Seeing wealth differently across generations
Key questions addressed in this report

- What are the typical financial characteristics of each generation?
- How do major financial events influence each generation’s investment decisions?
- As baby boomers retire and millennials move up in the workplace, how are spending patterns likely to change?
- How do investors of each generation prepare for the next step in their financial lives?

Seeing wealth differently across generations

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The wealth journey

Many of us follow a financial path with common milestones. Yet generational views on spending, investing, and building wealth have been affected by significant experiences. The Silent Generation’s experience with the Great Depression fostered a sense of thrift and a preference for cash. The baby boomers became comfortable consumers, supported by dual-income households and access to credit. Generation Xers relied on borrowing as well but also developed self-reliance by experiencing two major financial setbacks as adults (see graphic). Millennials came of age amid the financial crisis, which likely made an indelible mark on their financial decision-making. Finally, Generation Z, the youngest cohort, will soon embark on their own financial journey. The COVID-19 pandemic will likely affect how the generation will make financial decisions.

Influential financial events by generations

- Silent Generation (1928 – 1945) 21 million
  - The Great Depression
  - The economic buildup for World War II

- Baby boomers (1946 – 1964) 69 million
  - Post World War II economic boom
  - Oil embargo
  - High inflation rates of mid-to-late 1970s

- Generation Xers (1965 – 1980) 65 million
  - Market crash of 1987
  - Late 1980s recession when many were beginning their career
  - Long 1990s bull market, ending the dot-com bubble

  - September 11 attacks as children
  - Housing crisis/Great Recession
  - Student loan crisis
  - COVID-19

- Generation Zers (1997 – 2012) 69 million
  - Housing crisis/Great Recession
  - COVID-19 as children
  - Online education
  - Continuation of student loan crisis

Dates are sourced by Pew Research Center.
The generation cycle

For most investors, spending and investing follows a circular pattern: a focus on discretionary spending in younger years, followed by a greater emphasis on saving — for retirement, a home down payment, or children’s education — and then a return to discretionary spending once any long-term debts are paid off. The effect this pattern has on the economy and on financial markets largely depends on the forces that shaped each generation’s perspective on saving and investing.

In this report, we describe how four generations in the U.S. — baby boomers, Generation X, millennials, and Gen Z — participate in today’s financial markets and how their shared attitudes affect the way individuals spend, save, invest, and accumulate wealth.

Generational demographics

Despite the differences among generations, many will follow the same progression of marriage, children, and homeownership — milestones that affect their spending, saving, and investing decisions.

<table>
<thead>
<tr>
<th></th>
<th>Baby boomers</th>
<th>Generation X</th>
<th>Millennials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>65%</td>
<td>57%</td>
<td>46%</td>
</tr>
<tr>
<td>Family of their own</td>
<td>69%</td>
<td>66%</td>
<td>55%</td>
</tr>
<tr>
<td>Own a home</td>
<td>77%</td>
<td>67%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Sources: Pew Research Center, February 14, 2019, and apartmentlist.com

Defining a generation

A generation is a group of individuals born and living at about the same time. Watershed events, particularly those observed during our formative years, often become etched in the collective consciousness, helping define a generation.
The effects of generational change

According to the U.S. Census Bureau, there are approximately 324 million individuals residing in the U.S., spanning six generations (see the graphic on page 6). Each generation has often-noted differences; yet individuals from the various generations interact frequently — in the workplace, in the financial markets, and on social media.

**Changing workplace:** Millennial workers have surpassed the number of baby boomer workers, making millennials the largest demographic in the U.S. workforce, as well as globally. With many baby boomers working longer (either by choice or necessity), Generation X in the middle of their working lives, and millennials in the early stages of their careers, most employers now have to adapt to the work preferences of these three generations.

**Shifting consumer patterns:** Looking ahead, we anticipate a shift in consumer spending patterns. As more baby boomers enter retirement, we expect their spending on things such as recreation and health care to increase. The average income of Generation Xers is the highest among the generations. Despite spending on consumer staples to support their households, and in some cases their young adult children and aging parents, some still have the ability to spend on discretionary and luxury items. Meanwhile, millennials are forming households and starting families, increasing their contribution to consumer spending.

