Demographic Differentiators: What Matters to Millennials 9

Marketing to Millennials 12

Conclusion 18

Why Millennials Matter: Attracting and Retaining an Untapped New Capital Market

There's a ballooning global market quietly taking over, and many wealth managers don't see the opportunity in front of them. Institutional inertia and internalized biases mean trillions in potential assets under management (AUM) could stay on the table.

That burgeoning market of high-net-worth individuals (HWNIs) is the millennial generation, as they quickly grow into their own as world shapers and a new class of unique investors. For those in doubt, a recent Coldwell Banking report uncovered the hidden truth:

- Millennials will 5x their collective net worth by 2030 through innovative adaptation to the new economy and by inheriting more than $60T from retiring generations.
- There are already more than 618,000 millennial millionaires, and the count is rapidly increasing.
- Within their net worth, almost 400,000 millionaires have up to $1M in liquid, ready-to -invest assets.

Many firms already recognize the potential of the millennial generation. They've positioned themselves to capture market share, but it isn't too late for others as the potential market is so large and diverse. While still in its infancy, firms and managers who get in early with this generation stand to create lifelong loyalty with these clients as they help grow their net worth and create new generational wealth.

Venture capital-backed operations like Betterment offer investment services to a wide swath of millennials through low minimum investment options enabled by AI-driven robo-advising. Institutional behemoths like Vanguard, Blackrock, and PIMCO target the millennial subset through gamifying savings and investments through apps like Acorn.

Even with these firms' targeting broad demographic swaths of millennials, there is plenty of opportunity – but firms need to adapt their strategy and management practices to target and retain these millennial millionaires. The millennial mindset differs from preceding generations, and firms must adapt to their unique attributes and worldviews.

Firms, managers, and funds will need to realize that many millennial millionaires:

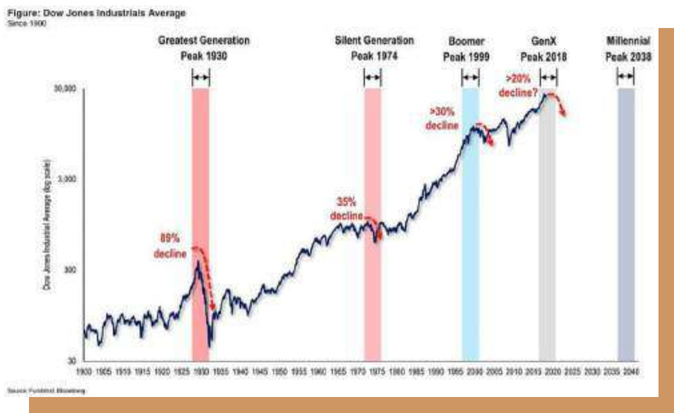
- Prize social responsibility as part of their investing strategies, not just returns.
- Expect the investment cycle and most communications to be digitized and accessible 24/7.
- Have an instinctive mistrust of large financial institutions.
- Prefer managed portfolios that emphasize alternative investments rather than the traditional 60/40 asset allocation.

Firms must rise to meet these challenges, and pretending that we aren't on the precipice of a cultural shift in the financial and investing world will mean failure for those who don't.

Demographics is the iceberg of investment management; it is 90% underwater and moves quite slowly.
– Harley S. Bassman, Convexity Maven

Demographic Destinies

Demographic change may be glacial, but woe to the wealth managers who fail to acknowledge its existence. From a cyclical perspective, millennials are the upcoming inheritor of the economy and all its wealth. Simply overlaying past generational shifts overtop market returns may hint at prospects. Each generation's "peak" coincided with a decline of the Dow Jones Industrial Average and a subsequent bull run, as Fundstrat's Tom Lee noted in his article Demographics are Destiny.



This recurring cycle may reassure wealth managers today faced with the prospect of post-pandemic economic woes, inflation, and a struggling stock market. It also reinforces that as past generations retire, millennials will take the wheel and drive the economy toward its future while reaping its rewards. This new class of business titans is in its relative infancy, and capturing the market now means future loyalty.

GDP isn't the only inheritance millennials are entitled to. Today, boomers own over 50% of U.S. household wealth, while millennials claim less than 5%. Despite this grim reality, cycles continue, and millennials are due to inherit this massive fortune in a relatively brief period that PNC Wealth Management's Mary Ellen Hancock dubs "the Great Wealth Transfer."

