

The millennials and money management

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Abstract

The youth of America have been targeted for debt creation by financial institutions. However, in the long-run, the millennial generation can be aided through financial literacy programs offered by the financial services industry. In turn, such program should instill loyalty to these financial enterprises, especially if they can package and market customized, low-risk, investment vehicles for these neophytes. To continue to ignore this lucrative target market is ill advised as existing customers of advanced age withdraw their deposits or investments to use for other purposes that best fit their lifestyle. Beginning with improving financial Websites to better cater to millennial investors and potential long-term customers, financial institutions can better build a relationship based on the positive focus of rational investment processes, rather than negative associations of debt. This paper highlights the pressing need for financial literacy and suggests marketing strategies in order for financial institutions to fulfill this educational vacuum and, in turn, attract youthful investors and strategically establish a relationship with these newfound customers.

Key words: Youth investing, mutual funds, financial literacy, matching funds, branding

Introduction

Presently, there is limited marketing to youth investors focused on long term investment on the part of banks and credit unions. The overall investment marketplace is a \$1.2 trillion annual sales market so these younger investors no doubt represent close to 15 percent of this overall financial sector of the U.S. economy. With a buoyant stock market and better informed and more prone to invest young investors, there no doubt could be significantly more interest by young people in savings and investing for the future.

With spending power of \$172 billion a year, millennial spending power is a market force of significance that captures the interest of many players in the economy, to include the financial services firms, trying to capture some of this wealth. Nevertheless, conceptually much of this marketing to youth could and should be done much better. Therefore this study contributes to the literature in advocating some niche marketing techniques that could indeed be well received in general by the youth in America. First and foremost, that would consist of education to reduce the fear factor about saving and investing and provide them with some smart investing techniques. For example, by informing this target audience of dollar-cost averaging, investing a modest sum each month, they can bring a steady investment program to the table and perhaps avoid the two biggest obstacles to investors – fear and greed (Tenuto & Schwartzwald, 1992). Therefore, this empirical study investigates youths' attitudes toward investing, their personal financial literacy and motivation to start investing, and to ascertain through use of a survey instrument, what factors can be persuasive in developing a more favorable attitude toward investing on the part of the millennial generation.

This investigation is important for a number of reasons: First, youth in the United States and around the world face an increasingly complex financial world; people in the United States under the age of 25 are filing one-fourth of all the bankruptcies in the country (Shryk, 2008). Secondly, research has shown that the average young person today does not know a lot about investing despite the number of programs available to them to develop their financial literacy (Bodnar, 2005). Without adequate guidance or information, most young adults must learn how to manage their money by trial and error, and they often join the workforce without knowing how to balance their checkbooks or control their credit card spending (Bodnar, 2005). Third, the days of standard pensions and straightforward savings accounts are over. In theory, this presents Americans with an opportunity to take charge of their financial destinies, but in practice, more often than not, Americans find themselves befuddled because they lack personal financial literacy (Deering, 2005). Those who learn how to manage their finances responsibly and make smart decisions in the consumer marketplace can gain experience and skills that will serve them for a lifetime. Those who falter, however, may become mired and entrapped in a cycle of increasing debt (Bellenir, 2008). There are many avenues for pursuing financial knowledge in the economy and some of these channels are identified in the study. In addition, this study examines what the financial services industry is doing to market their services, particularly investment instruments and educational schemes, to entice this younger generation, a generation that rapidly is replacing the existing customer base of aging baby boomers.

The study is organized in the following manner: First, the purpose of the research is identified. Although primary interest is in the millennials in the United States, the global importance of this subject is not neglected. Consequently, this study draws on an international audience to describe some of the needs for youth to maintain a robust outlook toward their

financial futures.

Second, a conceptual framework is presented that focuses on what might attract youth investors. Beginning with a focus on financial literacy, the study elucidates the various and sundry educational programs available to interested Americans in order for them to improve their knowledge about money management. Further, some of the major assumptions and assertions that are key threads in the development of the study are identified.

The third section consists of a brief literature review before turning to section four and a discussion of the rise of the financial service sector of the American economy. Next, the business model is explained. In the sixth section the study examines some enchanting features of the financial services industry, to include some novel banking instruments such as matching mutual fund programs and individual development accounts (IDAs) that came about from people's action to help low-income families become financially free from poverty. It is here in this sixth section of the study that the matching mutual fund programs available to qualified investors together with other incentives to attract millennial investors in the twenty-first century is highlighted. The vast majority of the remainder of the study includes hypotheses and methods of experimental design to support the follow-on discussions. Conclusions based on the study findings end with some recommendations for future research.

Conceptual Framework

The Study Purpose

The focus is on youth investors. The first purpose of this study then is to explain how easy it is today for young people to obtain credit and debit cards and use them unwisely. Under most state laws, one must be at least 18 years old (a young adult) to obtain such plastic cards and be held responsible for repaying the debt. For those under 18 normally the parent must co-sign and be held accountable for the payments. There are cards with features sometimes described as "training wheels" for young cardholders. One is a credit card with a low credit limit – say \$500 – which can help keep a teen from getting too deeply in debt. Another is a pre-paid, re-loadable payment card that parents can obtain for teenagers similar to a gift card. A debit card also enables a teen to make purchases without paying interest or getting into debt because the money is automatically deducted from an existing bank account (FDIC, 2002).

The second purpose of this study is to shed more light on the importance of young people developing a propensity to save a portion of their income and develop a rigorous discipline of money management based upon thriftiness and well informed investment decisions. A significant population was sampled with a survey questionnaire to obtain some data on what is to be considered a reasonable banking and savings plan and whether or not the sample group in general invested in the stock market and accepted the inherent risks in such investments.

In addition to the foregoing dual purposes of addressing financial issues in the study, this study endeavors to explore the youthful investor mindset. In this quest to gain such an understanding, the study examines the attractiveness of matching mutual funds to a select group of qualified young people who fall within a certain income level and age. It is an incentive for this group of normally non-savers and also provides a way for the financial services sector to better serve a wider target market and perhaps build loyal, lifelong customers.

Why the Youth Investor?

The Millennial generation, those born between 1977 and 1998 – have an innate ability to use technology, are comfortable multitasking, and want to learn, but only what they have to learn (Bauerlein, 2008). This so-called “Net Generation” consists of youth in the age group 12-28 who grew up with the Net and texting. The digital environment is where young people in many countries can best relate to online banking and Internet shopping. Instant messaging and SMS are vastly preferred over e-mail (Rao, 2003). Thus, it should not be surprising that if they use banks at all, they have a strong preference for E-banks and automatic teller machines (ATMs). Generation Y – today’s 7 to 24 year-olds – are replacing the retiring baby boomer generation and becoming the new financial power within the American economy (Bodner, 2005). This further suggests that this market is comfortable with websites and thus affords banking institutions an easy way to access them (Rao, 2003).

Not all youth are from the same generation nor do they share the same characteristics. So financial institutions must segment them properly and customize their offerings, While there is not universal agreement over the exact age range comprising these four generations, especially for Gen Y, this chart provides an overall guideline (Closing the Gender Gap, 2008).

