Fidelity Connects

Generational Investing: How Generation Z and millennials approach money

Kelly Lannan, Vice President of Young Investors, Fidelity Investments (U.S.)

Pamela Ritchie, Host

Voiceover: Hello and welcome to Fidelity Connects – the Fidelity Investments Canada podcast – connecting you to the world of investing and helping you stay ahead.

More than ever, young people have taken an interest in investing, whether it's planning for major life events like buying a home or even just saving up for a vacation. Young people are looking for smarter ways to invest their money, and there has been an increase in do-it-yourself investing ads across social media and TV, aimed at younger people. Fidelity Investments Canada's research has shown working with a financial advisor can create up to 2.3 times more wealth versus those who do not work with an advisor.

Today we're joined by Kelly Lannan, Vice President of Young Investors for Fidelity Investments in the U.S., to chat about some of the latest trends as well as habits and priorities of Millennial and Gen Z investors.

Kelly explains to host Pamela Ritchie that Fidelity Investments in the U.S. have completed surveys and have seen that the recent events of 2020 and 2021 have motivated more young people to get into investing, and there is a trend of young investors going to social media for financial education.

Kelly also notes that debt is just as an important discussion as investing, and financial education is the first step. Also, ESG investing continues to increase in popularity with Kelly noting Millennials especially want to align their investments with their values.

So whether you're an investor yourself, someone looking to get into investing, or a finacial professional who advises others, there's something for everyone on today's show. Enjoy. And, today's show was recorded on July 8, 2021.

The views and opinions expressed on this podcast are those of the participants, and do not necessarily reflect those of Fidelity Investments Canada ULC or its affiliates. This podcast is for informational purposes only, and should not be construed as investment, tax, or legal advice.

It is not an offer to sell or buy, or an endorsement, recommendation, or sponsorship of any entity or security cited. Read a fund's prospectus before investing. Funds are not guaranteed. Their values change frequently, and past performance may not be repeated. Fees, expenses and commissions are all associated with fund investments.

[00:02:20]

Pamela Ritchie: Great to see you, Kelly. Welcome.

[00:02:23]

Kelly Lannan: Yes. Thanks so much. Hi Pamela, how are you doing? And hi everyone else listening in. Very happy to be here today.

[00:02:28]

Pamela Ritchie: Kelly, can we begin with the discussion of goals and how even the term retirement maybe isn't every 25-year-old's first goal? I want you to put things in perspective for us of what a younger investor thinks of as a financial goal.

[00:02:45]

Kelly Lannan: That's a great question. What we've seen from a lot of younger people is that they are often prioritizing the shorter term over the longer term. It's not like they don't necessarily care and it's not like they want to work until they're 125 years old, it just so happens that especially when one graduates school, or late 20s, early 30s, their priorities are just different. For many, sometimes they're faced with paying bills for the first time. Some are faced with student debt or credit card debt. Others may be trying to buy their first home. As we've also seen with younger generations, yes, the traditional milestones are important. Don't get me wrong. Younger people, they still want to own a home one day or start a family or get married. But it just so happens, we're not always going about it in the same order as previous generations. Like Pamela, my mom always reminds me that at my age, she had three kids at that point. And I'm like, Mom, slow down. Again, it doesn't mean I didn't want to have kids but again, we're just starting at a later point in life.

[00:03:45]

So for a lot of younger people, they're telling us that they're putting goals such as, again, saving for a home or post-COVID, people want to travel, saving for that vacation or more importantly, paying down debt. Often these are the goals that sometimes take priority over some of those longer term goals, such as retirement.

[00:04:02]

Pamela Ritchie: Interesting. Another thing that's interesting from the perspective of what we all went through or perhaps witnessed in formative years, whether that's in your teens or wherever. Certain generations, their coming of age age right after the great financial crisis, for instance. And some will be coming up through this moment in time as well where they've been going through the pandemic. Actually, quite different situations because in some ways more people have kept their jobs through this particular crisis. And there are many other things. But I guess we need to be thinking about where people kind of came from and formed their thoughts about finance, right?

