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collective INSIGHT

INSIGHT INTO SA INVESTING FROM LEADING PROFESSIONALS



RISE OF THE MILLENNIALS

How important is this generation?

finweek
MONEY. POWER.

An elder speaks: I wish you a long life but...



BY DEON GOUWS
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Deon Gouws joined London-based wealth management group Credo in March 2012 as chief investment officer after a career of more than 16 years in the institutional side of the investment industry, most recently as the CEO of RMB Asset Management in Johannesburg. Prior to that, Gouws qualified as a Chartered Accountant and lectured in accountancy and finance at post-graduate level. He also has an M Phil (Finance) from the University of Cambridge and is a CFA charter holder.

Few people could blame the millennial generation if they take a rather dim view of global economics and the state of financial markets at present given *inter alia* how difficult jobs are to come by for anyone trying to start a career. In Europe, for example, youth unemployment exceeds 25%; in Spain and Greece the number is rapidly approaching 60%.

This helps to explain a recent finding by Eurofound, which showed that the number of continental Europeans aged 18-29 still living with their parents rose to 48% in 2011.

If you cannot even find a job, you clearly will have no money to invest or start a pension plan. But let's say that you've been the lucky beneficiary of a windfall... what to do with the money? Can anyone blame you if you refuse to invest your little nest egg into the stock market?

If you're the typical 25-year-old millennial today, you were just about to start your teenager years when the dot-com bubble

burst in March 2000. Seven years later (as you were finishing high school) it was the much celebrated global financial crisis. As a result of these events (representing practically all of your living memory), you know nobody who has actually made any money out of equities.

Worse still, now that you've completed your degree (and possibly even earned a professional qualification), nearly every commentator will tell you that the stock market is overvalued. Why on earth would any millennial even contemplate buying a portfolio of stocks, therefore?

This scepticism is also borne out by the numbers. In a recent survey by US investment manager MFS, it was found that the average equity allocation of those millennials who were in fact lucky enough to have pension plans in the first place, had fallen from 32.7% in June 2011 to a level as low as 30.5% at the beginning of 2014. An even more disturbing statistic from the same study was that 46% of millennials

said that they would never be comfortable investing in the stock market (up from 40% in the same survey two-and-a-half years earlier).

Elevated stock markets are not the only complicating factor facing millennial investors. For many, their first step onto the property ladder will be even more difficult, with prices in many parts of the world considered to be in bubble territory and affordability levels at all-time lows.

Against this background, who can blame any millennial for being totally risk averse today?

Unfortunately, this behaviour is more than likely to add up to some serious opportunity cost in the longer term. With medical progress ensuring that life expectancy continues to increase, many

(if not most) millennials are likely to live well past the age of 100, meaning that on average they should realistically all have an investment horizon of 75 years plus... based on which they should embrace as much risk as possible, simply because they can afford to do so.

In support of this, one really only needs to focus on the work of Jeremy Siegel and his seminal book, entitled *Stocks for the Long Run*, in terms of which equities comfortably outperform all other asset classes over time.

Against this background, millennials should therefore relinquish their prejudices and implement a well-diversified investment plan focused on the longer term... for if they don't, they might just be unlucky enough to outlive their money. ■

"Unless you're a pop star or a world-class sportsperson (or run your own political party), jobs are impossible to come by these days." #MillennialChallenge