Demographic	Born	Current
Mature Market	Born before 1946	62 years of age plus
Baby Boomers	1946 – 1964	43 – 61
Gen X	1965 – 1976	31 – 42
Gen Y (also called “Echo-Boomers” or “Millennials”)	1977 – 1998	9 – 30

The Generation Y Americans consist of 42 million young Americans that spent over \$100 billion of their own and their parents’ money in 1996, yet they can still be notoriously ill-informed about how much it costs to live in the real world (Bodnar, 1997). In 2000, there were 39.6 million kids between the ages of ten and nineteen and that number was forecast to be 41.6 million by 2005. The current teenage population – often called “Generation Y” or Generation Next” – is now at 70 million and is fast approaching the size of the baby boomer generation estimated at 75 million (Goquoi 2009). That growth hasn’t escaped Wall Street which is looking for ways to teach kids about investing in the hope that they’ll become longtime customers (Bamford, 2000). Thus, the potential youth investor represents a large market.

Teens spent about \$153 billion in 1999 (Bamford, 2000). That same year teens (twelve through nineteen years old) had a combined income of \$124 billion. Over 31 percent of teens have credit cards in their name and 9 percent have access to parent’s cards (Duguay, 2001). Even though sixteen is legally the age in which a person is allowed to start working, teens younger than that are participating in some kind of work (Duguay, 2001). This suggests that the potential youth investor has money to spend.

The question then remains, are youth investors making good financial decisions? In general, personal bankruptcies, which had been increasing steadily through the 1990s, peaked in 1998 at 1.43 million filers. The number is an all time high for the 1990s. In 2000, the bankruptcy number dropped slightly to 1.2 million. Although this was a decrease, it is still a frightening statistic, considering the U.S. was in the midst of a period of economic prosperity at that time. An even more alarming statistic is the fact that 8.7 percent of the people who filed for personal bankruptcy in 1997 were between eighteen and twenty-five years of age. The percentage jumps to 19 when you increase the age to twenty-nine. Usually it takes years to accumulate more debt than you can handle. How are these young adults getting in over their heads so quickly? In many cases, young adults adopt the examples of their parents and accumulate excessive debt. However, with personal savings at inadequate or nonexistent levels, there is no safety net for these young people. Without sufficient savings, more and more young people look to credit as a source of money when the going gets tough. This adds to their existing debts, and in many cases pushes them over the edge – landing in bankruptcy court (Duguay, 2001). This suggests that there is an opportunity both for financial instruction and success for youth given the correct guidance.

The extent of debt problems among young adults in America is evidenced by the fact that from 1990 to 2000, college students' average credit card debt jumped 305 percent from \$900 to \$2,748. University administrators routinely cite financial mismanagement as a crisis among college students. In fact, almost one out of every ten persons who filed for bankruptcy in 1997 was twenty-five years old or younger (Duguay, 2001). Despite living in a society driven by money, students are taught very little about how financing one's life really works (Conci 2008). The vicious cycle then becomes, low financial literacy, so there is little savings or investing, they need money so they take on debt. Having a debt relationship with financial institutions is not a positive one. Consequently, financial institutions then relegate themselves to a limited exposure with their future customers, one that more often tends to be negative. Neither party is winning in the long run with this relationship.

The Relationship as it Now Exists

One of the youth's first large economic outlays is their education. The College Board reports that the average cost of attending a public college or university is now over \$12,000 and the average cost for just one year of private college is now more than \$29,000. Both continue to rise significantly faster than inflation (Cox, 2006). According to United College Marketing Services, 8.5 percent of students drop out of college due to money-related issues. That makes money the number one reason students drop out – ahead of academic failure (Pratt, 2008).

We are not implying that financial institutions are actually not paying attention to the youth market; rather they are, but not to instill a savings philosophy, rather to support one of debt. Millions of dollars are spent on marketing credit cards to college students (Dragon, 2008). With hundreds (if not thousands of credit cards to choose from, and many of them targeted directly to the college-age group, students need to select a card with a rewards program that will actually benefit them over the long term (Dragon, 2008). Overwhelming debt combined with a lack of knowledge about how to manage it can easily lead to them avoiding even thinking about the future and its consequences. Sixteen percent of students (ages sixteen to twenty-two) polled in 2001 believed that avoiding money problems was mostly a matter of luck (Duguay, 2001). This means they assume they have no control over their financial destiny and it becomes easy to

understand why some students may leave their financial problems to chance. However, problems ignored usually become larger problems. Denial is only a temporary solution. Eventually one must confront the problem if it is ever to be resolved and go away (Duguay, 2001). Thus, financial literacy must be taught and what better way for a financial institution to develop a relationship with their prospective customer.

Financial Literacy

The extraordinary transformation of financial markets over the past decade has placed a new premium on financial literacy, making it nothing less than an essential survival tool. Technological advances and an array of new consumer products, services and providers have made modern banking much more complicated. In today's marketplace, it is more important than ever for consumers to be educated about their rights and options regarding financial offerings (Mooney, 2008).

Notably, U.S. demographics have shifted to open up new pools of potential financial customers. Relative inexperience of some new borrowers, along with the escalating complexity of financial products, for example, in the credit card market, and an array of providers, makes it difficult for consumers as a group to consistently exercise informed financial judgment. A lack of financial knowledge can contribute to poor decisions that harm individuals, families, and ultimately entire communities (Mooney, 2008). This void of knowledge may be a function of lack of access, opportunity and perhaps even fear.

The fear of the unknown is compelling and few of us have had the good fortune to be fully educated in financial matters. This is a major issue for young people, who are new to the world of personal finance – a world that grows increasingly difficult to handle. As personal finance becomes more complex and people have access to more credit at a younger age, it becomes apparent that learning how to manage one's money has evolved into a life skill like reading, writing and basic math. Thus, an understanding of personal finance can help youth to avoid making costly mistakes (Duguay, 2001).

Financial education is essential for today's youth. For most young people, finance is learned at home; however, 50 percent of the population said that it is not discussed at home and few of them learn about personal finance in school. Only about 12 percent of students have any formal education about money before they graduate from high school, according to a 2000 survey. This lack of instruction in personal finance occurs in spite of the fact that most young adults are willing to learn. The good news is that education works (Duguay, 2001). School banking programs, which were ubiquitous a generation or two ago and then all but disappeared are making a comeback. There are several dozen student-run credit unions in high schools around the country (Bodnar, 2005). Other entities are reaching out to the youth segment. Headquartered in Orlando, Florida, Young Money is a multimedia platform for today's young adults that include a magazine (sponsored by ING Financial Group), a Web page (<http://youngmoney.com>), research, custom solutions, and special events. It is owned and operated by InCharge Institute of America, Inc., a non-profit organization offering credit counseling, debt management, and personal finance educational programs (Young Money, 2002). Further, the Hartford Financial Service Group Inc. in collaboration with the National Collegiate Athletic Association (NCAA), provides personal finance fundamentals to help student athletes and all college students make smart decisions as they plan for future financial success. Former college athletes, through the corporate Playbook, LLC, based out of Louisville,

Kentucky, pay visits to college campuses and the firm has developed a Web site dedicated to college athletes (The Hartford, 2008). Perhaps it is time for financial institutions to start enhancing their website offerings to cater to and educate youth in financial literacy while potentially creating a life long bond with these future investors.

