DISPATCHES

Millennials More Optimistic About Retirement Than Older Generations

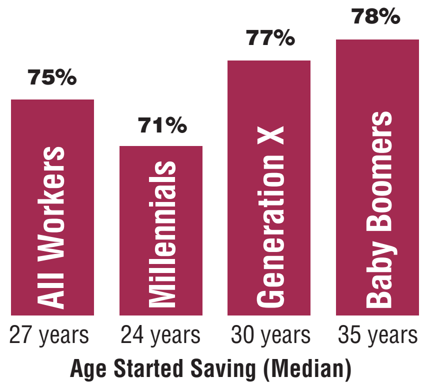
A survey by the Transamerica Center for Retirement Studies looked at how three generations differ in their attitudes toward retirement. A group of 5,923 U.S. residents who are 18 years or older, working full-time or part-time at a for-profit company were divided up into three generational groups: Millennial (born 1979 to 2000); Generation X (born 1965 to 1978); and Baby Boomer (born 1946 to 1964). The breakdown of respondents by generation was: 2,156 Millennials; 1,476 Generation X workers; and 1,477 Baby Boomers.

The majority (72%) look forward to retirement. More Baby Boomer respondents feel this way than those in the other two generations. The average worker plans on living until they are 90 years old, with the percentage planning to live to 100 years or older higher among Millennials than the other two groups. The study's authors note, "The retirement landscape is ever-evolving as a result of increases in longevity, the dynamic nature of the workforce and employment trends, the transformation of employer-sponsored retirement benefits, and potential reforms to Social Security benefits."

Among those who participated in the study, the median age at which workers began saving for retirement was 24 years old for Millennials, 30 years old for Generation X workers and 35 years old for Baby Boomers. Over 70% of each generation is saving for retirement using an employer-sponsored 401(k) plan or an alternative individual retirement account. Despite perceived generational divides, all three generations are afraid that they will outlive their savings while in retirement. For this reason, 54% of workers who responded plan to work past age 65, and some do not see themselves retiring at all.

On the topic of the Great Recession of 2007 to 2009, two in five respondents say their investments weren't impacted or have entirely recovered. Only 8% believe their finances will never be restored, while 14% haven't started recovering and 37% feel their investments are somewhat recovered. Only 9% of respondents in the Baby Boomer group believe their standard of living will "increase when they retire." Eighteen percent of Generation X respondents think their standard of living will improve, while 31% in the Millennial group—the most optimistic generation in this case—are expecting an improvement.

Percent of Workers Saving for Retirement Through an Employer-Sponsored Retirement Plan and/or Outside of Work



Source: "What Is 'Retirement'? Three Generations Prepare for Older Age," by Catherine Collinson, Patti Rowey and Heidi Cho; Transamerica Center for Retirement Studies, April 2019.

Trailing Stop-Losses Effective at Curtailing Downside Risk

A recent study found that trailing stop-loss orders result in higher risk-adjusted returns for investors with normal levels of risk aversion. These types of stock orders also perform particularly well at reducing downside risk.

The study looked at 25,997 common stocks for the period of July 1, 1926, through December 30, 2016, from the CRSP database.

Stop-loss rules, as defined by the study, "involve selling a security when its price drops to a pre-determined threshold and buying the security back when its price rises a pre-specified amount." The study compared a trailing stop-loss with a standard buy-and-hold approach. The trailing stop-loss rule is more flexible than the traditional stop-loss rule in that "the sell trigger price is adjusted upwards if the price moves higher following a purchase … these rules are therefore designed to protect profits."

There were four thresholds used for the trailing stop-losses: 1%, 5%, 10% and 20%, representing the percentage a stock must fall from the adjusted price to be sold. Concerning all stocks, the study showed that the buy-and-hold approach has a higher mean return than the trailing stop-loss approach.

The study looked at the potential loss level and the expected value in the worst-case scenario for losses. Each of the four trailing stop-loss thresholds indicated a lower downside risk for both risk measures compared to the buy-and-hold approach. The risk-adjusted return was also better for the trailing stop-loss approaches.

The study calculated an equivalent return figure measuring the guaranteed return that someone would accept now rather than betting on an uncertain higher return in the future. The trailing stop-loss approaches had a higher equivalent return than the buy-and-hold approach.

Finally, examining returns over time and for various subperiods, the researchers concluded that trailing stop-loss approaches "are becoming increasingly effective over time, perform better when the overall market is declining and add more value on stocks with higher volatility, and liquidity and lower book-to-market ratios."

Source: "Risk Reduction Using Trailing Stop-Loss Rules," by Bochuan Dai, Ben R. Marshall and Nuttawat Visaltanachoti of Massey University and Nhut H. Nguyen of Auckland University of Technology, March 7, 2019 version.