**Changing preferences in asset selection:** Events such as a market correction, or even a recession, might provide an opportunity for newer investors to buy assets at lower prices, while established investors might see these same events as threats to their wealth. Younger participants often have a higher allocation to equities for growth, while older participants often tend to emphasize fixed income for income and reduced volatility. However, due to today’s low interest rates and longer working lives, baby boomers may need to maintain a higher allocation to equities during their retirement years than prior generations.

“Every generation laughs at the old fashions, but follows religiously the new.”
—Henry David Thoreau
Distribution of the U.S. population according to generation
(As of December 2019)

Source: U.S. Census Bureau, International Database, December 2019
Intergenerational wealth transfer

The intergenerational transfer of assets from the Silent Generation (born from 1928 to 1945) to their children, mostly baby boomers and Generation Xers, has had a sizable impact on generational wealth in the U.S. However, there will be a significantly larger intergenerational transfer that could occur in two stages over the next 30 to 40 years.1

In the first stage, a transfer of 4% to 6% of total investable assets every five years

In the second (accelerated) stage, a transfer of 8% to 10% of total investable assets every five years

The scale of transfer by region (In trillions)

Family dynamics will play an important role in this wealth transfer. Legacy, influence, and family welfare are delicate topics that should be discussed openly among family members of all generations. This is one of the reasons that we encourage investors to develop an investment plan and a set of instructions for executing it.

Generational wealth transfer can be distinguished by three main trends: growing awareness, concentrated wealth, and a generational shift.

Growing awareness
Wealth transfer has increased in priority as the majority of wealthy individuals have aged beyond 60 years.

Concentrated wealth
An estimated $8.8 trillion in wealth is expected to be transferred in North America among 18,500 individuals who possess a net worth of approximately $100 million.

Generational shift
The recipients of the wealth transfer have been more involved in using wealth as an instrument of change more so than just in preservation.

A generation making a difference

The dramatic increase in birth rates following World War II created one of the largest generations in U.S. history. The zeal that many baby boomers brought to marches and rallies as college students in the 1960s was eventually matched by the enthusiasm they carried into the workforce. Homeownership rose and overall demand for goods and services was driven higher as this large cohort began to earn and spend. This generation, perhaps more than any other before it or any since, has embodied the American dream, effecting change along the way.

Retirement boom

This generation was the first to be broadly introduced to do-it-yourself retirement plans, such as 401(k)s and 403(b)s. Later in their careers, many baby boomers benefited from the bull-market run of the 1990s and the housing-market boom of the early to mid-2000s. This generation now controls more than half of the wealth in the U.S. Wealthier baby boomers likely are considering how they will use charitable giving to benefit society for decades to come, how they will transition their wealth to heirs, and how to accomplish these goals in the most tax-efficient way possible. Others might be wondering how they will afford the high costs of health care and make their savings last for what could be an extended retirement.

Changes in spending for senior (age 65+) versus younger households

Source: Federal Reserve, data as of October 2, 2020
Baby boomers’ financial characteristics

- Baby boomers are generally considered those born between 1946 and 1964.
- The average median household income for baby boomers in the U.S. is $80,033. (Bureau of Labor Statistics Consumer Expenditure Survey)
- Many baby boomers may not be on track for retirement, which can be disconcerting because of the relatively short time available to close the gap. According to the 2019 Wells Fargo Retirement Survey, 59% of today’s workers expect they will need to work until at least the age of 70 because they will not have enough saved for their retirement years.
- Similar to Generation X, some baby boomers also are part of the so-called sandwich generation, squeezed between caring for aging parents and supporting their children or grandchildren.

Spending pie for the typical baby boomer

(As a percent of income)

![Spending pie chart]


Health Care
This generation will spend more on health care needs. One study puts this amount at an additional 44% in comparison with those aged 44 and younger.

Sources: U.S. Department of Labor and Wells Fargo Investment Institute, 2020

Financials
The Financials sector should benefit from an aging baby boomer population. Baby boomers are likely to spend on insurance, financial advice, and annuities. They also may purchase long-term care and other types of insurance coverage as they age.

