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Healthy financial habits help address the unique opportunities and needs of millennial investors

Members of the millennial generation – people currently in their 20s to mid-30s – now outnumber baby boomers. If you have one in your extended family sphere, you have likely noticed a few generational differences in their behavior and attitude toward lifestyle and money matters. While millennials may rule in the areas of personal education, technology mastery and the virtual economy, they lag previous generations when it comes to accumulating and building wealth.

Generational concerns of millennials

Millennials are experiencing traditional wealth-building milestones later in life. Living through the consequences of the Great Recession during formative years, high student debt, barriers to full employment, and delayed marriage and home ownership all play into a gap in wealth compared with the previous generation at the same age.

For these reasons, millennials tend to be conservative about investing money. In fact, many financial advisors report that the portfolios of their millennial clients look similar to those of people in their 70s and 80s – people who obviously need to be more cautious about their investments because they have less time to recover from short-term market declines.

Generational advantages of millennials

But there is good news for millennials. Time is on their side, and access to financial guidance and tools has never been more abundant, including family conversations about financial responsibility. With three or four decades left until retirement, millennial investors may want to seriously consider owning a reasonable percentage of growth-oriented vehicles, particularly stocks and stock-based investments, as part of a diversified portfolio.

Although stocks will always fluctuate in value, they have historically outperformed all other asset classes. From 1967 through 2016, the S&P 500's geometric average annual return – which takes into account the effects of profits and losses – was slightly

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Healthy financial habits help address the unique opportunities and needs of millennial investors, continued

over 10 percent, compared with less than 5 percent for the three-month Treasury bill, a popular benchmark for conservative investments.*

In addition to not investing too conservatively, here are five more financial "best practices" millennial investors may want to consider. And with the current $14,000 annual gift tax exemption, parents or grandparents who have the means may be able to help loved ones take these necessary steps to financially prepare for the future.

1) Get a handle on debt and protect your credit score

One of the first things to do is reduce credit card debt and other high-interest debt. If a credit card charges 13 percent interest and the debt is paid off entirely, it is the same as earning 13 percent interest on the money spent to retire the debt. Handling credit responsibly and paying bills on time are two factors contributing to credit scores that consumers can control.

2) Create a "rainy day" fund

Build an emergency fund that would cover three to six months of living expenses. Keep this money in a liquid, low-risk account. Without such a fund, long-term investments may need to be sold to pay for unexpected major expenses, periods of short-term unemployment or a temporary disability.

3) Save early and often

Investing as early as possible offers several key advantages. Money has more time to grow. Less money may need to be invested (since it has more time to grow). And less risk may be required to meet goals (for the same reason: time). In addition to investing for retirement, millennials may want to invest for home ownership, starting a family and other important goals.

4) Get the match

It may be practical to contribute as much as possible to an employer-sponsored retirement plan. Pretax contributions will lower adjusted gross income for tax purposes, plus the money will grow on a tax-deferred basis. At a minimum, contribute enough to earn an employer's match, if one is offered.

5) Consider a Roth IRA

Contributions to a Roth IRA are not tax-deductible, but earnings grow tax-free, provided the account has been open for at least five years and withdrawals are not taken until age 59½. Consequently, it may be better to invest in a Roth IRA when younger and possibly in a lower tax bracket than later, when the tax deductions in a traditional IRA may be more beneficial. Also, Roth IRAs have income limits that may eventually exclude high-earning taxpayers.

Since the current contribution limit for people under the age of 50 is $5,500 annually, helping fund a Roth IRA may be an easy win for parents or grandparents with the means to provide the financial gift. It is important to note that traditional and Roth IRA contributions require an equal amount of earned income. For example, a person with an earned income of $3,500 would be limited to contributing $3,500 to a Roth IRA.

Following these best practices one step at a time can make the whole process manageable. And always remember that millennials interested in financial security have three irreplaceable assets on their side: time, the magic of compounding, and the experience and resources of people who care about them. Planning for the future you want – and taking action today – may pay off in ways that are appreciated and enjoyed at various stages throughout life.

Please call your financial advisor today to discuss investment ideas for millennials. And if you wish to help a millennial in your life prepare for future financial success, request a complimentary copy of the *Lasting Legacy* report on wealth transfer recently published by RBC Wealth Management in collaboration with Scorpio Patrnership.