[00:04:42]

Kelly Lannan: Yes. I can directly speak to that. I'm someone who did graduate in the middle of the recession. I often joke, I think our graduation speaker said to us, you guys can be anything you want, just maybe not right now. So that was kind of the vibe coming out of school and the uncertainty. For me, graduating at that point in time, not only did I see a lot of people losing money in the stock market for things like their retirement, but also a lot of my friends struggled with finding jobs or keeping jobs and often had to find maybe not an ideal or a part-time job until they were finding something a little bit more permanent.

[00:05:19]

Now, flip to the pandemic, as you mentioned, things have certainly changed. I mean, for a lot of younger people, actually, and for all generations in some of the studies that we did, the health of themselves and others was still that number one priority. So that still was there. Even for younger people, who maybe weren't at risk of some of the health concerns, the health of themselves and others was always that number one priority. But also for a lot of younger people, job loss was something that did concern them. A lot of those part-time jobs, especially for younger people, just weren't there anymore. The restaurant industry was very hard hit.

[00:05:54]

Also at the same time, a lot of younger people were home for the first time. So, you know, Pamela, and I think we'll probably talk about this a little bit later, the first bit of this year, the rise of the meme stocks. People were home. They weren't able to bet on sports. They weren't able to travel to Vegas. They turned to the stock market. We saw such a tremendous shift in the amount of younger people interested in trading and investing for the first time. I've even heard a lot of people come to me and be like, wait, is investing cool again? So again, the pandemic has certainly brought these subjects to the forefront of a lot of people's minds.

[00:06:28]

Pamela Ritchie: Let's go right there right now, because it is so interesting for those who are watching markets, who are advising people through these markets. There's lots of discussion about where types of stimulus money basically ended up throughout the stock markets, in various markets and homes and so on, and it's a really good extra reason to kind of understand what a younger investor is looking at, watching, taking in and maybe even creating wealth.

[00:06:54]

Kelly Lannan: Yeah. I mean, I think the number one thing is just the awareness of what's going on. Yes, not everyone is kind of jumping right in and making trades necessarily, but for many young people, Gen Z in particular, it's really awakened people to the possibility of investing for the first time. In fact, we actually did a recent study ... this was U.S. based, so I will preface that, where we actually found that over 62% of those that we surveyed in Gen Z, so the 18 to 24-year-olds, they were all very familiar with the recent activities of the stock market. Think about it, Pamela, going back to a previous conversation, we were all home more than ever. Never before have I watched the news as much or cared about the weather, what I was eating, for that matter, as much. But as a result, these conversations about what was going on were just happening probably a little bit more naturally than previously because a lot of people were home and in the home with others at that time. I know I had friends and family members who, I can't remember the last time they asked me what I did for a job, but they were asking me more than ever, Kelly, what is going on out there? What are these meme stocks? Why is everyone so concerned with AMC, this movie chain or GameStop? What even is that? So we did see a lot of craziness.

[00:08:09]

In fact, 55% of those in Gen Z that we did survey in this recent survey, they actually told us they did make a trade in the first three months of 2021. And this was more so than previous generations, than the millennials and Gen Xs. So we're actually seeing more younger people engage in the stock market than ever before. And I think it is as a result of what we saw in the first half of this year.

[00:08:31]

Pamela Ritchie: I wonder if you can take us through kind of the stages of how maybe any investor, but young investors in particular, get introduced. So maybe friends and family. And as you mentioned, life does change. Things do get more complicated as you go through your young adult years. You need more complex things. How would you advise people to kind of go through this with a thought to what's happening now?

[00:08:55]

Kelly Lannan: Yeah. I want to start with something that I view as extremely positive. What we found in our survey, specifically with millennials and Gen Z, that the recent events of 2021 have actually motivated them to learn more about trading and investing. That's awesome. And so every advisor out there listening, this is your opportunity. You have a group of young people who want to learn more, who want to educate themselves. In fact, of those who hadn't placed a trade yet in the first half of 2021, when we asked them, okay, well, what would make you more comfortable with trading? What would make you more likely to invest in the stock market? They told us two things. Number one, becoming more educated on investing terminology and language was the top thing. So again, education. And number two is understanding the potential risk and rewards. And so what that tells me is that, yes, people saw the stock market booming, which was really great, but they also wanted to understand, well, what are the downside impacts as well?