Source: Federal Reserve, data as of October 2, 2020
Next steps for baby boomers to consider

- A balanced portfolio with additional exposure to fixed income and other investments that may offer income generation, such as dividend-paying stocks, can provide potential income for everyday expenses. Maintaining an equity allocation should allow the portfolio to keep pace with inflation.

- Alternative investments may help hedge assets that have accumulated over time and also provide exposure to growth opportunities.*

- Investing in bank loans and preferred stocks may potentially provide benefits. As this generation continues to retire, we expect that rates may rise slowly in the coming years. Bank loans are often floating-rate loans — meaning their income can rise along with interest rates — while preferred stock has historically offered higher dividend yields than common stock.

- Asset location and tax-efficient investing should not be overlooked. For example, holding growth assets in a taxable account while holding dividend-paying stocks and bonds in retirement accounts may help mitigate tax consequences.**

- Baby boomers on a fixed budget should carefully manage any debt that they may have. Paying off a mortgage before retirement is a great way to remove the highest monthly fixed cost for many consumers. However, this consideration should be balanced against any tax benefits from maintaining a mortgage. Investors should consult a tax professional for advice specific to their situation.**

- Those who have not done so may want to consider estate planning to meet legacy objectives. Long-term care insurance may be beneficial to some investors as a way to conserve assets for estate planning.**

*Alternative investments are not appropriate for all investors. They are speculative and involve a high degree of risk that is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program.

** Wells Fargo and its affiliates are not legal or tax advisors. Be sure to consult your own tax advisor before taking any action that may involve tax consequences. Any estate plan should be reviewed by an attorney who specializes in estate planning and is licensed to practice law in your state.

3. For more information on tax-efficient investing, please see the Wells Fargo Investment Institute special report “Introduction to Tax-Efficient Asset Allocation.”

What are baby boomers investing for?

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Retirement</td>
<td>77%</td>
</tr>
<tr>
<td>Vacation</td>
<td>34%</td>
</tr>
<tr>
<td>Health care costs</td>
<td>29%</td>
</tr>
<tr>
<td>Leaving an inheritance</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: Wells Fargo Retirement Survey, 2019†
Generation X: The sandwich generation

Adept and adaptable

Generation X was introduced to personal computers in school or the workplace, but some may be old enough to remember the pre-digital age. This group is sometimes referred to as the sandwich generation because many Generation Xers are caring for aging parents while also saving for their children’s education costs. Meanwhile, some Generation Xers are still repaying their own student loans. This group tends to be technologically adept and self-sufficient, as many were raised as latchkey kids and learned to fend for themselves early in life.

Looking ahead, Generation Xers likely face long retirements — with increases in life expectancy, high health care costs, and questions surrounding the sustainability of Social Security and Medicare. With the average Social Security income of about $1,422 per month per person, older Generation Xers, now in their early 50s, are beginning to think about how to manage costs in retirement. Generation Xers with children might be having conversations with them about the importance of saving for the future and choosing a career or vocation that will support their lifelong personal and financial goals. As the first cohort to come of age after the U.S. enabled 401(k) plans in 1978, Generation Xers understand that individuals are responsible for their own retirement and act accordingly. However, the financial strains experienced by some in this generation may lead them to borrow against their retirement accounts.

The top five worries of Gen Xers

The greater prevalence of balancing savings versus expenses among Generation Xers might reflect the financial stress on this sandwich generation.

Source: Wells Fargo Retirement Survey, 2019†
Generation Xers’ financial characteristics

- Generation Xers are generally considered those born between 1965 and 1980.
- The average median income for Generation Xers in the U.S. is $105,386. (Bureau of Labor Statistics Consumer Expenditure Survey)
- Generation Xers were hardest hit by the Great Recession, which occurred as they were consolidating their career paths and as many had become homeowners. As a group, Generation X lost nearly half of its wealth between 2007 and 2010, a larger decline than any other demographic during the recession.
- Generation X is generally pessimistic about a secure retirement. According to Wells Fargo’s 2019 retirement study, 66% of Gen X say they will be solely reliant on Social Security. We believe it is never too late to begin to save for retirement.
- Like many baby boomers, quite a few Generation Xers are caring for both their parents and their children, which can result in financial stress.