Wealth management firms and investment funds with a sizable proportion of boomers must prepare for this eventuality. If not, those firms could see their total assets under management dry up as millennials flock to funds actively targeting them. Laying the groundwork with both current investors and future millennial beneficiaries today will reward those operations in the future.

Even before the imminent wealth transfer materializes, firms must face the reality of increasingly working with millennial investors. Because of more accessible information, millennials are increasingly savvy about the nuances of investing strategies and are becoming increasingly involved in conversations with asset managers overseeing their parents' and relatives' portfolios. Managers must acknowledge the reality of working with this generation today and realize that millennial financial fluency means they cannot obfuscate the truth and must be as transparent as possible.

But millennial millionaires aren't all trust fund babies or beneficiaries of their parent's hard work. Because of changing economic landscapes, technology, and increased globalization, many millennials are becoming independently wealthy on their own. This transition represents a fantastic opportunity for firms to "get in on the ground floor" of a new class of HWNIs if firms understand and appeal to that audience.

Profiling Millennial Millionaires

These independently wealthy HNWIs are even more distinct from past investor generations than their millennial "old money" counterparts. Increasingly, even the source of that money differs from what many current wealth managers are used to managing.

But millennial millionaires aren't all trust fund babies or beneficiaries of their parent's hard work. Because of changing economic landscapes, technology, and increased globalization, many millennials are becoming independently wealthy on their own. This transition represents a fantastic opportunity for firms to "get in on the ground floor" of a new class of HWNIs if firms understand and appeal to that audience.

Whereas the boomer class benefited from a robust post-war economy and low taxation to build an asset base through business ownership while enjoying cheap college and rock-bottom home pricing, millennial HNWIs face very different fiscal circumstances as a generation. They are making millions in new areas and jobs emerging in today's world.

While not indicative of the generation's entire millionaire population, a few examples illustrate millennials' varied income sources. They also introduce concepts we'll explore later in the white paper – how firms must change their practices to attract and retain this emerging class.

Cryptocurrency

Whether or not the speculative crypto bubble is over, the technology that underpins crypto-currencies (blockchain) has many unrealized "real world" applications many millennial entrepreneurs are exploring. Although an early investor, Jeremy Gardner made his first million through Bitcoin at 25. Gardner also demonstrates millennials' comfort with risk when investing and their willingness to explore new alternative investments.

Traditional Investments and Trading

The past decade saw a surge in active millennial stock traders. The trend started when Robinhood unleashed low and no-commission trading opportunities and grew exponentially yearly. While many bought into bad investments, some emerged as millionaires. The comfort with trading demonstrates that millennials are comfortable managing many typical asset classes independently, and firms must increase exposure to alternative allocations if they expect to manage millennial money.

Apps and Tech

Everyone knows the big tech millennial success stories like Mark Zuckerberg (Meta, née Facebook) and Brian Chesky (Airbnb). These big names aren't the only millennials making millions from the tech industry. Whitney Wolfe Herd, founder/CEO of the dating app Bumble, made millions on the app's launch and development. The new economy that prizes entrepreneurship, risk-taking, and enables remote work capture of the best global talent means that many can build an empire from app and tech development. This potential success compounds as hungry venture capital firms eager to fund the next Google invest liberally. Generous stock option packages for ground-floor entrants can pay off massively and create millions overnight. This tech focus, even for millennials not in the industry, further emphasizes alternative investment allocation and the need to inspire millennial investor clients with the story behind startups as venture capital or private equity firms.

Shifting Statistics

The report from Coldwell banking identified other differences between the collective millionaire class (generationally agnostic) and millennial millionaires:

- Fewer millennials are married.
- Fewer are business owners, underscoring the varied income streams in our new economy.
- **Only 20% are college educated.**
- Own more real estate properties on average (3) with a collective average of over $1M in that asset allocation compared to a $900K average across all millionaires surveyed.

Wealth management providers are making a mistake if they assume that the emerging affluent investors will simply evolve into Boomers over time. Firms with the ability to recognize and address these changing needs will define success.
– Mike Foy, J.D. Power Head of Wealth Intelligence.

Demographic Differentiators: What Matters to Millennials

Not only do millennial millionaires often draw on unique and new income sources for their investment cash, but they approach investing with a different ethos and set of expectations than clients in previous generations. Firms and funds ignore this at their peril – while they may not have to change the entirety of their infrastructure and preferred way of doing business, companies must acknowledge these differences and shape their strategy accordingly to attract and maintain these HNWIs.

