Wealth Generational Gap: Digital vs Traditional

The sooner you start to learn to invest, the better. So the mantra goes.

It's the kind of advice often handed out to younger people. Yet many in this group are already a force unto themselves in finance.

The younger age bracket makes up the largest population group with 2.5 billion people worldwide with the majority living in Asia. And despite their age, their income will be amongst the fastest growing as they start to earn more from their careers[1].

No doubt this generation, having grown up in a technologically advanced and ever-changing environment, approaches wealth and investment slightly differently from their predecessors. But how big is the gap?And how can we navigate the conversation with them?

Cautious in their outlook

As investors, their expectations are far removed from generations more familiar with the classic banking system with its cheque writing and branch queuing. That landscape is alien to younger consumers, who are intimate with digital apps in an increasingly cashless world.

One notable characteristic of this younger generation is that they're relatively risk-averse, bucking the view that youngsters are more carefree in their outlook[2]. Research points to less interest in alcohol and cigarettes compared to previous generations. And these instincts appear to shape their attitudes towards money as well, not least among those whose early experiences of investing came during times of uncertainty, like the Covid-19 pandemic.

Some studies suggest that the generation born after the mid-1990s has a lower risk appetite, for instance, preferring to hold a greater proportion of their investments in funds and bonds rather than individual stocks.

Open to advice

Reflecting this more cautious approach, many of the same group evaluate a broader range of information before taking investment decisions. But, somewhat ironically, they're also more accepting of guidance from non-traditional sources like YouTube and TikTok.

In fact, a survey last year claimed that Gen Z investors were nearly five times as likely to source financial advice from social media compared to people aged 41 and over, amongst whom only 28% look there for guidance[3].

That's despite only 26% of those same respondents considering social media platforms to be trustworthy.
One danger of relying on social media for investment ideas is the risk of chasing shorter-term fads, like meme stocks. Some celebrities have also run into trouble for promoting investments improperly. An American pop star, for example, was fined over USD1 million this year for breaching federal securities laws in the United States for touting an investment in crypto[4].

Gary Gensler, chair of the Securities and Exchange Commission, said the case was a reminder that, even when celebrities or influencers endorse investment opportunities, it doesn't make them the right choice for everyone.

It's a digital age

[1] https://go.euromonitor.com/webinar-consumers-2019-decoding-gen-z.html
[2] https://fintechmagazine.com/articles/gen-z-retail-investors-more-risk-averse-survey-claims
[3] https://www.creditcards.com/code/wp-content/uploads/20210405-financial-literacy-survey.pdf
[4] https://www.sec.gov/news/press-release/2022-183

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What's undisputed is younger investors' determinedly digital focus. Few remember a world before smartphones and many spend many hours a day on their phones. Such is their commitment that, according to predictions, hundreds of millions of people are set to spend several years of their lives on social media.

They expect to make their investment choices digitally as well, typically via their phones. This style of investing is triggering a new era of competition between brokerages for their business.

Experts say that making it easier to invest allows a more hands-on approach to managing portfolios. But it also brings risks of trading too frequently, which can be detrimental to investment returns over the longer term.

What's clear is that a mixture of both digital and personal advice helps to balance the risk-adverse appetite of younger investors, while offering sound advice and familiar-feeling digital applications. With 84% of those aged 18–24 stressing the importance of personalisation, having a relationship manager can give them personalised advice on tap when it comes to wealth management and investment[5].

Find out more on how we can support you and your younger ones when it comes to wealth management: https://www.hsbc.com.hk/premier/

Important risk warning

- Investment involves risk. Past performance is no guide to future performance. For details of the investment products, their related fees and charges and risk factors, please refer to the individual product materials.
- In the worst case scenario, the value of the investments may be worth substantially less than the amount originally invested (and in an extreme case could be worth nothing).
- The investment decision is yours but you should not invest unless the intermediary who sells it to you has explained that the product is suitable for you having regard to your financial situation, investment experience and investment objectives.
- Investors should not base on this marketing material alone to make investment decisions.
- Issuer's Risk – you rely on the issuer's creditworthiness. Bonds are subject to both the actual and perceived measures of creditworthiness of the issuer. There is no assurance of protection against a default by the issuer in respect of the repayment obligations. In the worst case scenario (eg insolvency of the issuer), you might not be able to recover the principal and interest/coupon, if applicable, and the potential maximum loss could be 100% of the invested amount and no coupon received.

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[5] Targeting Generation Z in Financial Services, GlobalData, January 2021

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relevant circumstances. The relevant product offering documents should be read for further details, including risk factors.

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