Spending pie for the typical Generation Xer

(As a percent of income)


Consumer Discretionary
Generation X has the largest average household income. This generation not only makes purchases for themselves but also for their children and aging parents. Many Generation Xers are do-it-yourselfers and prefer to do their own home-based projects.

Information Technology
Generation Xers are comfortable with technology and enjoy using state-of-the-art gadgets. They are increasingly using technology for everyday chores and to aid in retail purchases and services, such as investment decision-making. We expect this trend to continue in the future.
Source: Digital Media Solutions. December, 2019
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Next steps for Gen Xers to consider

- Although many Generation Xers are still paying for children’s educational expenses, it’s important to remember that retirement should be a priority as well.

- This generation still has a number of years to prepare for retirement. For those who have not done so, we believe it’s imperative to begin saving. Retirement accounts offered by employers, such as 401(k)s or 403(b)s, often match employee contributions. An individual retirement account might be appropriate for those who qualify.

- As Generation Xers reach age 50 — often the start of their peak earning years — they can take advantage of catch-up provisions in retirement accounts. Catch-up provisions allow individuals to contribute additional dollars to tax-advantaged accounts.

- Generally, investment allocations should favor equities for long-term growth, with a portion allocated to other asset groups for diversification and to align with risk tolerance.

- Life insurance and long-term care insurance may be considerations for some as a way to preserve existing assets. Generation Xers should check with their investment professional for details.

- Members of Gen X may want to consider tax-efficient investing as they begin to near or peak in earnings potential, placing them into higher tax brackets. Asset location helps minimize taxes and optimize returns when they’re required to draw down on their investments.

What are Generation Xers investing for?

- 64% Retirement
- 42% Paying off debt (excluding a mortgage)
- 35% Vacation
- 21% Saving for my child’s education

Source: Wells Fargo Retirement Survey, 2019
Millennials: The largest generation

A demographic growing in importance

Millennials’ importance is borne out of the role they are playing in shaping our economic and political future. The oldest members of this generation have been in the workforce for over a decade, while many of the youngest are now joining the workforce.

Millennials grew up in a fast-paced environment with a wide variety of family dynamics and backgrounds. Technology seems innate to them, and they are active participants in the sharing and freelance (or gig) economies. This is an ethnically diverse generation. Millennials appear to thrive amid ethnic diversity and enjoy being interconnected globally. Making a positive social impact is a key aspiration for them. Many value organizations with missions that speak to a greater purpose than just the bottom line.

Looking ahead, we do not expect millennials’ financial habits to differ significantly from prior generations — a trend that should continue as wealth passes down from one generation to the next. Certain sectors seem poised to benefit as millennials come of age, forming households and seeking work-life balance.

Percent of 25- to 29-year olds with a bachelor’s degree or more

High educational attainment is one positive feature of the millennial generation, given that data continue to show economic benefits from a college degree.\(^5\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>1980</td>
<td>22.5%</td>
</tr>
<tr>
<td>2000</td>
<td>29.1%</td>
</tr>
<tr>
<td>2019</td>
<td>38.7%</td>
</tr>
</tbody>
</table>

Source: National Center for Education Statistics, 2020

Millennials’ financial characteristics

- Millennials are generally considered those born between 1981 and 1996.
- The average median household income for millennials in the U.S. is $53,668, about 33% less than baby boomers earned at the same stage in life. (Bureau of Labor Statistics Consumer Expenditure Survey)
- U.S. millennials account for about $1.4 trillion in direct spending each year. That number should increase as millennials continue to reach peak buying power. (Accenture, 2020)
- According to the Wells Fargo Retirement Survey, less than half are currently saving for retirement. 56% of millennials indicate they are putting off saving for retirement due to current financial challenges.
- 42% of millennials are currently paying off student loan debt, with 34% of them owing more than $25,000.