Capitalize on Conviction

A wealth manager measures success by yield, rate of return, and capital gains. These metrics are not enough for some millennials. Instead, they prize investments that generate the above while aligning with their convictions and ethos.

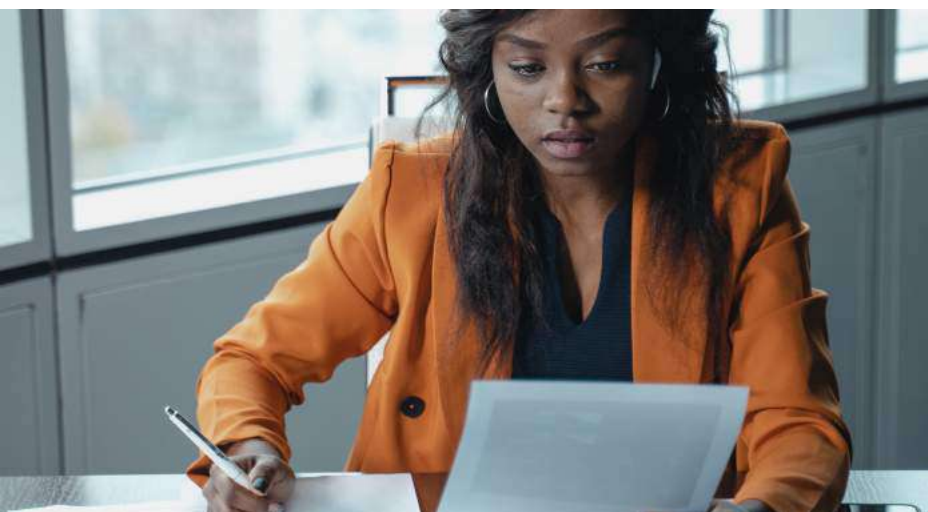
At the firm level, this focus on social responsibility can be classified into environmental, social, and governance-focused (ESG) investing and impact investing. Wealth managers must understand the delineation as they get to know what's vital to their millennial investors. Many conflate the two or use the terms interchangeably.

A good rule of thumb is that ESG investing links a return-focused attitude with an air of social responsibility. ESG investments are judged on fairly strict standards against industry peers and competition. Those standards represent a risk to the firm, whether reputational or financial and thus represent a risk to cash flow. The difference between ESG and typical valuation analysis is that these metrics are not exclusively tied to a company's performance and growth prospects. Instead, they attempt to measure or predict the impact of externalities on the bottom line.

Fund managers and other asset owners, noticing the emphasis on ESG, developed multiple ETFs and other vehicles to easily enable ESG-focused investors to capitalize on the trend and shift in mindset. There are some standard metrics across ESG assessments

and recommendations, and Morningstar's Sustainable Attributes methodology encompasses many. Remember, when these metrics are analyzed in ESG rankings, they are primarily viewed through the lens of risk management rather than proactivity since the former is easier to quantify:

- **Climate and Ecosystem:** renewable energy adoption, pollution, environmental damage (deforestation, oceanic damage).
- **Scarcity:** precious resource management and waste reduction.
- **Human development:** social issues within the firm structure (governance and H.R. practices) and social impacts of operations on communities.
- **Exclusionary:** avoiding and condemning some operations and customers; excluding animal testing, military contracting, coal usage.



ESG differs from impact investing; the latter is more difficult to quantify and rank. Impact investing, generally, is more important to millennial investors who want to generate social goodwill through their investment selection. Rather than avoiding financial, perception, media, and other bottom-line risks, impact investing seeks to benefit the world through positive social and societal benefits. Existing impact investing firms include:

- **1863 Ventures:** training and advancing minority business owners and entrepreneurs.
- **Fig Loans:** lending and debt management firm exclusively providing emergency loans and assistance to lower-income people with poor credit scores.
- **One Acre Fund:** bundle agricultural "starter kits" and financing to rural communities in Kenya, Rwanda, Burundi, and Tanzania.