How to Attract the Youth Investor?

In the United Kingdom the government established a Child Trust Fund (CTF) whereby parents of new children are given vouchers of £250 to open a savings account for the child. Parents, family members, and friends are then allowed to contribute up to £1,200 into the account each year. The government will make an additional £250 deposit into the account on the child's seventh birthday. In creating a CTF three account options are available: (1) a traditional savings account, (2) a "non-stakeholder investment account" like a Roth IRA in America, and (3) a "stakeholder account" which is a pooled account. The pooled account is like a mutual fund in the United States. With such accounts established early in life, the teen or young adult certainly will have minimum required investment established to continue investing (Rist & Nordstrom, 2007).

The banks' most loyal customers are their oldest customers. Generations Y and X are the least loyal and hardest to please according to a recent poll. Results revealed that that 61 percent of Gen Y and 53 percent of Gen X respondents have considered changing or actually have changed their primary banking institution in the last two years, compared with 20 percent of the Silent Generation (those born between 1925 and 1942) and 37 percent of the baby boomers (Larsen, 2008).

For the most part, the current customer experience model at banks caters to the older generation who more frequently bank in-person at various bank branches. But younger generation customers are much more mobile and rely more heavily on online interactions. The banks most unstable customer relationships exist with the younger customers, because younger people often haven't settled into a stable financial pattern yet (Larsen, 2008).

In general, survey results show that younger people can be more impatient and just plain harder to please than older customers (Larsen, 2008). Banks looking to build long-term relationships with Gen Y and Gen X customers need to think about three basic steps (Larsen, 2008):

1. Attracting Gen Y and Gen X customers in the first place – location convenience has always been the primary tool for attracting new banking customers. That's no different with Gen X and Y, but the determination of location convenience is changing. Now it includes online and mobile and they expect anytime, anywhere banking. Banks need a strategy to attract and retain prospective customers who rarely step into a banking office. Thus, the website becomes a primary portal for youth investors.
2. Identify and offer products and services that give young people roots at the bank – like providing incentives for online bill paying services and debt reward programs. But show them you are interested in their financial security not just debt creation.
3. Treating them the way they want to be treated. Make your website clear and easy to navigate. Ensure that customer experience is appropriate for Gen X and Gen Y, and consistent at all major bank touch points.

Proposed Business Model

There are two sides to the proposed model. Banks and financial institutions are on the one side and the youth investor market is on the other side. In this model, both groups benefit from this opportunity of shared investments. As for banks and financial institutions, they gain loyal customers from the beginning and they will continue to get their business as long as it serves the customers’ purpose. There will also be a certain amount of trust built into the relationship so that these customers’ would refer others to patronize the same banking establishment. Youth investors gain confidence in the first bank they invest their money in and build a relationship there going forward. In this way, today’s youth would minimize their fears in investing their money in the same bank that offers other services, such as mutual funds and matching fund programs. An effective way of interesting today’s youth is to find stocks of companies that make products that today’s youth are likely to be familiar with and enthusiastic about, such as McDonalds, Disney, and Mattel. Mutual funds address a cardinal rule of investors – diversification and spread the risk. Dollar-cost averaging is another rule of thumb for smart investors. This means putting away a fixed amount of money each month.

Offer Youth Investors Access to Mutual Funds

The U.S. Securities and Exchange Commission seeks to address the existing gap in financial literacy by making sure that just as young investors understand the risks of equity investments, they also fully appreciate the rewards (Cox, 2006). It is crucial that today’s young people are encouraged to look a few years down the road and learn the greatest lesson on investing – start early! For example, the following chart illustrates that earning power of money, even at an annual percentage yield of only 3 percent per annum (Credit Union National Association, 2007: 4; Young Money, 2002).

Amount Saved Monthly	One year	Five years	Ten years
\$25	\$305	\$1,620	\$3,500
\$50	\$610	\$3,240	\$7,002
\$100	\$1,220	\$6,481	\$14,009

Wharton School Professor Jeremy Siegel’s research has shown that over the long-term – in fact over the last two centuries – investing in stock has delivered average real growth of between 6 and 7 percent per year. While the volatility of stocks make them a risky investment in the short-term, young people with long-term financial goals can invest in America’s companies with confidence, taking advantage of all the financial tools appropriate to their circumstances.

Several firms have started mutual fund programs aimed at young investors, such as American Express, Stein Roe, and USAA. Stein Roe started its Young Investor Fund in 1994, after the firm’s survey of junior high school kids showed that they were interested in learning about money and personal finance but had no formal channels to do so. The fund now had 200,000 investors and \$1 billion in assets under management by 2000. The Wall Street firm of Salomon Smith Barney started its Young Investors Network in 1997 and a few years later the project’s Web site had about 12,000 registered users (Bamford, 2000).

Mr. Chris Sacchinelli, a sophomore majoring in Economics at the University of Tampa, created a Web site dedicated to providing information from the basics of investing to retirement

strategies. As a former day-trader, he found there wasn't much available to help young people learn about investing; there wasn't information directly geared toward young investors. Within three weeks of opening his Web page there were over 6,500 visitors to the site:

<http://www.successfullyounginvestor.com> (Meinhardt, 2008). These examples provide further support for the contention that websites provide an efficient and effective portal for educating youth while developing a relationship with them.

According to national surveys of economic literacy, the Net Generation – like many of their parents – lack a working knowledge of the basics regarding saving and investing their money. They often don't understand how to make good decisions, how to stay ahead of inflation, and how to achieve personal financial success. This generation, however, possesses a significant economic advantage that many overlook: time. While they are young, they can start growing their future fortunes. By saving even a few dollars a week, they can begin to build wealth that will multiply in the years ahead (Deering, 2005). The key to success of any saving regimen, whether for young adults or mature adults, is to get into the habit of doing it regularly, and that means making it as painless as possible (Bodnar, 2005).

The mutual fund proves to be very safe when referring to the youth market and their associated investment trends (Riepe, 2006). Its safety lies in that it is a composite of a number of individual stocks grouped by some criteria of industry or perhaps level of volatility. That is, the downside risk is spread over a number of stocks and these funds are often managed by professionals. With a small investment in either a closed or open mutual fund, an investor receives a diversified portfolio, professional investment management, liquidity, and a wide range of choices and service levels.

It is estimated that nearly half of the \$7.6 trillion held in direct compensation plans and individual retirement accounts are invested in mutual funds (Flanagan, 2006). Individual investors need mutual funds more than ever before, and youth investors are certainly not excluded from this assessment (Flanagan, 2006). Specifically, a diversified, no-load, common stock fund that focuses on large-capitalization stocks and that has an investment objective of growth will meet the combined goals of interesting a young investor and matching the investment profile of the typical aggressive young investor. Thus, given the long investment horizon of youth they could begin with a growth fund, however to begin with a balanced mutual fund affords the investor an even distribution of risk and a fair return on their money for their first venturing into this unknown world of investment. Thus, a balanced mutual fund would be a great compromise on risk versus return to start an investment portfolio for youth investors at least in the beginning. Such rationale needs to be presented and explained to youth investors. Therefore, the financial institutions should create a customized portion of their website dedicated to the novice investor (or particularly the youth investor) that guides them to such financial instrument selections and that explains to them why.