Individual Investors Less Willing to Take on Risk Than Professionals

Individual investors tend to follow market trends to determine their portfolio allocation, while institutional investors are more likely to have a highly contrarian attitude and financial advisers often land somewhere in the middle.

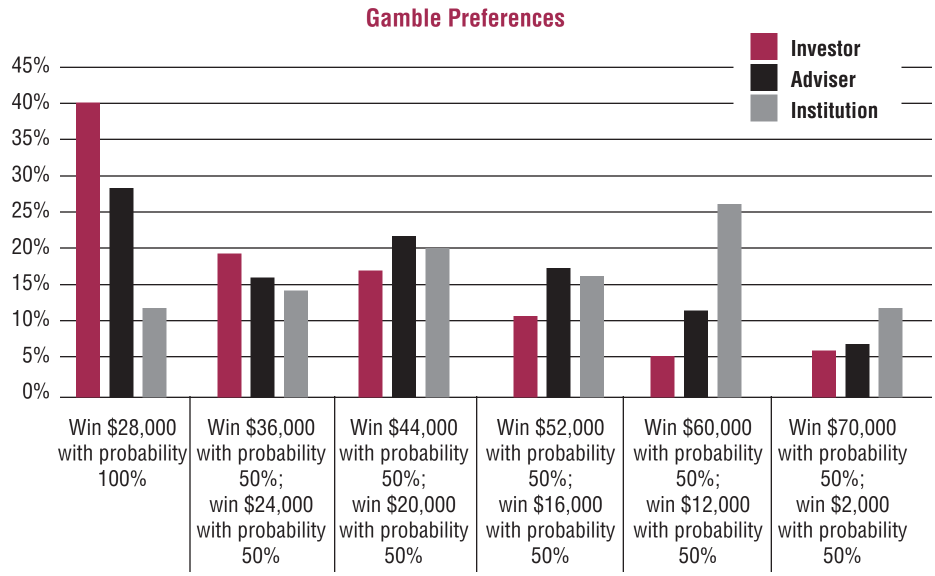
Researchers from a Massachusetts Institute of Technology (MIT) laboratory conducted multiple surveys over the span of three years of individual investors, financial advisers and institutional investors. The surveys measured risk preferences and asset-allocation decision analysis.

First, the representatives measured the reaction among individual investors, financial advisers and institutional investors to the S&P 500 index correcting (falling) 10% to 20%. Individual investors were more likely to take no action in the equity allocation of their portfolio. Financial advisers and institutional investors were more likely to increase equity allocation. When the market rises by 10% to 20%, equity allocation for the industry professionals tended to decrease. Individual investors were evenly split in their responses, but on average would increase equity allocation as the market rises.

The survey proceeded to ask the participants to choose the best among hypothetical gambles. As the risk increased for the choices, the number of individual investors willing to gamble decreased. Institutional investors, on the other hand, were more likely to take the riskier gamble, perhaps because institutional investors have performance evaluations more often. Financial advisers fall between these two groups when regarding risk aversion and willingness to gamble.

The final part of the study involved putting individual investors in one of five clusters, based on responses to different market predicaments: passive investors, risk avoiders, extrapolators (those who follow past trends), contrarians and optimistic investors. While the team also collected data based on gender, generation and wealth, the overall study led to these conclusions: passive investor describes about 35% of individual investors, about 27% were extrapolators, risk avoiders accounted for 19% and about 11% were considered optimistic investors.

Source: "Measuring Risk Preferences and Asset-Allocation Decisions: A Global Survey Analysis," by Andrew W. Lo, Alexander Remorov and Zied Ben Chaouch; SSRN, January 2019.



Spouses in Two-Income, One-Saver Households Aren't Saving Enough for Retirement

When only one person in a dual-earner household is putting away money for retirement, the couple's saving rate is too low to sustain two retirees, according to a recent study.

Using data from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP) from 2009, 2011 and 2013, the researchers analyzed three groups of married individuals aged 25–54: single-earner couples, dual-earner couples where both members are saving and dual-earner couples with just one saver. Single-earner couples were found to have an average savings rate of 8.6%, two-saver couples had an average contribution rate of 9.3% while the dual-earners with one saver only contributed 4.9% of their household savings to 401(k) accounts.

Further, the study also showed that, compared to other individual characteristics, members of dual-earner couples with one saver saved 0.8% less than all dual earners, those who had some college education, women, those who are 10 years older than their partner and those who experience a 10% increase in household earnings.

The researchers concluded that dual-earner households with just one saver save too little, especially since having two incomes and access to at least one 401(k) account encourage saving toward retirement. They recommend that 401(k) plans increase contributions automatically over time and account for an individual's marital status to set default rates so that dual-earner couples save enough money for two people's retirements rather than just one.

Source: "Do Individuals Know When They Should Be Saving for a Spouse?," by Geoffrey T. Sanzenbacher and Wenliang Hou; Center for Retirement Research at Boston College, March 2019.