Because ESG is metric-driven, the rationale is less compelling to millennials, and communicating the proactive, optimistic, and future-focused approach is preferred. Addi-

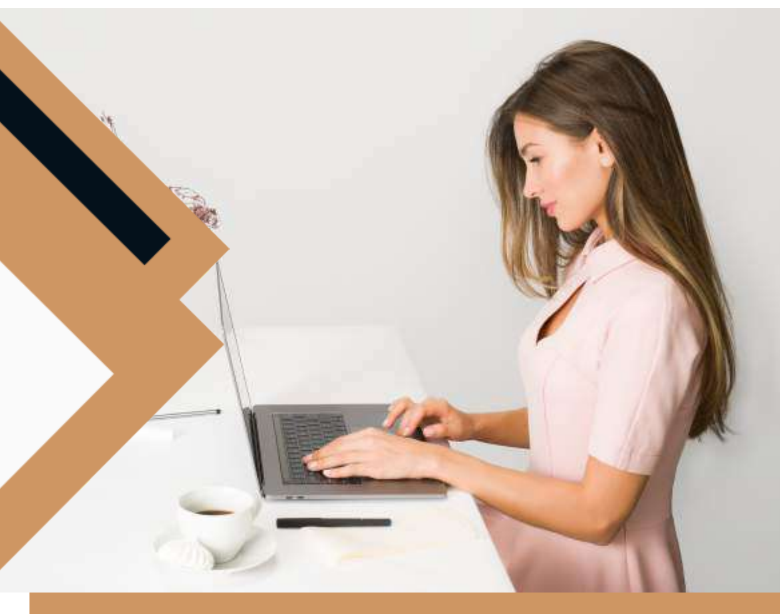
tionally, the quantified nature of ESG rankings opens it to "greenwashing," or manipulating data to get a higher rank. Millennials know this – Exxon Mobil, for example, is included in the S&P 500 ESG index. In short, when considering investments in ESG or impact investing for millennial millionaires, focus on those with a story you can tell.

Even the experts agree that ESG is a tool to avoid risk and a poor substitute for proactive impact investing. In their 2021 Impact Report, Tesla summed up the issue in a way that firms targeting millennials should take notice of: "Current environmental, social and governance (ESG) reporting does not measure the scope of positive impact on the world. Instead, it focuses on measuring the dollar value of risk/return. Individual investors – who entrust their money to ESG funds of large investment institutions – are perhaps unaware that their money can be used to buy shares of companies that make climate change worse, not better."

Digital Dealings

It's frequently reiterated, but millennials are the first generation of digital natives, those who have known what it's like to live in a fully digitized world replete with smartphones and the entire world's data and information at their fingertips. This comfort with digital platforms substantially impacts their expectation of client relations and investment management.

Low and no-fee investing apps like Robinhood opened the door to democratized, simple, and accessible investing to the millennial generation, and they haven't looked back since. Apps and digital investment management tools are ubiquitous. Firms, even those not gamifying the investment experience through gimmicky rewards and overly flashy user interfaces, need to maintain a digital app-based presence to let millennial investors track their assets.



Through traditional investing in nearly every personal brokerage, account holders can check the status of their investments, liquidity, and total value whenever they want and update in real-time as the market changes. While

illiquid assets like private equity and venture capital may not change in value rapidly, investors still need a venue to monitor and check in on their wealth whenever it's convenient.

Firms targeting millennials need to ensure that they are digitized and can provide that access through bespoke app development, online investor-only portals, or by partnering with existing fintech companies, as many of the legacy firms are. Mobile finance app downloads grew nearly 20% YoY from 2020 to 2021. As millennials access on-demand banking and brokerage accounts at their fingertips, wealth management firms must also rise to the occasion.

Research shows that millennials and rising generations primarily communicate digitally. This digitization generation also approaches communication with wealth managers differently. Whereas past generations prized a recurring, periodic in-person meeting but millennials often prefer updates and communications to go through digital media.

This trend, already rising, spiked as the pandemic forced the world into remote work, where many millennials remain. Comfortable conducting business digitally, many even opted to relocate as a perk of remote jobs, so in-person meetings may not even be feasible. Firms must ensure their communications strategy allows for comprehensive and accessible digital updates and communications. In addition to the technological infrastructure, some managers and employees may need to brush up on writing their online correspondence as nuance can be lost, and the finance world is already fraught with opportunities for miscommunication.