Attracting Youth Investors to Investing in Mutual Funds

One successful way to encourage people to invest in their future is to provide them with an incentive. In the online gambling industry it is common to utilize a “matching funds” strategy to attract participants to initially sign on to “play” (Lauzon, 2006;). That is, the gambling website offers to match (from 25%-600%) of the gamblers first insertion of funds into a gambling account (*Advantages of Online Casinos*, 2006). The gambling website firm knows that in the long run this “investment” will be recouped so it is not considered giving money away.

Yet, from the customer's viewpoint it is "free money." What better incentive to get a potential investor to invest in their future than "free money". This incentive may serve to offset the fear of investing and may in fact intrigue youth investors to learn more. Thus, this could be useful in an investment context as well given the financial institution is "investing" in a long term relationship (the essence of a mutual fund itself). This is an intriguing idea, especially because the literature is essentially silent on the concept of matching funds within an individual investor context to encourage long term investing.

A similar "matching" strategy has been employed through individual development accounts (IDAs). These accounts are matched savings accounts designed to assist low-income individuals and their families to accumulate resources and build personal assets through investments in small business, post secondary education or homeownership. Participants only need to commit to saving a minimum of \$10 monthly in a designated savings account and the IDA program matches the savings for a variety of assets or asset building tools ranging from homeownership to work-related transportation. While saving, participants receive credit counseling, financial education training as well as training specific to the chosen asset to prepare them to succeed. As the holder of an IDA, an individual will basically earn \$2 for every \$1 saved over a three year period. Depending on the asset, participants can save up to \$2,000 and be matched with up to \$6,000 (Adams, 2002; Shrik, 2004; United Way, 2006). After participants learn about personal finances they are more inclined to save in the short-term. Those individuals that obtain the opportunity to see how money can make more money by investing wisely will be financially free in the long term (Schneider, 2004). Another great group that contributed to the expansion of IDAs is Citigroup, Inc. They participated in the American Dream test in 1997 and today have 2,700 accounts and 50 nonprofit partners. Some of the participants have become bank customers (Quittner, 2006).

To examine similar programs in other banks, Bank of America serves as a sterling example. This bank will match one hundred percent of your "Keep the Change" savings transfers during the first three months after one enrolls and five percent thereafter, up to a maximum of \$250 per year. Matching funds are paid to cardholders' savings accounts annually after the anniversary of enrollment on accounts that remain open and active. Eligible saving accounts include Regular Savings, which requires a minimum opening balance of one hundred dollars (Bank of America, 2007).

Banks and financial institutions have attempted in assisting low income families to achieve financial freedom through incentives, such as IDAs. If banks can assist people with financial literacy issues, the consumer can become much more money-savvy, and this in turn would be helpful for all financial institutions. One idea could be to tie the matching of funds to a requirement for financial literacy. For example, in another study of IDAs, Rutgers Cooperative Research and Extension department found that program participants were required to take eight, 2-hour financial education classes. Respondents were primarily female, between 20 and 49 years of age, not college graduates, and had household incomes of \$20,000 or less (O'Neill, 2006). So, perhaps financial institutions should utilize matching funds in a similar fashion as the example above of IDAs. In the United States, banks have about 20,000 such accounts. The program began in 1997 with a pilot test called the American Dream Demonstration (ADD), a partnership between banks, fourteen community organizations, and the nonprofit Corporation for Economic Development (Quittner, 2006). With such a large range of networks, there is no reason why creating a matching fund geared toward youth would be that difficult.

To protect the financial institution some requirement on how long the matched funds

must stay in the mutual fund should be created. A similar requirement exists in the online gambling industry, but it would be longer in this case for two reasons. First, the financial institution must have the time to earn its “investment” back (though some of that investment is in the intangible value of a long term customer). Second, such a requirement is also consistent with the long term saving philosophy that the customer themselves should be following. Nonetheless, there is evidence that customers are motivated to part with their money when a matching incentive is offered, which leads to the following hypotheses:

H1a: The greater the matching incentive, the more positive the attitude the youth investors will have toward the mutual fund.

H1b: The greater the matching incentive, the more that youth investors will intend on investing in that mutual fund.

The Branding of Mutual Funds

Our youth are influenced by branding. A brand serves to add dimensions to a product; to differentiate it in some way from other products designated to satisfy the same need (Keller, 1998). From an early age youth are exposed to brands. A total of 75 percent of American teens have a television in their rooms, and 50 percent have their own personal computer on which they spend approximately two hours per day online (Public Broadcasting Service, 1999). On a typical day, children ages two to 18 years spend on average 5.5 hours using media, including television, print, computer games and the Internet (Kaiser Family Foundation, 2001). Most children watch three to four hours of television per day; this is the number one after-school activity for six to 17-year olds (Center for, 2002). This translates into about 1,500 hours in front of the television per year (as compared to 900 hours in the classroom), with each child viewing 20,000 television commercials per year, or 55 commercials per day (Center for, 2002). Television, still an important part of media influence on children, is itself becoming less monolithic and increasingly more fragmented, targeting more specialized segments, not the least important of which are children (Shimp, 2000).

Shopping, whether online or in-person, is also becoming more prominent in the lives of youth today. In fact, children list it as their second favorite after-school activity after watching television (Schulman & Clancy, 1992). Another potentially strong influence on children’s marketplace behavior is the more pronounced role, as previously mentioned, that brands are playing in their daily lives. The increased presence of brand names in society has led to heightened brand awareness and preference among children at earlier ages.

Researchers suggest that as early as six months of age, babies are forming mental images of corporate logos and mascots (McNeal & Yeh, 1993). At three years of age, one out of five American children is already making direct requests for specific name-brand products (Center for a, 2002). The extent to which a child becomes a brand loyal appears to be a function of the interaction of two things: familiarity and marketing stimuli (Dotson & Hyatt, 2005). Such loyalty results from the day to day visibility of the product, which comes from the observation of parents’ brand usage, exposure to brands in the media, exposure to other children’s environments, and even in-school exposure to branded products and sponsorships (Paul, 2002).

In sum, this study examines youth whom are currently thinking about the possibilities of saving and investing, but are not being properly marketed to by the financial services industry.

Further, it is expected that offering mutual funds classified in brands, that reveal a grouping of certain types of firms, may be of interest or at least familiar to potential youth investors. For example, a mutual fund with stocks in companies that cater to the entertainment, the music, the clothes or the footwear industries would be an effective and unique way to capture the market of youth investors; since many youths use brand or pop culture images to confer status or stake out an identity (Smith, 2005). Though it would be best if some element of “coolness” could be incorporated into the branding of a mutual fund, just familiarity with an industry-focused mutual fund alone would be an attractive feature for one mutual fund over another. Obviously, this familiarity would also depend on the financial institution website revealing these industry-focused mutual funds in an easy to understand format.

Familiarity in general has been shown to lead to more positive attitudes (Winkielman, Schwarz, Fazendeiro & Reber 2003; Sinn, Milberg, Epstein and Goodstein 2007). In fact, there is a significant body of literature that suggests that brand familiarity, plays an important role in consumer choice (Weitz & Wensley, 2002), leading to greater confidence and reduction of indecision in some situations (Goliath business knowledge on demand, 2007), which leads to the following hypotheses:

H2a: The more familiar the industry-focused mutual fund, the more positive the attitude the youth investors will have toward the mutual fund.

