Bryant University

HONORS THESIS

Financial Literacy and Investing Habits of Generation Z as it Pertains to Financial Marketing

BY Meghan Mazzatto

ADVISOR • Sukki Yoon
EDITORIAL REVIEWER • Jennifer Horan

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ABSTRACT

As technology boomed at the end of the 20th Century and into the 21st Century, the methods young adults use to manage their finances have also evolved. Between moving financial investing and banking to the internet, robo-advising apps, college debt, and the generational reaction to the 2008 Financial Crisis, the world of investing has taken a drastic turn when it comes to young investors. The purpose of this study is to examine the financial habits of Generation Z in order for financial planning companies to better market to the upcoming Generation Z. A survey was used for this study to gather information on the habits and literacy of Generation Z (the survey pool was Bryant University students that fall in the Generation Z age range). The results show that Bryant is slightly skewed to conservative values, and as a result sways from Millennials when it comes to considering political leanings of companies while investing (Generation Z is less likely to care about politics of companies). The survey also revealed that Generation Z is primarily concerned with profit making, and this is likely instilled in them by their parents because the average age for opening a bank account according to the survey is approximately seven years old.

As this study went on, it became apparent the surveyed group of Bryant students greatly swayed the data. Both with the financial and political backgrounds of the students affecting the results, in addition to the investing culture on campus, the overall study shifted from Generation Z to Bryant Students, who are currently members of Generation Z.

INTRODUCTION

Background Research

Over the course of the past twenty years, the methods of investing and the investors have changed drastically. The widespread use of the internet has directed investing and banking from physical to digital, with an estimate of 161.1 million Americans using online banking in 2019 (Editor's Choice) and the global commercial bank industry topping 2 trillion dollars (Ibis World), but the ideas and reasons behind such a change are also tied to the 21st Century, the 2008 Financial Crisis in particular. During the turmoil of 2008, Millennials were between 12 and 24 years of age, whereas Generation Z was 11 years of age or younger. The generational gap, albeit small in years, has profound implications in finance and financial markets. The new forms of investing took years to develop and have the potential to shape decades depending on which generation can begin to take advantage of this new technology. The differences between the two generations can be due to a number of factors, most of which revolve around the change of the times and the results; one such result is the perceived reaction to 2008.

While there are different depictions and stereotypes of both generations, neither is given much credit for what they have been through. For example, Millennials, while often thought of as spoiled, lived through two market crashes, 2008 and 2000, along with the September 11 attacks. This has given the Millennial generation a sense of lost innocence (Williams, 2015). Generation Z on the other hand, has grown up with greater amounts of technology, and have only lived through 2008 (lived through meaning they had an understanding of the times). As a result of some of the major events of the early 2000s, different generations had different reactions due to their ages. For example, Generation Z never truly experienced a world in which the internet and technology were not driving forces in society, no matter the cost, e.g., a lack of privacy or trust in others.

Freidline and Song (2013) examined the relationship between the age of opening a bank account, and financial state of members of Generation Z, with the data tending to show that opening a bank account at a younger age (regardless of the amount of savings) makes those same children twice more likely use credit cards, and four times more likely to invest in stocks once they reach adulthood. This study neglected to factor in debt, however since both Millennials and Generation Z have acquired large amounts of debt, that variable cancels out.

Horton (2017) theorized that younger adults lean into the belief that debt is simply a part of life, and as a result of debt, young adults shy away from financial risks or even financial responsibilities such as paying off debts. However, it is predicted that age and financial literacy are negatively correlated. Rather than debt being the predominant cause of a lack of financial interest, age and the effects of maturing during the 2008 Financial Crisis resulted in views of investing that in contrast with older generations, particularly views that include simplifying to have security, rather than striving for more success.

Gamification was another factor that was researched and analyzed for this study. With more and more time spent on the internet, Generation Z is more inclined to gamify their activities, particularly the activities that pertain to numbers or performance. Gamification with finances has been made easier with the use of robo-advisors but can be done so without the aide of advisors of any sort. The trend of gamification is expected to be more prevalent among the members of Generation Z, particularly Bryant University Students as they engage in investing (and day-trading) much more often.

Survey Results

The results of the survey hoped to answer to major questions: how Generation Z approaches their finances regarding their financial goals, and how do the political leanings of Generation Z affect their investing choices? According to the survey, the political leanings of Generation Z are skewed conservative, with "Somewhat Conservative" being the most reported answer.