Systemic Suspicion

Finally, many millennials today have a very different perspective on financial management firms. Not having lived through much of the lucrative past decades, millennials grew up in a period of recurring financial crises and collapses. The Dot-Com Crash, 2008's Great Recession, COVID-19, and now runaway inflation (and looming recession) – all stick in the forefront of millennial minds when considering investing risks, and the perception of misconduct on the part of investment firms reinforces a systemic mistrust of "the system."

The psychic effect on millennials is undeniable without litigating too much of the blame-shifting between private and public institutions. Even discrete from institutional mistrust is an increasingly pessimistic view of economic conditions that will undoubtedly taint millennial perspectives on investing.

And while some may think millennial millionaires tend less towards that attitude than others in the generation, that would be incorrect. A CNBC survey of millennial millionaires found that:

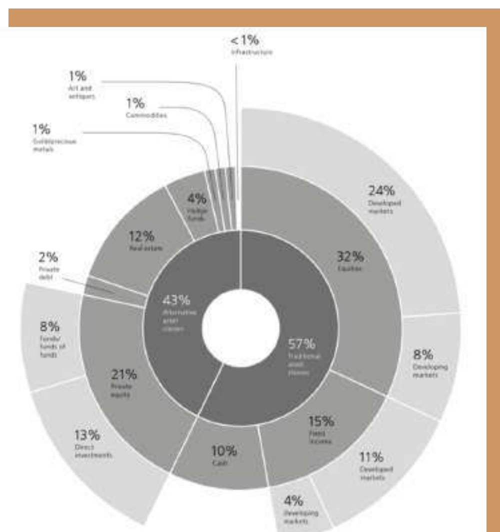
- Half are deferring new purchases because of rate increases affecting borrowing costs.
- Millennials are 3x more likely to pare back extravagant spending today than their boomer counterparts.
- Two-thirds are less likely to borrow money for purchases or as part of an equity collateral loan.

And, since millennials are a significant economic driver, this reluctance to borrow and spend may become cyclical and self-reinforcing to the economy. The good news for wealth managers? 40% plan to continue buying investments as equities fall. This sizable proportion represents a golden opportunity for firms to target these investment-hungry millionaires. Still, they must work hard to gain trust and not betray that relationship to retain them.

Marketing to Millennials

Millennial millionaire mindsets necessitate many firm-wide strategic changes that can be difficult to quantify. But what about the tactical side? As a result of these generation differences, managers must also adapt their investing processes, play offensively as a brand, and explore emerging technology applications in the client/manager relationship.

Alternative Investments



Millennials love the stock market. Because of the increased access we've discussed, more than 60% already have a self-managed brokerage account to trade and invest in equities. And, when it comes to seeking advice and guidance in traditional portfolio management, fewer than 30% are interested in offline, traditional investment advisor services, with more than half preferring online self-directed research.

Millennial millionaires don't need help managing their stock portfolio. A firm emphasizing these typical equities will fail to attract this generation, who has all the information they need to make informed investments at their fingertips. Instead, firms must increase exploration and allocation of alternative investments to attract millennials. Even as accredited investors, these millennials may struggle to access alternative investments or have the capital to participate independently, and wealth managers must capitalize on this.

Luckily, alternative investments are increasingly popular, with new options arising daily. A recent report polling family offices managing a net total of $493B found that economic conditions are making alternatives like private equity, venture capital, and direct investments comparable in allocation to their conventional peers. Millennials prefer specific alternative assets that managers should educate themselves on and market to millennials.

Crypto, Blockchain, and Web3

Crypto and blockchain technologies got a deservedly bad rap over the past few years. As an asset bubble that's likely already popped, cryptocurrencies as speculative assets

should not be the cornerstone of a responsibly managed portfolio. Instead, firms should explore the real-world, practical application of many crypto-related and blockchain technologies by investing in industry startups. Blockchain technology as a driver of daily life is increasingly likely, as the concept sees tangible application in our increasingly digitized world through:

- Healthcare and biomedicine.
- Digital personal identification.
- Supply chain management.
- Voting.
- Real estate management (deed and title transfer).
- Replacing paper wills and inheritance documents.
- Cross-border payments and other financial transactions.t

With these exciting applications of the technology, venture capital and private equity should aggressively seek out emerging startups to potentially capture the next 10x investment. And don't necessarily leave crypto off the table altogether. A survey of millennials with more than $3M in liquid assets found that 29% considered cryptocurrencies and similar speculative assets the best way to build long-term wealth.