H2b: The more familiar the industry-focused mutual fund, the more that youth investors will intend on investing in that mutual fund.

Matching Funds with a Familiar Mutual Fund Available

Combining the effects of a matching funds program with more familiar, industry focused mutual funds, is expected to lead youth investors to be more likely to invest. In fact, the most important factor is expected to be the matching funds program given the incentive of “free money” in a financial context. This implies that with a matching fund program that youth investors may be more willing to invest in less familiar websites as they have a cushion for such a risk, which leads us to the following hypotheses:

H3a: When matching funds are higher, the more positive the attitude the youth investors will have toward the mutual fund, in comparison with situations where matching funds are lower and less familiar mutual funds are considered.

H3b: When matching funds are higher, the more that youth investors will intend on investing in that mutual fund, in comparison with situations where matching funds are lower and less familiar mutual funds are considered.

Methods

Experimental Design

We utilized a 2 (\$1,000 matching fund/\$2,000 matching fund) × 2 (familiar companies in mutual fund/not familiar companies in mutual fund) ANOVA between-subjects balanced design

in examining their influence on youth investor intentions to invest. The sample population was made up of men (60.8% of total respondents), and women (39.2 % of total respondents) within various age groups, 18 through 25. There was an age restriction cap because the focus was specifically on the youth investors. The 18-19 age category made up 13.3% of the respondents while the 20-21 age category made up 43.3%. The 22-23 and 24-25 age categories made up 15.8% and 27.5% of the respondents respectively. The ethnic background of the sample population in for the survey is from American, Hispanic, Caribbean, European, Asian, African, Multi-ethnic, and others making up 47.5%, 15%, 8.3%, 3.3%, 5.8%, 6.7%, 8.3%, and 5% respectively. One-hundred and twenty surveys were distributed and recorded for this experiment.

Semantic differential seven-point scale items were used for all variables and measures. Each scale item represents a number one through seven, with seven being the most positive endpoint on the right (e.g., motivated= 7; strongly agree = 7, etc.) such that the higher the number the more positive the response.

Manipulated Variables

The two manipulated treatments in this experiment consisted of the matching amount of the matching fund program and the familiarity of companies in mutual funds. The scenario begins with respondents imagining that they have received an email soliciting them to a financial institution website. Information is provided on the website that is clear and easy to understand. Within this information they learn of the matching funds program. The amount of matching funds was operationalized as: “From \$1 up to \$1,000” vs. “From \$1 up to \$2,000”. By providing a range there was no need to speculate as to the amount of money the youth investor would be comfortable with investing, rather this allowed us to focus on how a higher range vs. a lower range would entice them. The upper limits were chosen based on average minimum mutual fund first time contributions and the dollar value that would be obtainable for the sample. The minimums for mutual funds tend to be between \$1,000 to \$10,000.

While they peruse the mutual funds they find some firms that have a good rate of return. These funds are either familiar or not familiar to the respondent. Four companies were chosen: Familiar brands - Nike Inc. and Gap Inc. vs. Unfamiliar brands - EMC Corporation and Hallwood Group Inc.. Though these stocks may differ in many respects, if the subject is unfamiliar with them then these differences are irrelevant.

		Matching Fund	
		\$1,000	\$2,000
Mutual Fund	<i>Familiar Company</i>	\$1,000/Familiar Company	\$2,000/Familiar Company
	<i>Not Familiar Company</i>	\$1,000/Not Familiar Company	\$2,000/Not Familiar Company

Manipulation checks were integrated into the surveys that tested the manipulation of matching

funds perceptions of matched amount (average of 3 items) and the familiarity of the funds respectively:

The **matched amount** offered in the opening scenario is

Unfair	1	2	3	4	5	6	7	Fair
Unreasonable	1	2	3	4	5	6	7	Reasonable
Insufficient	1	2	3	4	5	6	7	Sufficient

The mutual fund offered in the opening scenario is

Not Familiar	1	2	3	4	5	6	7	Familiar
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Procedure

The administrators were careful to incorporate a diverse age (18 through 25) and gender. Given the focus on youth investors a stratified random sampling of the population was utilized. Each participant received a consent form to read and sign. The surveys were designed so that respondents could complete them quickly and easily. Each survey had a total of 55 questions consisting primarily of closed items and five open ended item. Respondents were first asked to provide objective measure information about their current status as an investor. The compiled information consisted of what their thoughts were about investing, their actions in investing in mutual funds, how they first learned to invest, and who encouraged them to invest. After a presentation of the written scenario, each survey encompassed a series of questions measuring the effect of the how they viewed investing and how their investing habits have been motivated by outside influences. The scenario given was delivered as an advertisement through an email to prospective investors. It gave directions of how youth investors would be able to gain a body of knowledge to start investing. With the resources given, it is up to the youth investor to start taking action. In addition, an incentive of matching funds was set to entice youth investors to start investing. After assessing the investor’s motivation to start investing, a series of questions measuring the investor’s attitude toward investing were presented to determine if a change in the investor’s attitude had occurred. The remaining survey items reflect the supporting literature and measures a variety of important aspects regarding youth investing.

Results

Both motivation to invest ($\alpha = 0.948$) and the attitude toward investing ($\alpha = 0.969$) were found to be reliable. Manipulation checks for both matching of funds ($F_{1,118} = 3.995$; $p < .05$) and familiarity were successful ($F_{1,118} = 11.231$; $p < .001$).

Descriptive Statistics: Matching Funds Manipulation Check

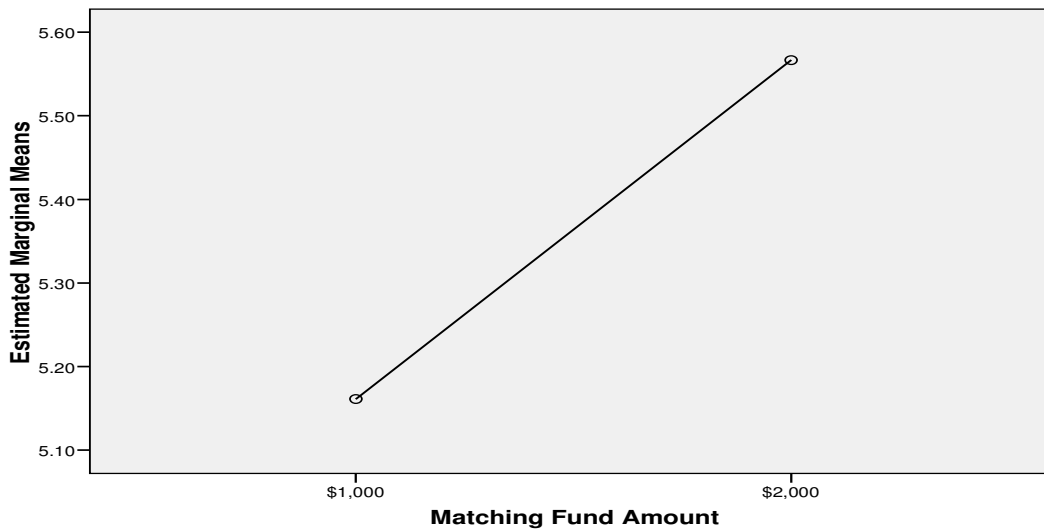
	Mean	Std. Deviation	N
	5.1611	1.00936	60
	5.5667	1.20467	60
Total	5.3639	1.12521	120

Tests of Between-Subjects Effects: Matching Funds Manipulation Check

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	4.934(a)	1	4.934	3.995	.048
Intercept	3452.556	1	3452.556	2795.564	.000
Match Funds	4.934	1	4.934	3.995	.048
Error	145.731	118	1.235		
Total	3603.222	120			
Corrected Total	150.666	119			

R Squared = .033 (Adjusted R Squared = .025)

Estimated Marginal Means of Percieved Amount of Matching Funds



This suggests that both amounts of matching funds are sufficient, fair and reasonable yet they recognize the distinction between the two matching amounts, and so recognizing the added benefit of the higher matching fund.