Source: Wells Fargo Retirement Survey, 2019

Spending pie for the typical millennial
(As a percent of income)


Information Technology
More than 85% of millennials use social media.
Source: Pew Research Center, May 14, 2020

In the fall of 2018, 34.5% of undergraduate students enrolled in an online course, with 14% enrolled in exclusively online education courses.
Source: National Center for Education Statistics, 2019

Consumer Discretionary
Only 11% of millennials reported they will make their next purchase in a physical retail store.
Source: UPS

3 out of 4 millennials prefer to pay for an experience over buying something tangible.
Source: Eventbrite, 2017

Real Estate
The average rent in the U.S. has increased 47.3% since 2010, increasing the attractiveness of purchasing a home.

The millennial homeownership rate has increased to 68% as of June 2020 due to increased flexibility in working remotely and lower price points in less crowded markets.
Source: Wells Fargo Securities Economics Group, August 27, 2020
Next steps for millennials to consider

- Beginning the habit of saving is crucial while one is still young because of the power of compounding. Even modest amounts of monthly saving can add up over a 40-year working life. Moreover, before-tax contributions to 401(k) or 403(b) plans often offer an employer match in addition to tax-deferred growth.

- Generally, investment allocations should heavily favor equities for long-term growth, with a portion allocated to other asset groups for diversification.

- Consider international investing. Millennials may be more likely to buy abroad than their parents. Likewise, they may more easily appreciate the benefits of investing in global companies whose products they buy.

- Social and environmental change is important to millennials. This tendency lends itself perfectly to social impact investing, which offers investors the potential to achieve financial goals while also influencing causes they’re passionate about.

- Homeownership is at 67.9% as of June 2020, which is the highest level since 2009. This is partially due to significant pent-up demand for homes from the rising number of millennials now in their late 30s.

- Developing and sticking to a budget is important as millennials enter their early career stages.

- Millennials also should develop and stick to a long-term investment plan, even while recognizing that they should adjust their plan as their circumstances change.

- Millennials are by far the most tech-savvy generation. As they begin to invest, they may want to consider digital advice platforms, which deliver investment advice and portfolios via automated tools. Later in life, their finances could become more complicated, and they may find using an investment professional helpful.

What are millennials investing for?

- **44%**: Retirement
- **39%**: Buying a home
- **37%**: Paying off debt (excluding a mortgage)
- **33%**: Vacation

*Source: Wells Fargo Retirement Survey, 2019*
Generation Z: The digital generation

Financially literate yet cautious

The Pew Research Center defines Generation Z (Gen Z) as anyone who was born between 1997 and 2012. Generation Z is sometimes referred to as the “Internet Generation” because they have lived their entire lives in the age of the internet. Gen Z was exposed to computer technology at an early age via personal computers and cell phones. Members of this generation are digital natives; the majority (77%) of them are regular users of social media and are more likely to pay bills online. In 2019, 58% of Gen Zers had brokerage accounts. A recent survey of high-school and college students suggests that Gen Zers may be less willing to take on financial risk and are more willing to manage their personal finances at a young age. Another report found that 91% of Gen Zers plan to buy a home in the future and that 66% of them are concerned about mounting personal debt.

There are many reasons Gen Zers are more likely to be financially conservative. The older members of this cohort were born before and during the dot-com bubble. The adult members of this generation are more likely to save than to invest in the stock market. As of 2020, the average age of a popular commission-free brokerage app user is 31, with more than 13 million active users on the platform, a 30% rise from 2019. In our view, this is likely due to experiencing the Great Recession as children and witnessing parents lose their savings, jobs, and, for some, even homes. Today, these young workers find themselves dealing with the economic fallout of COVID-19.

In February 2020, the U.S. unemployment rate stood at 3.5% but then quickly climbed to 14.7% following nationwide lockdowns in response to the coronavirus. University enrollment dropped after many schools moved online during the lockdowns. For college students who remained in school, many chose to attend lower-cost community colleges and state schools over more expensive private schools. Student debt tends to rise, as the cost of tuition increases. Structural changes in the workforce will also affect Gen Z and their economic prospects potentially for years to come as the economy recovers in a post-pandemic era. Job scarcity and lower income thresholds caused by a weak labor market may place significant financial burdens on this generation, akin to millennials following the financial crisis of 2008.