Real Estate

Millennial millionaires love real estate. The Coldwell study mentioned previously demonstrates this, with 92% of the group investing in real estate with a collective average of more than $1M in their portfolio. Many see this as building generational wealth to continue their legacy; the data bears this perspective. Even as rates rise and make real estate investment less attractive in the short term, private equity real estate and debt funds can target millennial millionaires. By offering exposure to larger-scale commercial and infrastructure projects, millennials can access assets to generate returns that they may not have the capital to invest in on their own.

Clean Energy, Space, and Emerging Technologies

Tomorrow's "next big thing" is difficult to predict, but trends point towards a few key areas that are prime targets for private equity to use as millennial attractants.

Clean and renewable energy is an obvious pick, with both millennial preferences towards future-focused impact investing and the global governments' focus on transitioning to climate-friendly operations. The market is expected to surpass $2T in 2030 and will only grow from there.

SpaceX is recapturing the American (and global) imagination we lost after the conclusion of the Space Race. But SpaceX's dominance doesn't mean there are no more investment opportunities in space exploration. Startups like AstroForge, an asteroid mining operation (in infancy), have already partnered with SpaceX for a test flight and raised more than $13M from venture capital and angel investors. Space operations also have substantial new and advanced technology development potential. The ongoing emphasis in the field is ripe for early-stage investing to capture the imagination and excitement of millennial investors who missed the moon landings of their parents and want to experience the same sense of awe and wonder.

Brand Management and Engagement

> *There is a lot of mistrust among younger people right now. Big-brand financial services companies have almost no brand equity among Millennials and their Generation Z successors. – Lindsay Holden, Long Game Founder & CEO.*

Tying directly to millennial mistrust of the system at large, financial firms have an uphill battle to appeal to millennials. Managers must work hard to gain and maintain client

trust. But getting those millennials in the door is a challenge as well. Branding and marketing are evolving, and firms must develop their marketing tactics.

Mobile marketing is increasingly capturing the bulk of the millennial market share, and financial firms should tailor campaigns toward emphasizing digital spaces. This diffusion also represents a golden opportunity. The sheer scope and availability of media platform advertising, driven by data and analytics, mean firms can get hyper-specific in advertising and reduce customer acquisition costs. If a firm prizes a particular asset or wants to target a specific demographic subset of millennial millionaires, it's easier than ever.

Even better? Brand management can be free. Large corporations and firms are increasingly engaging directly with consumers through digital media, and these platform-based interactions don't cost a dime on their own. Social engagement is an excellent way for financial firms to build brand equity and goodwill with prospective clients. By engaging in the same space as millennials and providing top-of-funnel value to potential customers, firms can humanize themselves and develop a digital friendship to skew outcomes towards investing with them.

Data Management

Firms must also leverage consumer data and other analytics to attract millennials, even outside marketing. Machine learning and A.I. can create a bespoke, customized experience across the client enterprise without the significant human capital it once cost. Increasingly sophisticated data analytics and quantitative tools are also used to drive hands-off investing strategies. By using this as a selling point, firms can capitalize on millennial trust in technology and distance themselves from residual institutional mistrust by relying on an objective means to invest.

These analytic tools also target millennial's sense of social responsibility: one quantitative venture capital firm manager said, "One of the most encouraging and positive benefits that we have seen from automating our investment process is that it appears to have removed race, gender, and age from the decision-making process." This automation also frees up the human brainpower behind investing operations in innovating, exploring, and building fruitful relationships with millennial clients.

Conclusion

It's undeniable. With millennials inheriting aging parents' fortunes while also making their way through innovative new income streams in today's economy, the class of new millionaires is substantial. It will only increase as the generation starts driving the economy.

It's still early, and firms able to quickly pivot strategies and tactics to attract and retain millennial millionaires are facing a huge opportunity to position themselves for the future of finance and investing. To do this, they must be willing to execute that pivot. By understanding the differences between millennials and past generations of HNWIs, wealth managers, funds, and firms can create a tailored experience for this new class. And by embracing technology as it emerges, these firms can also increase efficiency and potential rate of return on their investments.

The future is looming, and firms that fail to change and adapt will be on the sidelines.

Written by Jester Schilder

Partner at Benjamin Auctus
js [at] benjaminauctus.com

Benjamin Auctus

https://benjaminauctus.com/