Descriptive Statistics: Familiarity Manipulation Check

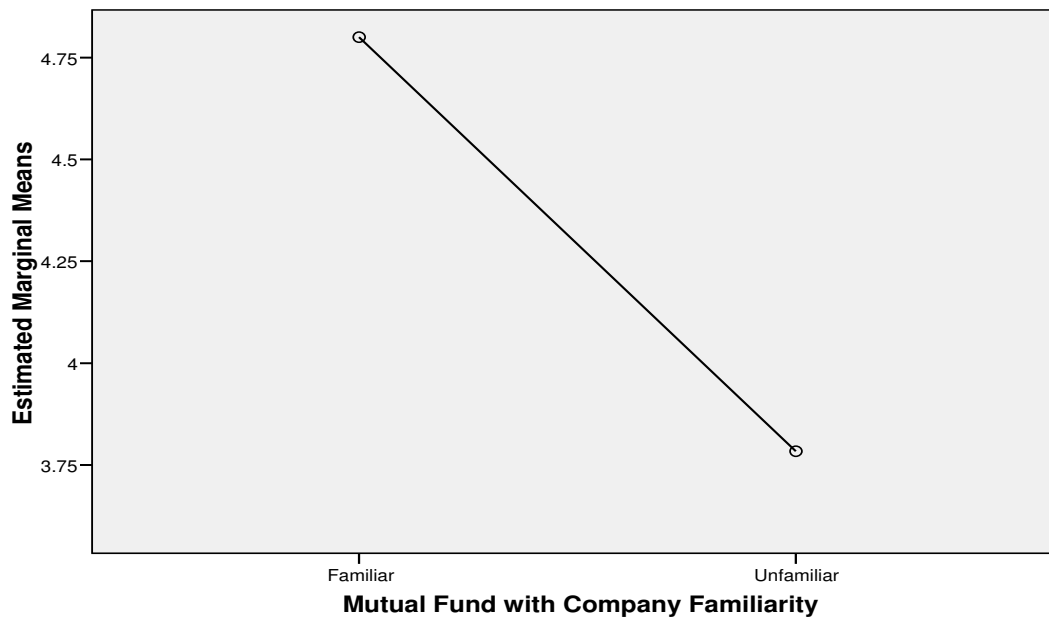
	Mean	Std. Deviation	N
	4.80	1.538	60
	3.78	1.776	60
Total	4.29	1.732	120

Tests of Between-Subjects Effects: Familiarity Manipulation Check

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	31.008(a)	1	31.008	11.231	.001
Intercept	2210.208	1	2210.208	800.546	.000
Familiarity	31.008	1	31.008	11.231	.001
Error	325.783	118	2.761		
Total	2567.000	120			
Corrected Total	356.792	119			

R Squared = .087 (Adjusted R Squared = .079)

Estimated Marginal Means of Familiar Funds



This means that on average they did recognize the more familiar brands of mutual funds over the unfamiliar brands.

Before examining the univariate tests, a multivariate test was run indicating that univariate tests were appropriate.

Descriptive Statistics: Multivariate Test

	Match Funds	Familiarity	Mean	Std. Deviation	N
Attitude Avg.	1	1	4.7222	1.40629	30
		2	4.0333	1.39882	30
		Total	4.3778	1.43335	60
	2	1	5.5333	1.48195	30
		2	4.7889	1.96421	30
		Total	5.1611	1.76543	60
	Total	1	5.1278	1.48956	60
		2	4.4111	1.73299	60
		Total	4.7694	1.64881	120
Investment Avg.	1	1	4.4667	1.30311	30
		2	3.9444	1.45976	30
		Total	4.2056	1.39692	60
	2	1	5.2222	1.34288	30
		2	4.7000	1.77973	30
		Total	4.9611	1.58511	60
	Total	1	4.8444	1.36608	60
		2	4.3222	1.65813	60
		Total	4.5833	1.53530	120

Multivariate Tests

Effect		Value	F	Hypothesis df	Error df	Sig.
Intercept	Pillai's Trace	.915	617.290(a)	2.000	115.000	.000
	Wilks' Lambda	.085	617.290(a)	2.000	115.000	.000
	Hotelling's Trace	10.735	617.290(a)	2.000	115.000	.000
	Roy's Largest Root	10.735	617.290(a)	2.000	115.000	.000
Match Funds	Pillai's Trace	.068	4.180(a)	2.000	115.000	.018
	Wilks' Lambda	.932	4.180(a)	2.000	115.000	.018
	Hotelling's Trace	.073	4.180(a)	2.000	115.000	.018
	Roy's Largest Root	.073	4.180(a)	2.000	115.000	.018
Familiarity	Pillai's Trace	.051	3.063(a)	2.000	115.000	.051
	Wilks' Lambda	.949	3.063(a)	2.000	115.000	.051
	Hotelling's Trace	.053	3.063(a)	2.000	115.000	.051
	Roy's Largest Root	.053	3.063(a)	2.000	115.000	.051
Match Funds * Familiarity	Pillai's Trace	.000	.013(a)	2.000	115.000	.987
	Wilks' Lambda	1.000	.013(a)	2.000	115.000	.987
	Hotelling's Trace	.000	.013(a)	2.000	115.000	.987
	Roy's Largest Root	.000	.013(a)	2.000	115.000	.987

