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FinaMetrica Data Reveals Millennials Have Similar Risk Tolerance as Older Generations

Sydney, Australia (November 4, 2014) – Millennials 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 advisers 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 reveals 69% of millennials are more risk tolerant than the average 60 year old, countering general opinion on millennial behaviour.

"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 behaviour.

"Millennials who reached adulthood in 2000 have witnessed two major bear markets. Since then, job insecurity and rising unemployment, the commodity downturn and fears about global and Australian economic growth have forced many millennials to delay certain milestones that have traditionally categorised adulthood, including home ownership and starting a family," Mr 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 afford to sustain without derailing their short- or long-term goals.

FinaMetrica warns these problems could be compounded if millennials are not receiving proper investment advice. In Australia, a millennial placed into a target date or lifecycle fund would receive a 90% growth asset allocation. 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," Mr Davey commented. "The downside, of course, is that this reticence crystallised their losses and left them out of the recovery."

FinaMetrica noted that its 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 their appetite for risk compared to another person, regardless of age group," Mr Davey said.

About FinaMetrica

FinaMetrica specialises in risk tolerance and risk-related matters. The FinaMetrica risk profiling system is based on a psychometric test of personal financial risk tolerance. Psychometrics, a blend of psychology and statistics, is the scientific discipline for testing attributes such as risk tolerance. Launched in 1998, the system is used by than 5,500 advisers in 23 countries in seven languages. More than 700,000 risk tolerance tests have been completed. The FinaMetrica system enables advisers to make valid and reliable assessments of their clients' risk tolerance, incorporate those assessments into the financial advising process and explain risk more meaningfully. More information: *www.riskprofiling.com*.

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