[00:09:53]

And maybe that is a result, Pamela, as people seeing their parents and people older than them go through the recession and they're scared that that might happen to them after. So if you are an advisor out there today, I really want you to hear that message, that you have a group of people who want to learn, who want to be educated, and often they're going to turn to you to do that. Something else that I will note is, yes, friends, family is important, don't get me wrong, but we've also seen a shift on where young people are going first in terms of looking for their education. And again, I don't think this is a spoiler alert anymore, but guess where they're going? They're going to social media. Yes, they're going to social media. That is often the first point of contact they're making when they're hearing about these events. They're going to Snapchat, to TikTok, to Instagram as almost that first point to learn.

[00:10:41]

So what this means for everyone out there, Fidelity included, that's where we need to be. In fact, I would say we have a responsibility for showing up on these platforms because we're companies that have valid information. We're companies that have experience. Look at Fidelity, we're 75-years-old. So that's where we want to be to just ensure that we are giving our customers, especially our younger customers, the most valid education out there.

[00:11:06]

Pamela Ritchie: Okay. So this is an area I don't know, but I'm trying to learn because I have a child who is now playing Minecraft and actually her school suggests that certain slices of it are excellent for math and for coding and all the things we already know. Talk to me about gaming as one of many ways to sort of introduce and being involved in that.

[00:11:29]

Kelly Lannan: Yeah. We've heard loud and clear from younger people but I would also say, you know, people of all different ages, is that people do tend to learn best by doing, by actually trying something out, even making mistakes. That's how we all learn. I'm sure we can all relate to that. I know I can, growing up and making a lot of financial mistakes when I was younger. For as much as they stunk, I learned through them. We're definitely seeing that with younger generations. Think about all the companies out there that have simulated trading, where people can actually try out investing, trading in the stock market without putting their money at risk. Even look at the shift in technology and the rise of fractional shares trading. You don't have to start big. You don't have to buy an entire share. You can start with just $5. In fact, younger generations told us that starting small is really their preference on the way to go.

[00:12:21]

Here in the United States, we actually launched the Fidelity Youth Account. We're actually allowing those 13 through 17, with the help of their parents, to actually open an account and start trading on their own. Because what we've been told is that, again, people learn best by doing. They want to give it a try. They don't want to, again, open themselves up to risk by any means, but having moderated experiences where it's being supervised by a parent, where you're actually seeing the impact of your trading over time is a really powerful way to educate younger people on the impact their investments can make in the stock market.

[00:12:53]

Pamela Ritchie: Fascinating. There's so many questions coming in. Just from your perspective, what you see, things that come through your door, how important is, for instance, ESG to a younger investor? Is it an absolute core piece or just kind of important? How would you rate that?

[00:13:12]

Kelly Lannan: Yeah. With younger people in general, often millennials specifically, we've always had this title called the Impact Generation. We are in the generation that is motivated by our desire to give back, to have impact. What we've seen specifically with younger people is that they want to work with companies that align to their values. In fact, a lot of younger people would be willing to pay more to work with a company that, again, represents their values in the things that they care about. So, again, I just share that because I think that's really important. For a lot of younger people, companies that have ESG options, socially responsible investing options, these are things that they do, in fact, value.

[00:13:55]

Now, does that mean that the end return is any less important to them? No, it does not. So we also need to make sure that we're providing education on these funds and sharing that yes, not only are these funds or these investments that are doing good and are working in aligning with companies that are doing good things, but in fact, a lot of these funds, they have just as strong returns as more traditional mutual funds and other options, too. I think that's just as important of education, as kind of educating people on what's actually in them.

[00:14:27]

Pamela Ritchie: A topic that you touched right off the top in terms of goals and just things that people are thinking about, one of the things is debt. It can be sort of an immovable object in a lot of cases, I think, for people trying to move forward. Can you just break that down for us a little bit about how important it is to address it and perhaps help with financial plans and goals and so on with debt in mind?

[00:14:51]

Kelly Lannan: Definitely. I think, first of all, we cannot talk about one's financial plan, we cannot talk about one's financial outlook without bringing up their debt. Debt is very much just an important part of one's financial situation as their short-term, long-term retirement investing, especially for younger people. A lot of younger people tell us that they simply cannot reach their goals because they're so far into debt. A lot of younger people tell us that they simply cannot see how they're able to invest even small amounts when they have all this debt. In many ways, I get it. If you are somebody who's contributing to an employer-sponsored retirement plan, you're doing that regularly, you have all this student loan debt, how can we feel like it's our responsibility to be like, oh, go open another account and go invest here? It's a really hard and difficult thing to do.