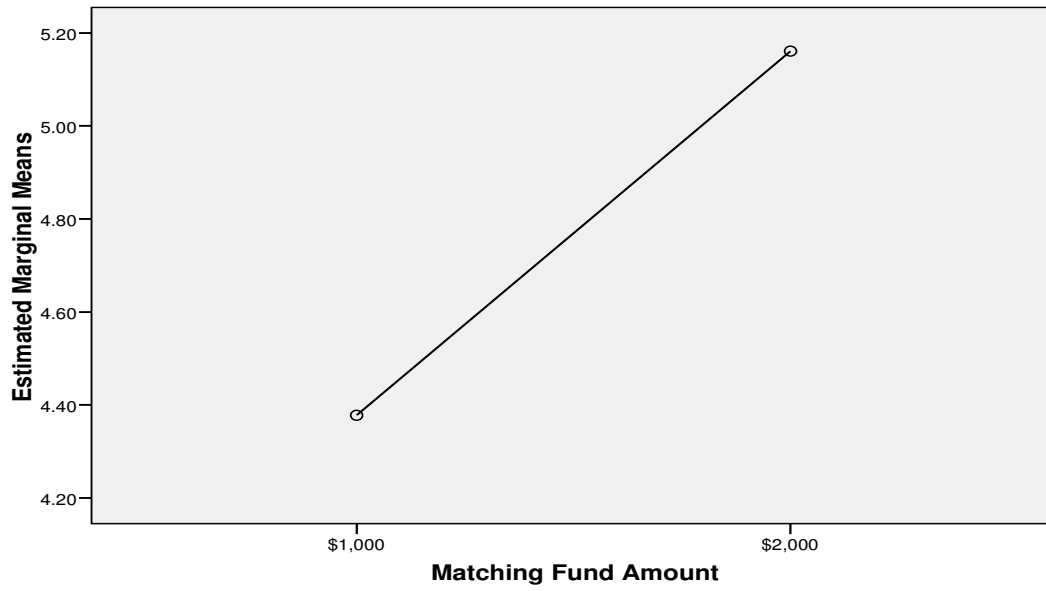
Tests of Between-Subjects Effects:

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	Attitude Avg.	33.840(a)	3	11.280	4.517	.005
	Invest Avg.	25.307(b)	3	8.436	3.835	.012
Intercept	Attitude Avg.	2729.712	1	2729.712	1093.127	.000
	Invest Avg.	2520.833	1	2520.833	1145.867	.000
Match Funds	Attitude Avg.	18.408	1	18.408	7.372	.008
	Invest Avg.	17.126	1	17.126	7.785	.006
Familiarity	Attitude Avg.	15.408	1	15.408	6.170	.014
	Invest Avg.	8.181	1	8.181	3.719	.05
Match Funds * Familiarity	Attitude Avg.	.023	1	.023	.009	.923
	Invest Avg.	.000	1	.000	.000	1.000
Error	Attitude Avg.	289.670	116	2.497		
	Invest Avg.	255.193	116	2.200		
Total	Attitude Avg.	3053.222	120			
	Invest Avg.	2801.333	120			
Corrected Total	Attitude Avg.	323.510	119			
	Invest Avg.	280.500	119			

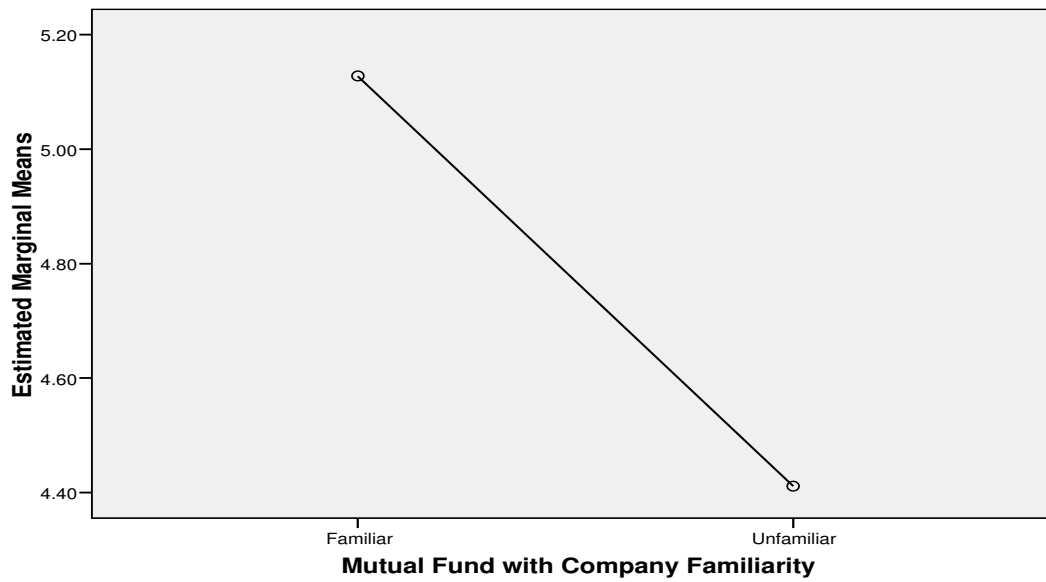
a R Squared = .105 (Adjusted R Squared = .081)

b R Squared = .090 (Adjusted R Squared = .067)

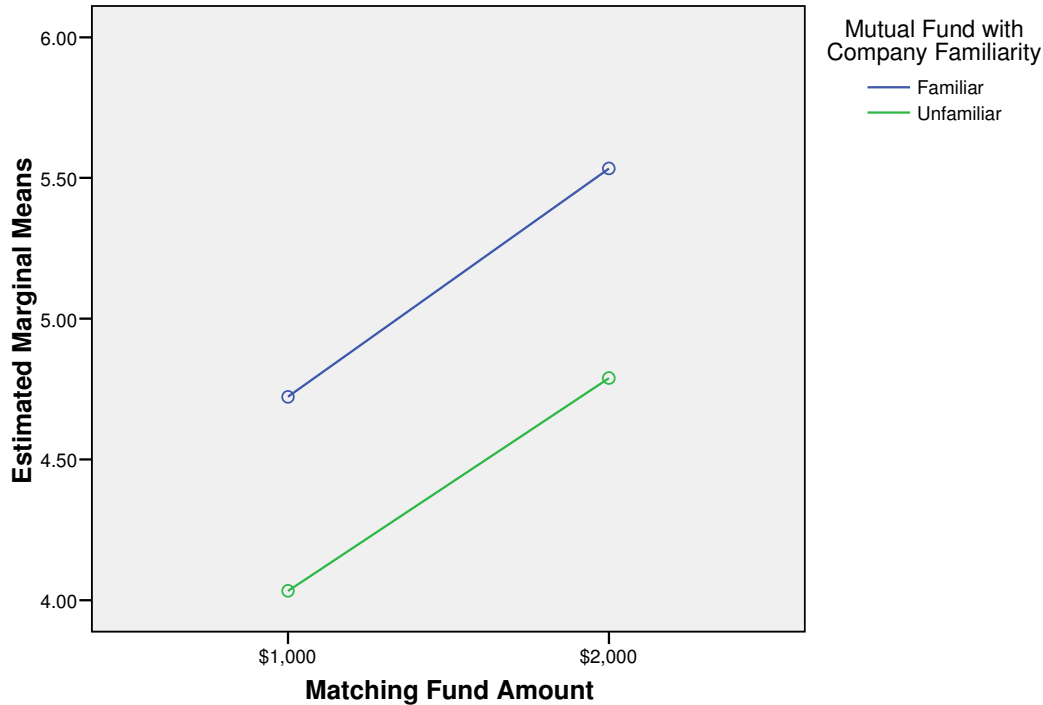
Estimated Marginal Means of Average of Attitude



Estimated Marginal Means of Average of Attitude



Estimated Marginal Means of Average of Attitude



Univariate Tests of Hypotheses

The overall f-test for both univariate tests were significant ($p < .01$). The overall f-test for attitude was ($F_{1, 116} = 4.517$; $p < .005$) with an adjusted R-squared of .081. The overall f-test for intention was ($F_{1, 116} = 3.835$; $p < .01$) with an R-squared of .067.

