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Generation Z has already made its mark on investing—consider crypto, FOMO, meme stocks and gamified investing. But, in a less flashy way, it is grandparents who are truly shaking things up. America's surging stock markets have been driven, most of all, by older investors.

Indeed, in recent years there has been a quiet revolution. Americans aged 70 and over now own 39% of all stocks and mutual funds (which mostly invest in equities), almost twice as much as was common from 1989 to 2009. The trend reflects a shift in outlook. Elderly Americans' risk tolerance has shot up. Many now eschew traditional investment advice, which is concerned with protecting rather than increasing their wealth. If a downturn strikes, this could have profound implications.

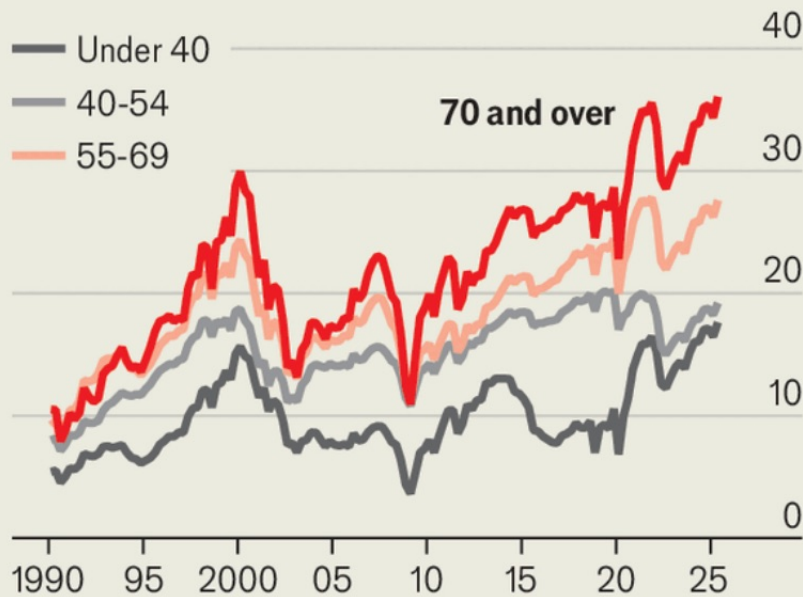


If we plan for a late retirement and an early death, we can just squeak by

The family silver

United States, stock holdings as % of total assets

By age



Some of the rise in elderly stockmarket wealth reflects the fact that there are more old people: in 2010, 9% of Americans were 70 or older; today 12% are. Yet that is only part of the story. Had the age group held their portfolio allocations steady, their share of stockmarket wealth would have risen by just half as much as it has in reality since the financial crisis of 2007-09. And the shift has been particularly fast in the past five years: almost half the \$24 trillion rise in stock and mutual-fund wealth has been accumulated by the over-70s.

Such behaviour runs contrary to conventional financial advice. One rule of conventional wisdom dating back at least to the 1950s, holds that an investor's stock allocation should be 100 minus their age. Thus a 25-year-old should hold 75% of assets in stocks, while a 75-year-old should hold just 25%.

Though contrarian, retirees could well benefit by raising their allocation to stocks throughout retirement. But the timing of returns really matters. Investors who sell stocks and buy bonds during slumps lock in losses and have no exposure to an eventual rebound. Yet research has shown that investors starting retirement with a 30% allocation to stocks and raising it steadily to 80%, would outperform one who heads in the opposite direction over a 30-year period.¹

Although a stock-heavy portfolio may make sense for individual investors, it could still cause problems for the market, especially during a downturn. Optimistically, retirees buy stocks for their children and grandchildren, and expect them to be handed down and held for decades. In this scenario, they may prove to be iron-stomached, fortified by memories of market recoveries after 2007-09, the dot.com bubble and the crash of 1987.

Yet in a long downturn a different logic may prevail. Retirees may be tempted to reverse course, or sell up altogether because they need the cash for assisted living care. If the numbers are large, that shift could worsen a market slump. Whether the new silver-haired giants of the stock market are ride-or-die investors will become clear only when things go wrong.

One thing is for sure: the outcome matters more than ever.

Thanks for reading!

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