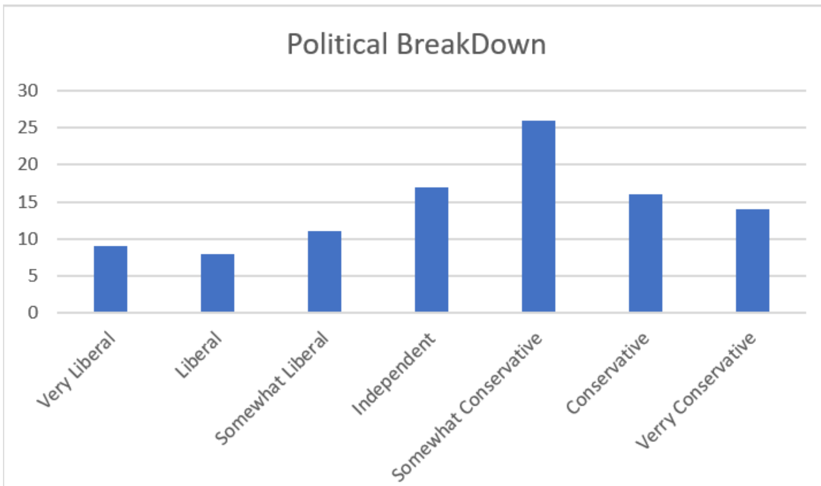

Figure 1: Bar Graph of Political Breakdown

Those who reported to be conservative, or dependent were less likely to consider the political leanings of potential investments, whereas those who reported to be liberal were more likely to consider the political standings of a potential investment prior to investing. In fact, out of all reported Independents and Conservatives, only two Very Conservative respondents said they would consider the political standings of companies before investing. Overall, the majority of respondents said that they would not be likely to consider politics or were neither likely nor unlikely to consider politics. There was a -.381 correlation between the politics of a company affecting how an investor will choose an investment.

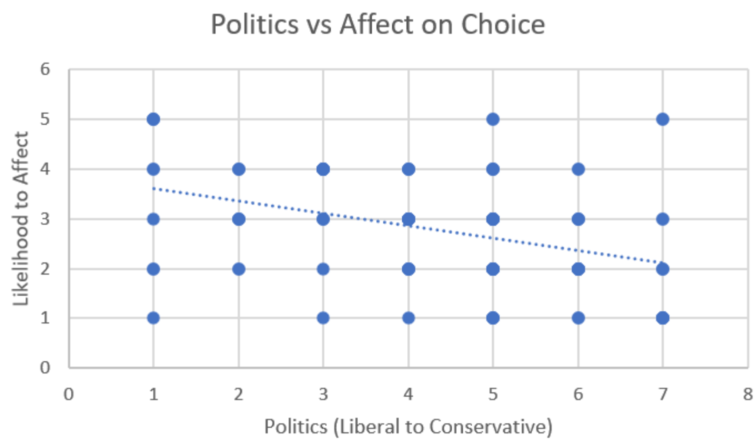

Figure 2: Political Leaning vs. Likelihood to Consider Politics

When it comes to investing in companies that Generation Z is politically opposed to, Conservatives and Independents once again reported to be extremely likely to invest in a politically opposed company so long as that company turned a profit for them. There was a .483 correlation between the two factors. The highest number of respondents (Liberal, Independent, and Conservative all reported in this category) reported that they would be somewhat likely to invest in a politically opposed company to gain profit, which lines up with the background research of Generation Z and their desire to profit.

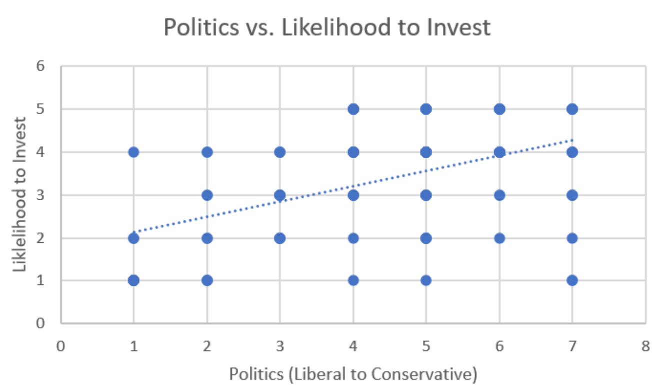

Figure 3: Political Leanings vs. Likelihood to Invest with Politically Opposed Company

According to the background research, the financial goals of Generation Z were widely considered to be modest. Although they did desire to profit, it was more important to be stable and take fewer large risks. This is shown in a variety of ways throughout the survey results. The first way this is shown is by how frequently Generation Z monitors their investments: reportedly 60.7% of them check their investments at least weekly. Additionally, when asked how likely they were to consider certain factors prior to investing, stock price and risk were the highest rated factors. If these two factors are more important, it stands to reason that Generation Z is concerned with carefully seeking out profits. Due to the young age of Generation Z, the importance of stock price could also be a reflection of the lack of savings.