8. The Center for Generational Kinetics, The State of Gen Z, July 2020
Stress characteristics by generation

Financial stress among Generation Z reflects the burden of increasing tuition costs and the uncertainty about the solvency and sustainability of Social Security income.

Respondents exhibiting stress characteristics (%)

Source: Wells Fargo Retirement Survey, 2019

Information Technology

98% of Gen Zers own a smart phone.
Source: The Economic Times, October 2017

Gen Z accounts for 40% of mobile (smartphone and tablet) video consumption versus an average of 20% across the other generations of millennials, Gen Xers, and baby boomers.
Source: Park Associates. October 2020

Consumer Discretionary

Gen Zers influence 36% of all household purchases.
Source: 2019 Fall Consumer View report. National Retail Federation, October 2019

80% of households with Gen Z teens report that they influence household discretionary spending. These households are expected to increase their per capita spending by 70% in the next five years.
Source: Boston Consulting Group. June 16, 2020

Omni-channel marketing will be an effective strategy for reaching Gen Z consumers, as 87% seek loyalty rewards for using brand-name products.
Source: CrowdTwist by Oracle, October 2018
Generation Zers’ financial characteristics

- Generation Zers are generally considered those born between 1997 and 2012.

- Being new entrants to the workforce, the average median income for Generation Zers in the U.S. for 2019 was $32,854. (Bureau of Labor Statistics Consumer Expenditure Survey, 2019)

- Generation Zers experienced significant lifestyle disruptions as the COVID-19 recession forced most K-12 and college students to transition to online education. Nearly 36 million students were forced into online learning in the U.S. and 516.6 million students worldwide. (EducationWeek and United Nations Educational, Scientific and Cultural Organization, March 2020)

- Similar to older generations, Gen Zers and millennials have increased the amount of time spent dedicated to households and family. Key distinctions are how that time is spent and the forms of entertainment and socialization. Time spent on social media and video streaming has increased by 62% and 70%, respectively, for Gen Zers and millennials versus 42% for social media and 61% for video streaming among the Gen X and baby boomer generations. (Boston Consulting Group, June 2020)

- Gen Z may be the most financially literate generation, as 48% of the generation’s workers started saving for retirement before the age of 20. (Wells Fargo Retirement Survey, 2019)

- According to a Wells Fargo survey, Gen Z has the highest level of financial stress among the generational cohorts at 39%. With tuition rates on the rise, 68% of the generation’s workers say the burden of student loans is getting in the way of savings and retirement investment, the same level as millennials. (Wells Fargo Retirement Survey, 2019)

Spending pie for the typical Generation Zer
(As a percent of income)

Next steps for Gen Zers to consider

- Beginning the habit of saving is crucial while one is young because of the power of compounding. Even saving a modest amount each month can add up over time. Moreover, before-tax contributions to 401(k) or 403(b) plans often come with an employer match in addition to tax-deferred growth.

- Like millennials, investment allocations should heavily favor equities for long-term growth, with the remainder spread across asset groups for diversification benefits.

- Generation Z is on track to become the most well-educated generation and the most racially and ethnically diverse one. ESG-friendly companies, brands, and initiatives will have a tremendous impact on attracting this young pool of talented employees to the workforce.

- Members of Gen Z are digital natives with little or no memory of life before smartphones. As Generation Z begins to invest, we believe they likely will expect digital-advice platforms and automated tools delivered to the palm of their hands. Like millennials, this generation may find value in working with an investment professional.

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What are Generation Zers investing for?

- 53% Building an emergency savings account
- 52% Saving for a home
- 39% Retirement
- 27% Paying off student loan debt

Source: Wells Fargo Retirement Survey, 2019
We live in a unique age. People are living longer and more active lives. Today, up to five generations regularly interact with each other in a variety of settings. The proverbial generation gap of yesteryear seems to be narrowing. We are observing this trend in family interactions, the workplace, financial markets, and social media platforms. As this trend continues to flourish, connections are likely to continue to form across generations in different environments.