* Source: New York University Stern School of Business, using statistics from the S&P 500 and the Federal Reserve database in St. Louis. The S&P 500 is an unmanaged index and is not available for direct investment.

Our firm does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in connection with your independent tax or legal advisor.

Five money vows to take before saying "I do"

Will wedding bells soon be ringing? If so, you may have much on your mind. Preparing your guest list, arranging for a venue, choosing a caterer – the list goes on and on. But these decisions, while meaningful, will essentially affect the events of just one day. The financial choices you and your future spouse make together, however, will have an impact on the duration of your married lives.

And it pays for the two of you to ensure your financial lives are compatible – right from the start. "Money issues" were cited as being among the top three catalysts for marriage breakups, according to a survey of financial analysts specializing in divorce.

If you are a millennial, your impending marriage marks only the beginning of a long road taken together. And if you are remarrying at any age, you may understand firsthand the importance of being in step with your spouse financially. To help make your journey more rewarding, take the five following vows before you stand together before loved ones and say "I do."

1) Discuss your values

Do you and your marriage partner hope for the same things? Do you have the same financial goals and priorities? One of you may want to spend little on personal preferences and donate more to various charities, while the other would rather travel extensively. Write down your priorities separately, then compare lists and discuss where your goals overlap and where you can compromise.

2) Assess your individual financial situations

Not all married couples combine their finances. But if you and your soon-to-be spouse choose that route, you should share all the relevant information with each other. How much is in your savings and checking accounts? Are you already investing in a 401(k), IRA or other retirement account? What do you owe on your credit cards or student loans? If you are going to merge your finances, you both need to know what to expect.

3) Try to save 10 percent

Given the challenges of a difficult job market and high housing costs, it may not be surprising that millennials, on average, spend about 2 percent more than they earn, according to Moody's Analytics. Start with a joint budget and strive to commit to saving 10 percent of every dollar you earn in a long-term, untouchable account, such as your 401(k) or an IRA.

4) Communicate regularly

You and your new spouse might want to consider holding monthly or semimonthly "money dates," in which the two of you discuss your finances. By staying informed, and avoiding secrets or surprises, you can proceed harmoniously toward your collective financial goals.

5) Be prepared – for anything

Planning for the unexpected is an important step in your financial journey together. Protect loved ones by having adequate insurance coverage and by creating the appropriate legal papers, such as a will or a living trust, or drawing up a prenuptial agreement. You might also want a power of attorney, so that someone can make decisions on your behalf if you become incapacitated. If your marriage is a remarriage for one of you, you will likely need to revise any existing documents and arrangements.

Your wedding day is a happy event for you and your spouse. Taking time now to address your financial future as a married couple may help your new life together begin on a solid foundation – and help better ensure long-term happiness that extends to your golden anniversary and beyond.

To learn more about financial strategies for newlyweds, please call your financial advisor.

Financial maturity shatters generational stereotypes

Unmotivated and irresponsible? Not true for the millennial generation, especially when it comes to wealth transfer preparedness. And this may be good news. According to the 2016 RBC Wealth Management client survey, ensuring the smooth transfer of wealth to children/heirs is the top-ranked wealth management concern of respondents.

High net worth millennials – with millennials defined as those under age 35 – are more confident and prepared than were previous generations when it comes to talking about and planning for wealth. One reason may be the support they receive from family, according to new global research published in May by RBC Wealth Management conducted in collaboration with Scorpio Partnership.

Consider some of the key findings of *Millennials & Wealth Transfer: A Generation Poised for Responsible Wealth Transfer*.

80%

of millennials say they feel responsible for understanding their own financial affairs.

69%

of millennials conduct their own research to improve their financial knowledge.

51%

of millennials say they've turned to family for guidance upon receiving an inheritance.

Millennials also have the benefit of a head start in preparing their finances. Millennial survey respondents said the average age they started their formal education on financial issues was around 20, while Generation Xers said they started learning about financial matters at around age 25, and baby boomers said they started at around age 32.

Some millennials are looking ahead to their future beneficiaries. Of the millennial investors surveyed, 38 percent said they already have a wealth transfer strategy in place, and 41 percent said they plan to pass on assets gradually over their lifetimes, rather than transferring all their assets upon death.