Gamification was also looked for within the survey results. In order to measure gamification, the following question was asked, “How do the factors below influence your investment decision making?” The factors for gamification included, “Stock Price,” and “Risk.” These two factors were tested against the following question and factors: “To what extent do you agree with the following statements: After a loss you are more risk averse, After a gain you are more risk seeking.” There was a .228 correlation between risk and difficulty holding onto a losing stock, along with a .452 correlation between being more risk tolerant after a win and more risk averse after a loss. This trend is in line with the effects of gambling. “Winning increases testosterone which, in turn, increases the chemical messenger dopamine, and that dopamine hits the reward network in the brain, which makes us feel better.” (Robertson) Essentially, this means that the positive response to wins is greater than the negative response to losses, so the investor continues to hunt for wins, or profits.

Another factor that might be skewed by Bryant University being a business school is the percentage of assets invested in stocks, mutual funds, or EFTs. The average percentage of assets invested was 31.27%. It is widely recommended that 10% to 20% of assets should be invested, however the greater amount reported in the survey could be a result of Generation Z still being young, and therefore more risk tolerant at the moment.

Future Changes for Data Collection

As mentioned, this survey may have been skewed in a number of ways due to collecting only from Bryant University Students. The political leanings and investment habits were likely skewed by the small, concentrated number of similar students at the business school.

For future research, it would be more important to collect from a large population of members of Generation Z. In future studies, more participants would improve the accuracy of the survey results as they pertain to the generation as a whole.

The results of this study could change wildly with time. The oldest members of Generation Z are just entering their mid-twenties and likely do not have established careers nor families. It would be interesting and revealing to revisit this study in ten or twenty years' time to see the progress this generation has made.

Conclusion and Recommendations

The results of the survey confirmed the hypothesis that Generation Z is more likely to focus on stability. Unlike their older, Millennial counterparts, Generation Z is willing to go against their political leanings to achieve that stability that they so dearly want. It is very interesting that the generation that has grown up with the most political turmoil is willing to reach across the isle when it comes to something as precious as their financials.

The intention of this study was to be able to learn how financial planning companies can market to Generation Z, and after seeing the results of the survey, the following could be very useful. First, there is nothing more important to Generation Z than their security. After living through the 2008 Financial crisis at such a young age, and now the Covid-19 pandemic as young adults, there is a strong likelihood that Generation Z, like Millennials will lose faith in large organizations. However, that is a double-edged sword since they still will need to work along side those very same corporations for the foreseeable future, both for advising and for investing.

In order for large financial corporations to attract Generation Z, the most important thing for them to do is keep the financial planning and advising simple. When asked about their stock purchasing process, Generation Z reported to consider price and risk far above other factors such as Corporate Earnings and Financial Statement condition. For a generation that has grown up with instant gratification, largely due to the internet, it makes sense that they would prefer to make quick decisions on readily available information rather than digging for issues that could pop up in a deeper search of the potential investments.

Also having grown up with the internet, Generation Z is far more skeptical of the advice of marketing magazines or financial reports. According to the survey, they preferred to base their investment choices off of family and friends, or the popular trends of other investors, rather than research the investments based on the market. Financial advising companies can make tremendous gains with Generation Z in this area simply by creating a lasting relationship with their clients. If Generation Z is to trust the advice of others, being an expert is simply not enough. By marketing based on the relationship that will be built, more members of Generation Z will come through the door.

When researching how financial companies approached younger investors, Fidelity Investment's Youth Account was a reappearing option for members of Generation Z to begin their financial journey. Fidelity marketed the following benefits, "Free debit card, Save Early, Empowering teens with education, [and] Secure app." (Fidelity Investments) These factors all appeal to the parents of Generation Z, rather than Generation Z itself. If financial companies hope to transition from parents to children with their services, they need to appeal to factors such as gamification, social interaction, and profitability.

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