[00:15:42]

In my opinion, it's honestly up to a lot of advisors, a lot of companies, a lot of firms to ensure that we are educating people on how they can both pay off their debt as well as save and invest for their future. In fact, there's a lot of companies out there, which I think is awesome, and Fidelity's obviously one of them, that actually help their employees pay off their debt by giving them options, student debt forgiveness and other things. But honestly, it all starts with education and letting people know that, yes, debt emotionally wears on you, but you have to be able to both prioritize your debt as well as prioritize your financial future at the same time.

[00:16:17]

Pamela Ritchie: Do you think in the next 10 years, even the next 15, whatever, that there will be much better literacy, financial literacy happening in a really robust way? It seems to be a bit patchwork at this point for schools and [audio cuts out].

[00:16:34]

Kelly Lannan: Yeah. I'm optimistic. Looking back in the craziness of 2020 and 2021, there was a lot of that. It was a lot of not such great things, but there was good that came out of it as well. One of the things that we've kind of probably touched upon already is that people more than ever were actually paying attention to their finances. We saw more younger people coming to Fidelity for help than ever before. That's awesome because we can help them. But what we also saw is people actually realizing, oh, man, we need to prioritize financial education even more. Here in the United States, only 14 out of 50 states actually require financial literacy curriculum to be taught at the high school level. Now coming of the pandemic, we've already seen multiple states actually take a stand and say, no, we should require that, which again, makes me happier than ever.

[00:17:27]

I think that if firms, like all of you listening in, firms like Fidelity and others start to prioritize educating people first versus simply just trying to get them into account and start investing, that will be huge for our customers because education, honestly, it leads to opportunity. Education makes firms more accessible, makes firms more inclusive. When you have the ability to educate others of all different demographics, all different communities, it's such an important thing. It's good for those communities. It's also good for business. So I am a huge, huge optimist, Pamela, that the results of the past year have put such an urgent need to do better when it comes to financial education, whether that is improving upon the current education out there, whether it's making it more gamified, maybe it's showing up differently on social media, but it's so important, especially to younger generations.

[00:18:18]

Pamela Ritchie: This is an interesting question coming in, do you find that younger investors have a higher or a lower risk tolerance? Maybe it's a bit of both. Is there anything to differentiate?

[00:18:31]

Kelly Lannan: I think it is a bit of both. We still see a lot of people in younger generations, they are still naturally risk-averse. Just because individuals tend to have an investment account, it doesn't mean you necessarily have the confidence to go and invest on your own. So just because you have an account doesn't necessarily mean that you have that confidence. In fact, we've done studies before where 60% of those surveyed in the millennial generation, they have an investment account, yet only 9% consider themselves to be an investor. So we still are dealing with this huge kind of gap in mindset around that investor mindset. So that's something we constantly have to work on. Millennials especially ... sorry, go ahead.

[00:19:16]

Pamela Ritchie: Sorry, I didn't mean to interrupt, but I find that fascinating that even though monthly something's going in to an account, they don't consider it as an investment or they don't consider themselves as investors? It's fascinating, actually.

[00:19:28]

Kelly Lannan: Yeah, they don't see it. I've done countless presentations standing up in front of younger people and I've asked them, hey, do any of you guys have a retirement account, an investment account? You see the majority of the room raise their hand, and then you're like, okay, keep your hand up and then you ask, hey, and how many of yourselves consider yourself to be an investor? And about half the hands go down, and you have to say, no, no, no, no, no, no. Put those hands back up because you are an investor. You're doing it. So, again, a huge gap in how we think about that investor mindset in millennials especially. Millennials especially because a lot of people grew up through the recession and really saw so many people struggle. We've seen millennials especially being more risk-averse.

[00:20:10]

Now, Gen Z, we've seen them be a little bit more practical. They want to make sure everything's perfect but because they are younger, they don't have as much money, we haven't necessarily seen that same level of risk aversion for the youngest of Gen Z. It doesn't mean that won't change. But what I will say, again, going back to our responsibility to educate people, we always do want to let people know, invest in what you know and invest in what you understand. If you have no idea what the term options or margin means, you probably should not be doing it. So I will just stop talking there, because we also do know that a lot of younger people, it's not necessarily risk-averse or take on more risk, they still do have an overinflated sense of confidence that they know what they're doing. They often don't know what they're doing. So, again, it's our responsibility to make sure if they're going to dive in and start trading the stock market, we at least teach them and help them know what they're doing so they don't do it blindly.

