Nearly a Third of Millennials Make This Huge Investment Mistake

Description

Over the course of this year I've discussed investment strategies and equities that are well-suited for the millennial investor. Millennials have interesting qualities that should help them adapt as they mature in the investing world. These investors are digital natives, which means they know how to juggle the wealth of information that is available today. Research shows that millennials are also socially conscious, and this has spilled into their investing habits.

The positive qualities of millennial investors should help them invest intelligently in the coming decades. However, there is one crucial mistake that a significant chunk of millennial investors make right now.

Too many millennials are sticking to cash

Bankrate, a New York-based consumer financial services company, released a report in 2018 that showed nearly one in three millennials prefer cash instruments for long-term investments. Amazingly, millennials were the only demographic group to prefer cash over the stock market as a favourite long-term investment. There are some reasonable explanations for why this is.

First, millennials were the youngest demographic surveyed and therefore may lack the experience to understand why the stock market has consistently been the more lucrative long-term investment compared to cash. Many millennials may also be a prisoner of the moment. The great recession generated animosity and mistrust for the financial sector among the general public, and the fallout from the 2007–08 crisis may still be on the mind of millennial investors.

Unfortunately, millennials are not alone in making this mistake. Back in September, I'd discussed a study from Statistics Canada that revealed 42% of TFSA-holders primarily stick to cash. The TFSA is a fantastic growth vehicle, especially for young investors with a long-time horizon. Using it solely as a cash account means that millennials are not getting the most out of this dynamic investment vehicle.

Why stocks are better than cash instruments

Millennials who invest in a high-interest savings account or a guaranteed investment certificate (GIC) are going to struggle to keep up with inflation in this low-rate environment. In 2017 and 2018 it appeared that central banks were committing to reversing the course of historically low interest rates, but turbulence late last year has forced an about-face from policy makers. The Bank of Canada is expected to move ahead with a rate cut by the beginning of next year.

So, let's go back to one of our original points and assume that some millennials who are holding cash are apprehensive about the market. Should these investors choose to graduate to the stock market, they should target wide-moat companies. It also helps to own starter stocks that pay out a dividend. **Enbridge** (TSX:ENB)(NYSE:ENB) is a stock that is worth considering for a beginner.

The stock has achieved average annual returns of 12% over the past 10 years. Enbridge's capital growth alone blows the performance of any cash-oriented investment out of the water. Investors can also count on its top shelf dividend. It currently offers a quarterly payout of $0.738 per share. This represents a chunky 5.9% yield. Again, this is going to beat out most any high-interest savings account or GIC that is available on the market right now. Enbridge is also committed to rewarding its shareholders. It has delivered dividend-growth for 24 consecutive years.

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