**How we consume**

Online sales are becoming a larger percentage of total retail sales — growing nearly 12% in 2019 — in contrast to slippage in receipts by brick-and-mortar outlets.

Stay-at-home shoppers during the pandemic are giving the share of online sales in retail sales an added boost.

Unlike the previous recession, where online sales were flat, this recession has accelerated the trend toward shopping online.

**How we work**

Baby boomers, Generation Xers, and millennials regularly interact in the workforce — and in roughly similar proportions; according to the Pew Research Center, the composition of the labor force in 2017 was 35% millennials, 33% Generation Xers, and 25% baby boomers, and Gen Z now represents 5% of the workforce. Thus, all four generations will be affected by the growth of robots and automation. Such technology has been part of the workplace for a while, but the magnitude and complexity of these capabilities seem set to increase. In our opinion, even though robotics likely will reshape many industries and strip some workers of their livelihoods, new opportunities likely will arise for meaningful work.

**How we invest**

The Financials sector has been an epicenter of technological disruption in recent years, with asset and investment management most affected. The union of data analytics and ever-increasing computing power has enabled firms to deliver tailored products for automated investing to clients. Although it was originally thought that primarily millennials would want digital advice platforms, in reality all generations are participating.11

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Connecting strategy with objectives

Although the generations are making meaningful connections in many aspects of their lives, their choice of investment strategies may not be as effective. In general, we have found that generations do not invest all that differently. Below we analyze how our clients of different generations are investing by observing their asset allocations and contrasting them with the average allocations of U.S. target date funds.

Each individual should invest according to the asset allocation that fits their unique financial goals. Target date funds provide only a general estimate of how an investor may choose to allocate, based solely on their investment time horizon.

<table>
<thead>
<tr>
<th></th>
<th>Silent Generation</th>
<th>Baby boomers</th>
<th>Generation X</th>
<th>Millennials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average allocation (%) across:</td>
<td>U.S. target date fund 2020</td>
<td>Clients surveyed</td>
<td>U.S. target date fund 2025</td>
<td>Clients surveyed</td>
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<td>Cash</td>
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<tr>
<td>Other*</td>
<td>6.61</td>
<td>1.96</td>
<td>9.35</td>
<td>2.54</td>
</tr>
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</table>

Sources: Wells Fargo Investment Institute; Wells Fargo Wealth and Investment Management Analytics, as of September 21, 2020; and Morningstar Direct, as of September 21, 2020. *Other includes real assets (commodities and public real estate).

Equities are the asset group of choice across all generations. Furthermore, older generations appear more invested in equities than younger generational cohorts relative to the comparable target date fund.

Millennials surveyed appear to have a higher allocation toward fixed income (more risk averse) in comparison to target date funds of that cohort. This may be a result of growing up during the financial crisis.

Baby boomers and Generation Xers have higher allocations to other investments — including hedge funds and public real estate — than millennials.

On average, all generations displayed a higher allocation to cash than the target date funds and higher than what we would recommend.

12. The Wells Fargo Wealth and Investment Management Analytics Survey of Wells Fargo Advisors clients involved observing the average allocation of 4.03 million accounts whose owners were born between 1928 and 2000. We only included accounts with total assets greater than $10,000, excluding trusts. We defined the generations in the following way: Silent Generation (born between 1928 and 1945), baby boomers (born between 1946 and 1964), Generation X (born between 1965 and 1981), and millennials (born between 1981 and 1996). In addition, we compared the allocations with the average allocations of target date funds for the years 2015, 2025, 2035, and 2045 as categorized by Morningstar.

