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NEW FINAMETRICA RESEARCH FINDS MILLENNIALS HAVE SIMILAR FINANCIAL RISK TOLERANCE TO OLDER GENERATIONS

Key difference lies in millennials' lower risk capacity and perception

ATLANTA; October 23, 2014 – Millennials in the United States have been thought to behave more conservatively when it comes to finances than older generations. But new research from FinaMetrica, a company that helps financial advisors properly assess client risk tolerance, found similar risk tolerance levels between millennials and people of older generations.

The research, culled from data in the FinaMetrica Risk Profiling System between January 2012 and July 2014, found that individuals born between the 1980s and early 2000s, known as "millennials," do not have a material difference in risk tolerance compared to Generation X individuals, who were born between the early 1960s and early 1980s. There is a 50% chance of a 30-year-old being less risk tolerant than the average 45-year-old.

There is, however, a more significant difference between millennials and baby boomers. FinaMetrica's data revealed 69% of millennials are more risk tolerant than the average 60 year old, countering general opinion on millennial behavior.

"Our research shows that millennials are no less risk tolerant than their Generation X or baby boomer counterparts," said Geoff Davey, co-founder and director of FinaMetrica. "If it is true that millennials are more financially conservative, risk tolerance is not the reason."

FinaMetrica believes that millennials' capacity for and perception of risk may be better indicators of their conservative behavior. "Millennials who reached adulthood in 2000 have witnessed two major bear markets. Since then, high levels of college debt and rampant un- or underemployment have forced many millennials to delay certain milestones that have traditionally categorized adulthood, including home ownership and starting a family," Davey said.

Risk tolerance, according to FinaMetrica, is a psychological trait that reflects how much risk a person is emotionally willing to take. This is different from risk capacity, which is the level of risk an individual can literally afford to sustain without derailing short- or long-term goals.

FinaMetrica warns these problems could be compounded if millennials are not receiving proper investment advice. A recent Vanguard study reports that target-date funds (TDFs) for younger investors have higher exposure to equities, such as the 2040 TDF which has 90% equity exposure. However, according to FinaMetrica's data, this type of investment would be too risky emotionally for 96% of millennials.

"The current line of thinking is that a young investor with a longer time horizon can withstand downturns and regain their losses. But it is likely that many millennials who were emotionally overexposed to risk in 2007-09 feel blindsided and have since retreated to the sidelines, where they may stay for an extended period," Davey commented. "The downside, of course, is that this reticence crystallized their losses and left them out of the recovery."

FinaMetrica noted that the data revealed a greater magnitude of risk tolerance variance within age cohorts than between them. "As such, an individual's emotional makeup can account for great differences in risk appetite compared to another person, regardless of age group," added Davey.

About FinaMetrica
FinaMetrica is an Australia-based company that specializes in risk tolerance and risk-related matters. In 1998, it launched the FinaMetrica Risk Profiling System to help advisors make better investment decisions and set proper risk-and-return expectations for their clients. The system uses psychometrics, a scientific discipline blending psychology and statistics, to ensure reliability and validity. Since inception, the system has been adopted by 5,500 advisors across 23 countries in seven languages, with more than 700,000 risk tolerance tests completed. For more information, please visit www.riskprofiling.com.

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