And millennials who have already received an inheritance are thinking about what they can do to improve the process. Of the millennial investors surveyed, 53 percent said they intend to provide a greater level of support to beneficiaries than they received.

Now that you know adult children may be ready, what can your family do to help ensure seamless transfer of wealth from one generation to the next?

1) Create your plans

These plans may include drafting a will, living trust, health care directive, power of attorney and other documents. Ideally, you want these plans to do more than just convey where money should go – you want to share values and purpose that may be associated with inherited wealth.

2) Communicate your wishes

This may help families avoid unpleasant surprises and hurt feelings at estate settlement. This may also let heirs know what tasks they might need to perform, such as acting as power of attorney.

3) Update your documents

Your family may experience changes – new marriages, new children, opening a family business and so on. Make sure your legal documents and financial accounts reflect these changes.

The transfer of wealth is one of the most important tasks your family will undertake. Wealth transfer may define your family's future financial legacy – so give it the attention it deserves.

For help addressing your family's legacy planning and wealth transfer goals – or to request a complimentary copy of *Millennials &Wealth Transfer: A Generation Poised for Responsible Wealth Transfer*, please call your financial advisor. A special paper addressing the wealth transfer experience of families is also available.

Our firm is not a tax advisor. All decisions regarding the tax implications of your investments should be made in consultation with your independent tax advisor.

Responsibility is a strong priority for millennial investors

Throughout the ages, young people have been known for wanting to change the world. But it may be millennials who are blazing a new trail toward wider acceptance of using investment practices as a tool for positive change.

According to the Responsible Investment Association of Canada, 85 percent of millennial investors are interested in the topic. Furthermore, 80 percent of Generation Xers and 69 percent of baby boomers report they want to follow the lead of their children or grandchildren by putting portfolio assets to work to help create a better tomorrow.

Aligning portfolio allocations with personal values may also be a practical investment strategy to consider. Indeed, asset manager firms are showing greater interest. In 2006, the United Nations-supported Principles for Responsible Investment was launched with 100 signatories, representing $6.5 trillion in assets under management. Nearly a decade later, the number of signatories is nearing 1,400, and assets under management are nearly $60 trillion.

Responsible investing covers a wide range of options, from microloans to mutual funds to venture capital to "green" bonds. And with several generally accepted ways to invest for long-term financial well-being – while also investing for the long-term good – flexibility and choice are two additional features of responsible investing.

Socially responsible investing (SRI)

SRI investors apply a "negative screen" to their portfolios to remove investments they find objectionable, such as companies involved in the production of alcohol, tobacco or firearms.

Environmental, social and governance (ESG)

ESG investors use a "positive screen" to search for investments that perform well on ESG metrics, such as entities involved with sustainable energy or that have strong records in promoting diversity or human rights.

Impact investing

Impact investors seek to generate a positive social or environmental impact – such as fair-trade agriculture commodity producers or affordable housing developers – with financial returns typically being a secondary, although equally important, goal.

There is more good news for investors. Using any one of these strategies, it is possible to build a well-diversified portfolio that looks a lot like a more "traditional" portfolio, but with the values you wish to support built into it.

Establishing a responsible portfolio allocation can be straightforward as well. For example, investors applying ESG principles may align their portfolios toward companies that are more environmentally conscious, who treat employees and stakeholders well, and whose management follows governance best practices.

The pragmatic nature of responsible investing is also part of its attraction. When it comes to ESG principles, these additional data points reflect factors that often contribute to a positive impact on security performance. A 2014 analysis by Oxford researchers of nearly 200 studies resulted in the following findings at the firm level.*

90%
of studies on the cost of capital show that sustainability standards lowered the cost of capital for companies.

88%
of the research shows solid ESG practices result in better operational performance of firms.

80%
of studies show stock price performance is positively influenced by good sustainability practices.

Investment capital is a powerful force for positive change. If you want to achieve your wealth management goals while helping contribute to a better world, you may well want to engage in responsible investing. Just be sure to do it with the same diligence and careful planning you normally apply to other portfolio decisions.

To learn more about responsible investing, please call your financial advisor.

* Clark, Gordon, Andreas Feiner, and Michael Viehs. 2014. "How Sustainability Can Drive Financial Outperformance."

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