A target date fund is a mutual fund that is professionally managed to hold more conservative investments as the fund’s target retirement year approaches. Target date funds invest in other mutual funds of the fund company, and the target retirement date guides the investment style. Target date funds are subject to the risks associated with the underlying funds in which they invest. These risks change over time as the fund’s asset allocation strategy adjusts as it approaches its target date. Typically, target date funds are sold by date, such as a 2025 fund. The farther away the date is, the greater the risks the fund usually takes. There is no assurance a target date fund will achieve its investment objective or that an investor will have sufficient money in retirement investing in a target date fund. The principal value of an investment in a target date fund is not guaranteed at any time, including at its target date.
Planning the next step of the financial journey

Investing is a dynamic endeavor, and each generation must strive to match its actual asset allocation with its investment objectives, risk tolerance, and cash-flow needs. Investors from each generation must also plan for unanticipated financial events as they continue along their financial life cycle.

As a next step, we encourage investors to undergo a financial checkup and assess their own situation. Although we have provided several insights, what truly matters is commitment to achieving your financial goals. That begins with developing a well-defined plan and sticking with it over time.
About the authors

**Tracie McMillion, CFA, Head of Global Asset Allocation Strategy**
Tracie McMillion is the head of global asset allocation strategy for Wells Fargo Investment Institute. In her current role, Ms. McMillion leads a team that develops capital market assumptions and asset allocation recommendations. She also writes market commentary and analysis.

Prior to her current role, she served as an asset allocation strategist and a senior investment research analyst for Wells Fargo and predecessor firms. Earlier in her career, she managed assets for high-net-worth clients and philanthropic organizations.

**Michael Taylor, CFA, Investment Strategy Analyst**
Michael Taylor is an investment strategy analyst for Wells Fargo Investment Institute. Mr. Taylor focuses on global asset allocation strategy and economic and market analysis. His work contributes to Wells Fargo Investment Institute publications. Mr. Taylor has more than 20 years of experience in financial services and has spent the past 17 years at Wells Fargo in various roles within wealth and brokerage.

**Luis Alvarado, Investment Strategy Analyst**
Luis Alvarado researches and analyzes economic and market trends for the investment strategy team. He joined the investment strategy team in 2012 from Wells Fargo Advisors, where he served as a client service associate. Prior to Wells Fargo Advisors, Mr. Alvarado worked as a personal banker in Los Angeles.

**Krishna Gandikota, Investment Strategy Analyst**
Krishna Gandikota is an investment strategy analyst for Wells Fargo Investment Institute. Mr. Gandikota assists in research and analysis of the economy and financial markets supporting the global asset allocation strategy team. Krishna earned a Bachelor of Business Administration in Finance from the Tippie College of Business, University of Iowa. He is based in St. Louis.

**Andrew Morales, Investment Strategy Analyst**
Andrew Morales is an analyst for the 2020 Wealth and Investment Management program of Wells Fargo Investment Institute. Mr. Morales produces investment advice with a primary focus on asset allocation. Prior to his current position, he interned for two summers at Wells Fargo. He earned a Bachelor of Arts in Asian Studies with a concentration in Japanese from Lewis & Clark College and is fluent in Japanese. Mr. Morales is located in Minneapolis.
Risks associated with investment in the Consumer Discretionary sector include, among others, apparel price deflation due to low-cost entries, high inventory levels, and pressure from e-commerce players; reduction in traditional advertising dollars; increasing household debt levels that could limit consumer appetite for discretionary purchases; declining consumer acceptance of new product introductions; and geopolitical uncertainty that could affect consumer sentiment.

Some of the risks associated with investment in the Health Care sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations, and government approval of products anticipated to enter the market.

Risks associated with the Information Technology sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market.

Alternative investments carry specific investor qualifications, which can include high income and net-worth requirements as well as relatively high investment minimums. They are complex investment vehicles, which generally have high costs and substantial risks. The high expenses often associated with these investments must be offset by trading profits and other income. They tend to be more volatile than other types of investments and present an increased risk of investment loss. There may also be a lack of transparency as to the underlying assets. Other risks may apply as well, depending on the specific investment product.
Investment expertise and advice to help you succeed financially

Wells Fargo Investment Institute is home to 145+ investment professionals focused on investment strategy, asset allocation, portfolio management, manager reviews, and alternative investments. Its mission is to deliver timely, actionable advice that can help investors achieve their financial goals.

For assistance with your investment planning or to discuss the points in this report, please talk to your investment professional.

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