Why Boomers Might Want To Take A Page From Millennials' Investing Book

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Forbes Finance Council COUNCIL POST | Membership (Fee-Based)

Aug 1, 2023, 08:00am EDT

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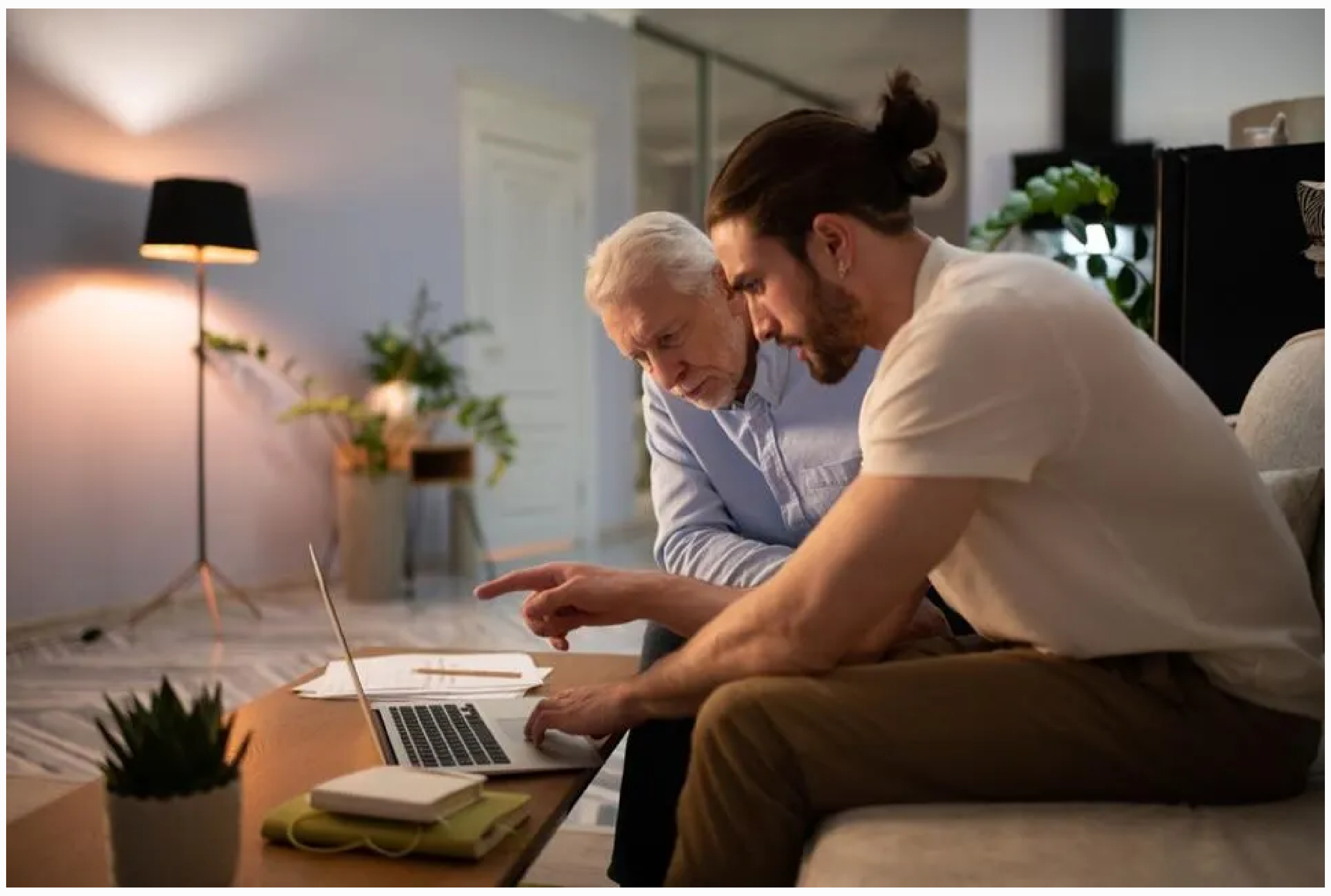

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Since entering the workforce, millennials have encountered a financial crisis, a slow job market and, for many, mountains of student debt. But reaching financial maturity with the cards stacked against them had one benefit: They learned to do more with less money. Millennials have developed savvy investment instincts that their parents could learn from—especially during a recession.

In particular, there's one millennial money move to study in a down market: investing in alternative assets. Alternative assets, which include real estate, farms, art, wine and franchises (which are my area of focus), among others, can reduce portfolio volatility and add diversification, which can lead to a more risk-averse portfolio.

Wealthy millennials are diversifying their portfolios with alternative assets, which can help them protect and grow their wealth during high inflation. Their hard-won experience and openness to alternative financial strategies could pay dividends—literally—in the next recession.

What's Driving Millennials To Alternatives

Despite their disproportionately small net worth—as of Q1 2023, millennials held 5.6% of U.S. wealth while boomers held 53%—they allocate more of their portfolios to alternative investments than boomers do. Investors ages 21-42 invested three times more of their portfolios in alternatives than those ages 43 and up, according to a 2022 study of wealthy Americans by Bank of America. And a 2021 Ernst & Young survey found that 26% of their boomer customers invested in alternatives, compared to 32% of millennial customers.

Understanding the forces driving millennials to pursue alternative investments can provide a lesson in investing strategically.

Millennials watched their parents' stock and bond investments tank during the financial crisis and dot-com bubble, which taught them the value of portfolio diversification beyond the traditional 60/40 rule early on.

Millennials tend to distrust or dislike the traditional financial system, making alternative investments appealing to them. Because they fall outside the public market, alternative assets can help investors insulate their portfolios against economic volatility.

Boomer Beware: Understand The Risks Of Alternative Assets Before Investing

Like all investments, alternative assets pose some degree of risk. Some factors unique to alternative assets may throw a curveball to investors dabbling in them for the first time, especially if they've worked for years to master their stock and bond strategies.

One such risk is the comparative illiquidity of certain alternative asset classes. Private equity, franchises and real estate, for example, can't be sold or exited as quickly as traditional assets such as stocks, bonds and certificates of deposit. For older investors with shorter time horizons, the illiquidity of certain alternative assets can pose challenges around fund accessibility.

Some types of alternative assets such as commodities, hedge funds and crypto can exhibit higher levels of volatility compared to traditional assets. Dramatic price fluctuations can impact overall portfolio stability, which may alarm investors who have previously taken a more cautious approach; older investors are generally thought to be less risk tolerant than their young counterparts.

Finally, fraudsters and scammers have been known to abuse people's lack of knowledge about alternative assets. According to the North American Securities Administrators Association: "Seniors are increasingly turning to the Internet for alternative investment opportunities and are more vulnerable than ever to online investment scams." "Too good to be true" returns may act as bait while fraudsters can take advantage of alternative assets' complex or unfamiliar structures and obfuscate information.

Seek to fully understand alternative investing's potential risks and returns to see if it's a fit for your portfolio. To mitigate the risk of falling victim to fraud or unwise decisions, always consult with a financial advisor and conduct due diligence before getting started.

Reversing Roles—And Maybe Even The Wealth Gap

Older generations have tried to impart a lot of financial advice on millennials ("stop renting and just buy a house!"), but generations can learn from each other.

As millennials continue looking for passive income opportunities that aren't at liberty of the public market, doubling down on alternative investing could position them to thrive during the forecast recession and even make gains in closing the wealth gap. For baby boomers who aren't already investing in alternatives, it's time to start taking notes.

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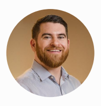

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