Will Millennial Stock Choices Reshape the TSX?

Description

The entire financial management system is retooling for a whole new generation. As boomers finally retire, overall investment in stock is starting to refocus, driven by a new set of priorities espoused by a younger generation. Here's how the TSX might shift gear, and what it means for your stock, whether you're a canny millennial, a cynical member of Generation X, or even an early-starter centennial.

Millennials are betting on financial institutions

There's little wonder why millennials are preoccupied with finance — they've inherited a very different economy from the one their forebears enjoyed. Indeed, it's a much-repeated claim that the current generation will never be able to own a house outright in their lifetime. So, the news that millennials like to invest in banks is no huge surprise. Bank stocks are, on the whole, famously defensive, pay regular dividends, and just *feel good* to hold.

Are bank stocks an emotional buy, then? Yes, to some extent, and this is due to a fear-driven, conservative outlook on the economy. But they're also a smart buy, and highly recommended for first-time investors. Stocks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) seem to be popular with millennials, especially those looking to line their RRSPs.

Market-beating stocks such as these are also great stocks to hold in a TFSA, so you have to hand it to the younger generation that they have their hearts in the right place. RBC in particular seems to be a popular choice, and that may actually have something to do with the bank's generous policies regarding student finance. This raises the question, are millennials investing in companies they know personally?

Millennials like to invest in brands they know

Social media, globalization, and an extremely volatile market have been the most impactful factors in the economy as experienced by millennials. As a result, big brands have had to do a heck of a lot of outreach to survive. This, in turn, has led to the kind of brand-loyalty characteristic of upcoming generations. But has this affected the way millennials invest? You bet it has.

Up until recently, it seems to have been the case that millennials have been more about savings than investments. But the idea of retirement portfolios seems to be taking off among the younger generation of late. What investment managers and financial advisors are reporting is that millennial portfolios are defensive in nature, exhibit little of the get-rich-quick spending favoured by boomers, and focus on brand visibility.

What does this mean for the TSX?

You might expect to see the value opportunity offered by banking stocks to narrow. Smaller institutions may continue to offer nicely discounted stock, though, as financial managers note that millennials tend to do business with companies that they use and interact with the most, meaning big, high-street banks. For the same reasons, expect to see an uptick in investment in other kinds of big brands, especially clothing and technology.

What might not change too much is the current undervaluing of the big oil and energy companies. Millennials are especially environmentally conscious, and the idea of owning stock in oil sands may seem contentious, despite the stability such stocks can provide long term. So, while such stocks’ profit margins might contract organically due to an improving global outlook, don’t expect to see this trend being driven by millennial investment to any great extent.

The bottom line

Whatever generational cohort you belong to, it makes sense to get into banking stocks sooner rather than later. While bank stocks are currently a great value for money, that might change somewhat as millennials start to power charge a bull financial market. Oil and energy most likely won’t be affected too much by millennial investment strategies, but if you own stock in any big, socially savvy brands, then you might be able to sell high fairly soon.

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