[00:21:06]

Pamela Ritchie: Fascinating. Of course, there is making money, so those who want to make sure that they're in a job that has enough money for them ultimately to do what they want, but also to have the money to invest. And then there's sort of the spending element, isn't it? Because it all comes in to essentially how you organize your life and the money that you make. Do you talk to them a lot about their financial planning, their budgets, essentially, right?

[00:21:32]

Kelly Lannan: Yeah, of course. And going back to that survey that I quoted, only 9% consider themselves to be an investor. The top choice of what do you consider yourself to be was saver followed closely by a spender. So that was kind of the ranking. I'm a saver, I'm a spender and then I'm an investor. That definitely has to be part of the conversation because I think for a lot of younger people, and maybe some older people as well, including some people listening in, that term budgeting, you immediately, like, budgeting, it's gross. But honestly, a lot of times, and just yesterday I presented in front of our huge group of summer interns who are here with Fidelity, and what I said to that is that budgeting, just think of it as like a plan. Think about how often each and every one of us on this call make plans. And if you're making plans for this more silly things in life, the least you can do is start to make a plan for your money.

[00:22:22]

At the end of the day, our money touches everything. Whether we turn on a light in our home, our money is touching that. For a lot of younger people, they want to know, are you okay? Am I going to be okay? Can I still pay my bills each and every month, but yet still go out with my friends on a Friday night? So again, talking to people about it in terms of, yes, you have to make your money work harder for you, whether that's hitting some of those longer term financial goals or shorter term financial goals that we discussed, but also just to have fun and just to be young and be able to go out with their friends too.

[00:22:53]

Pamela Ritchie: Another great question coming in here, has to do with sort of do you find that younger investors really want to be told what to do or very much more part of the process themselves, the decision-making process? Anything to offer there in terms of observations?

[00:23:09]

Kelly Lannan: It's very interesting and this is a great question. We've definitely seen both ways. What we've seen is that a lot of younger people, they actually do want to do the research on their own. They want to put in some effort. They want to do some research on their own. But sometimes they come to us and they're just like, tell me what to do. I mean, think about it, you land on a web page, and you know you want to do something, and you have 15 account options to open. How do you know what to do? So we often hear, hey, I want to do my own research, I kind of want to do my digging but the end of the day, because I don't know as much information about this, just tell me what to do because I'll usually follow you as well. We really see a split. Even when telling one what to do afterwards, we still see the people wanting to do their own research on their own. Because going back to my previous comment on people going to social media is kind of one of those first steps in understanding, guess where they go to next? They go to parents, family and friends. And then after that, they're going to financial services firms. So you're seeing people go to social media, get that validation, kind of take that first step to educate themselves and then they're turning to more trusted people in their life, as well as financial institutions before they then go and take action, which again, I think is a really good thing.

[00:24:24]

Pamela Ritchie: It's a really interesting point, and it's exactly where you started. So maybe we'll end it with this, too. But ultimately, at the beginning of that process, as you just mentioned, is a very digital focus.

[00:24:35]

Kelly Lannan: Yes. Think about everyone on this call. What do you do? The first thing you do when you need to find something out, you're going to google it, right? The very first thing we all do. So if we're not showing up, if your firms aren't showing up in a digital way first, you'll maybe never be able to get them that human connection and get them into your firm afterwards because they're going to go do a search on their own first and then they're going to come to us later for some validation before they actually start to take action.

[00:25:01]

Pamela Ritchie: Kelly Lannan, I want to thank you so much for spending time here today and wish you a wonderful summer ahead.

[00:25:08]

Kelly Lannan: No, thank you so much and thanks everyone. Really appreciate the time.

[00:25:15]

Voiecover: Thanks for listening to the FidelityConnects podcast. If you haven't done so already, please subscribe to FidelityConnects on your podcast platform of choice - and if you like what you're hearing, leave a review or a 5-star rating.

You can visit fidelity.ca for more information on future live webcasts - and don't forget to follow Fidelity Canada on Twitter. Thank you, see you next time.

[end of podcast]