We first examined the higher order effects of the interaction but no support was found for either outcome measure of attitude toward investing or intention to invest in the mutual fund ($p > .05$). H3a: When matching funds are higher, the more positive the attitude the youth investors will have toward the mutual fund, in comparison with situations where matching funds are lower and less familiar mutual funds are considered was not supported ($p > .05$). H3b: When matching funds are higher, the more that youth investors will intend on investing in that mutual fund, in comparison with situations where matching funds are lower and less familiar mutual funds are considered, was not supported ($p > .05$). Thus, it is appropriate to consider the lower order main effects.

- H1a: The greater the matching incentive, the more positive the attitude the youth investors will have toward the mutual fund, was supported ($F_{1, 116} = 7.372$; $p = .008$).
- H1b: The greater the matching incentive, the more that youth investors will intend on investing in that mutual fund, was supported ($F_{1, 116} = 7.785$; $p = .006$).

- H2a: The more familiar the industry-focused mutual fund, the more positive the attitude the youth investors will have toward the mutual fund, was supported ($F_{1,116} = 6.170$; $p = .014$)
- H2b: The more familiar the industry-focused mutual fund, the more that youth investors will intend on investing in that mutual fund, was supported ($F_{1,116} = 3.719$; $p = .05$)

Discussion and Managerial Implications

There is a niche for this market, since the recalcitrant and reluctant youth that display disinterest toward money-management is not a symptom of not wanting to be financially successful, but rather that of ignorance of where to begin. The problem is not that youth possess a lack of determination toward investing, as much as it is the lack of easily communicated information concerning the management of such responsibilities accompanied with active investing, set forth by these commercial banks and investment houses. Furthermore, because youth are more likely to invest within familiarity, offering funds containing stocks of such companies as Columbia Entertainment or Nike, Inc. will increase the likelihood of success in market penetration. Ultimately, due to the vitality of the period in lives that will be influenced, personal relationships will formulate into lasting loyalty for the products and services. This will continue the growth of this, and other such investment programs, and facilitate the start of a generation utilizing adequate financial knowledge. For example, 51.7% of the sample size had interest bearing accounts, while the other 48.3% did not or did not know what an interest bearing account was. The investor has a lot to learn.

Investor ignorance is not limited just to inadequate general financial knowledge, such as what a mutual fund is and how it works, but also to the importance of the familiarity of the stocks within that fund. Further, the study has shown support for the importance of financial incentives to save, such as matching funds. Both concepts have been shown to positively influence youth investor attitudes and intent toward investing. Now the banks just need to establish similar programs and start building those long term relationships that are so important to the bottom line.

Investing in their Future Customers

The banking industry needs to develop a well thought out marketing plan to attract and service more of the youth market. The baby boomers have already begun to retire, and this trend will grow in the years ahead. So it should come as no surprise when they start dipping into their net assets for a wide variety of reasons, from medical expenses associated with aging to perhaps long-awaited travel plans, or moving to another area of the country. Financial institutions need to be proactive in considering how to replace those lost deposit dollars by turning to the youth marketplace (Closing the Gap, 2008).

Young adults – roughly age 18 to 29 – make up more than a quarter (28 percent) of the population according to 2006 data from the U.S. Census Bureau. That translates to some 83 million potential account holders. Earning power is a factor, too, in the desirability of this market. Consider that universities are churning out more college graduates than ever before. According to the U.S. Census Bureau, nearly twice as many adults, age 25 to 29, have college degrees than those of ages 60 and up, a trend that would seem likely to continue. As educational level is connected with higher salaries and more disposable income, financial institutions are

smart to reach out to this under-30 market (Closing the Gap, 2008).

In an e-mail survey of financial institutions, results found that 70 percent of community banks felt that they youth and young adult market was a medium of high priority, only 20 percent actually had a formal marketing program in place to reach them. The results of for credit unions revealed a similar pattern: 90 percent ranked the priority of youth and young adult marketing as medium to high, yet only 40 percent said they were currently implementing such a program (Closing the Gap, 2008).

An Untapped Opportunity

Financial institutions need to see youth marketing as a wise investment in the future of their organizations. Yet embarking on a youth marketing program involves considerable strategic planning and expertise in that demographic. While banks may find it easier to simply grow well-established relationships, targeting the youth market is a longer-term strategy to replace current relationships that have reached maturity. For many financial institutions, the prospect of lost deposits is finally representing a strong enough outside force to combat organizational inertia. Among these institutions with no current plans for youth marketing, 43 percent commercial banks and 53 percent credit unions, expressed interest in implementing such a program if they had assistance in doing so (Closing the Gap, 2008).

Given the fact that wise investing is something that financial institutions want to teach teens, it is fitting that they, themselves, take this advice to heart. The first step in establishing a youth marketing campaign is to look at how teens and young adults behave financially. For example, according to research conducted by the international marketing research firm, Mintel, 84 percent of teenagers open an account at their parents' branch. Thanks to online and electronic banking, this can become a long-term relationship. They don't necessarily have to close their hometown account if they relocate cross-country for college or a job. Therefore, it is important to educate young account holders on "virtual" banking options that can eliminate the need to relocate their bank accounts (Closing the Gap, 2008).

Indeed, communicating online is key to getting the attention of this perpetually plugged-in younger generation. According to the Bridge Ratings 2007 study on Gen-Y media use, this group is exposed to more than 11 hours of media every day. Their interest in traditional media (e.g. television, radio, newspaper) has declined 22 percent since 2004, while time spent on the Internet has increased 23 percent during that same time period. One survey of today's college students found that 97 percent owned a computer, 75 percent have a social networking account (such as Facebook.com) and 76 percent communicate via instant messaging (Closing the Gap, 2008). Banks and credit unions have an incredible opportunity to grow their business here. They should be leading the charge in educating the next generation about how to handle money (Closing the Gap, 2008).

Limitations

Though the familiarity manipulation was not as strong it was greater than neutral. Perhaps the respondents thought that the question was referring to their familiarity with the workings of the company itself as opposed to the brand name of the company, or the manipulation results may just indicate the level of general lack of familiarity of youth investors with the famous firms utilized. There are certain inherent limitations of using scenarios such

perhaps the subjects were not truly in the moment, or paying attention, or truly imagining the financial pressure to invest. However, effects were found and there is a substantial body of literature that supports the use of scenarios (Grewal, Roggeveen & Tsiros 2008; Martin, Ponder, & Lueg 2009; Mittal, Huppertz, & Khare 2008).

Future Research

In this experiment the role of familiarity of the firms grouped together in a mutual fund was explored. The next logical focus on familiarity could be groupings of firms into industries that may be more familiar to youth. For example, a mutual fund that is made up of software companies that make electronic games. Youth investors might be attracted to industries they understand at least as a consumer of their products. Next, the actual naming of these type-focused mutual funds could be explored, where the emphasis would be on the clarity of the branding name of the mutual fund or perhaps the “coolness” of the name itself as a determinant of attracting youth investors.

Finally, if banks could “bundle” groups of youth investors together in order to maintain the minimum amount dollar amount (\$1,000) for investing in a mutual funds, perhaps then a lower level of matching funds could be tested to see at what point investing interest would wane in terms of matching funds. In any case, this is a new focus for financial institutions and one worthy of future study.

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