Millennials pay less heed to investment principles

Strategy

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Millennials – those born from the mid-1980s to the mid-2000s – are reaching a point when they have had an opportunity to build substantial wealth. Others may have inherited wealth over time.

The wealth management needs of this cohort are somewhat different to those of older generations.

John Molnar, private client adviser with ipac South Australia, says millennials do not typically follow the social and lifestyle trends of the generations before them. Concepts such as the traditional 9-to-5 working week or working for the same employer for a long time are no longer the norm.

"With this mindset it is common for their goals and values to change and evolve over time. This can lead to their lifestyle and their circumstances also changing significantly," he says.

"It is important for any wealth management strategy to be tailored to complement the client's lifestyle. Some people want flexibility with their investments, while others want peace of mind and clarity."

Molnar notes if someone's lifestyle is always changing, it is important their wealth management strategy is also flexible. "While this sounds straightforward in theory it can impede on traditional investment frameworks such as timeframes, liquidity and diversification, all staples within a strong wealth management strategy," he says.

Molnar says millennials have disregarded many traditional investing principles, such as buying and holding investments for the long term.

"They consider themselves very knowledgeable about financial investments and tend to be very active within their wealth management strategies. As a result we typically see a very short-term focus, even though they have a very long-term investment window," he says.

This expectation of instant gratification can be to the detriment of their investment goals. Says Molnar: "Achieving a balance between short, medium and long-term investing is a challenge."

There is a social consciousness element when deciding where to invest money among the younger generations. "There is a much greater focus on investments that have an ethical framework and social principles that differ from traditional investment offerings," says Molnar.

Financial services businesses acknowledge this and many are committing to more responsible investing by taking into account environmental, social and governance issues within their investment philosophy.

By contrast, Kane Munro, director of Accountancy Online, says a lack of real financial literacy and the time or inclination to devote to building and managing their wealth is having a negative impact on the way millennials manage their money.

"Usually the best way to build wealth sustainably is to invest in something you understand. Everyone's knowledge is different, but you generally get a better result from something you're interested in. So my advice to millennials is to stick to what you know and learn what you don't," he says.

Martin Becker, director of Fairbridge Wealth Management, says one of the main issues for millennials is the typical behavioural risks associated with a lack of experience in long-term investing.

"This is the ability to correctly and appropriately assess and price risk, as well as biases as a result of short-term thinking, overconfidence and complacency says Becker.

"Millennials in Australia have been fortunate not to have experienced an economic recession within their working careers. In addition they have not encountered a structural rising interest rate environment, which we expect will impact valuations across all asset classes and pose potentially significant investment risks over the medium term.

Millennials don't follow the trends of past generations. PHOTO: ISTOCK