Merrill Edge® Report

Spring 2018

Letter from Aron Levine

Can you be financially independent when the foundation of your plan relies on others? The 2018 Spring Merrill Edge Report poses this very question, as one-third of Americans now say their financial stability depends on receiving an inheritance.

Over the past several Merrill Edge Reports, we've seen millennials pave their own path to financial freedom, often changing the way they approach traditional life milestones. Now, across all generations, we're seeing a heavy reliance on others to achieve financial success.

This is the case for baby boomers, many of whom are facing retirement, Gen Xers and millennials. It is especially true for today's youngest generation – Generation Z – as the number jumps to nearly two-thirds saying they are relying on an inheritance, particularly from their parents, grandparents and even friends.

As this generation (born after 1995) starts to enter the workforce, this trend speaks volumes about how younger generations are set to change financial futures and investment habits in the years to come.

Perhaps shifting priorities and longer lifespans have Americans looking to others for security. And while many describe the market as "volatile" and ever-changing, the majority of respondents reported making money in the market and see it as "opportunistic."

Emerging technologies are also making big changes to Americans' approach to financial guidance. As the first generation to never know a world without mobile devices, Gen Zers are the highest adopters of these technologies; however, consumers across all generations are reporting higher comfort levels with artificial intelligence and social media.

Investors are making it clear they want the best of both worlds when it comes to financial guidance. They want digital tools at their fingertips, but they are still most likely to turn to an advisor over their family and friends for financial advice.

At Bank of America and Merrill Edge, we recognize the path to financial freedom is not one-size-fits-all, especially as Americans are working to secure their financial future in an uncertain world. No matter their age or financial goals, their path is unique. This is why we take a high-tech and high-touch approach to providing clients with innovative, new technologies, so they can invest when, where and how they want now and throughout their lifetime.

Generational Breakdown for this Report

- Gen Z: Ages 18-22
- Millennials: Ages 23-40
- Gen X: Ages 41-53
- Baby boomers: Ages 54-72
- Seniors: Ages 73+

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You can't spell "independence" without dependence:
Despite their self-proclaimed DIY approach to finances, Americans heavily rely on an inheritance and input from others

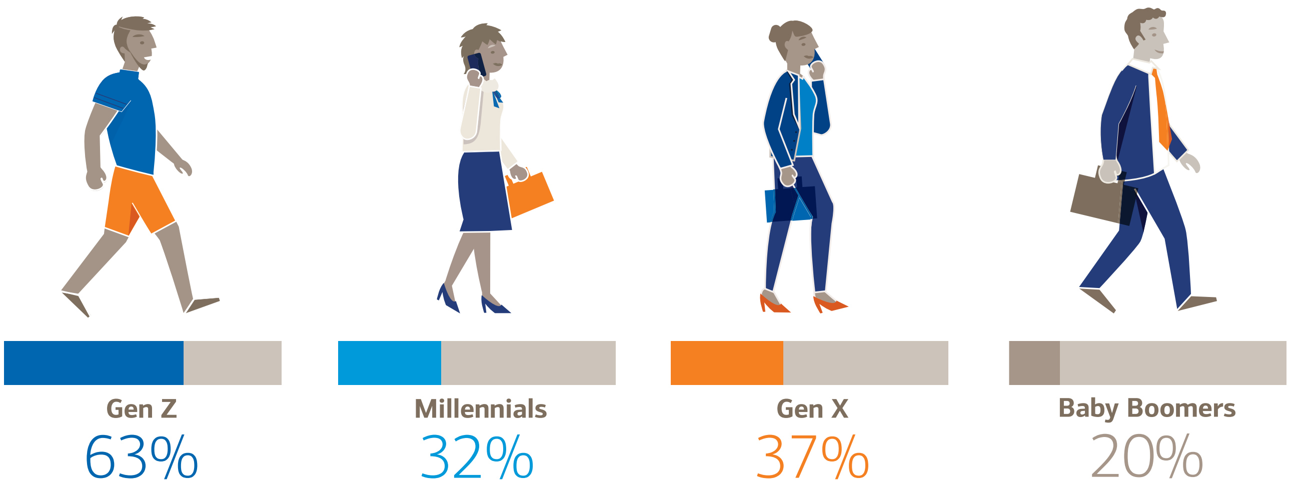
When it comes to financial freedom, Americans may not be as independent as they think they are. In fact, one in three say their financial stability is dependent on receiving an inheritance. This is even true for 20 percent of baby boomers, many of whom are facing retirement, 36 percent of Gen Xers and 32 percent of millennials.

Despite describing their approach to financial decision making as "do-it-myself" (87 percent), Gen Z, today's youngest generation, is more than twice as likely (63 percent) to depend on an inheritance.

Gen Zers aren't just looking to mom and dad for money—they are also counting on their friends (17 percent, compared to 4 percent nationally), grandparents (17 percent, compared to 6 percent nationally) and extended family (14 percent, compared to 5 percent nationally).

This financial dependency across all generations does not stop at an inheritance. When faced with major life decisions, Americans increasingly rely on the input of others before their own instincts, especially when investing money (36 percent) and retiring (22 percent).

Americans of all ages are waiting on an inheritance, including:



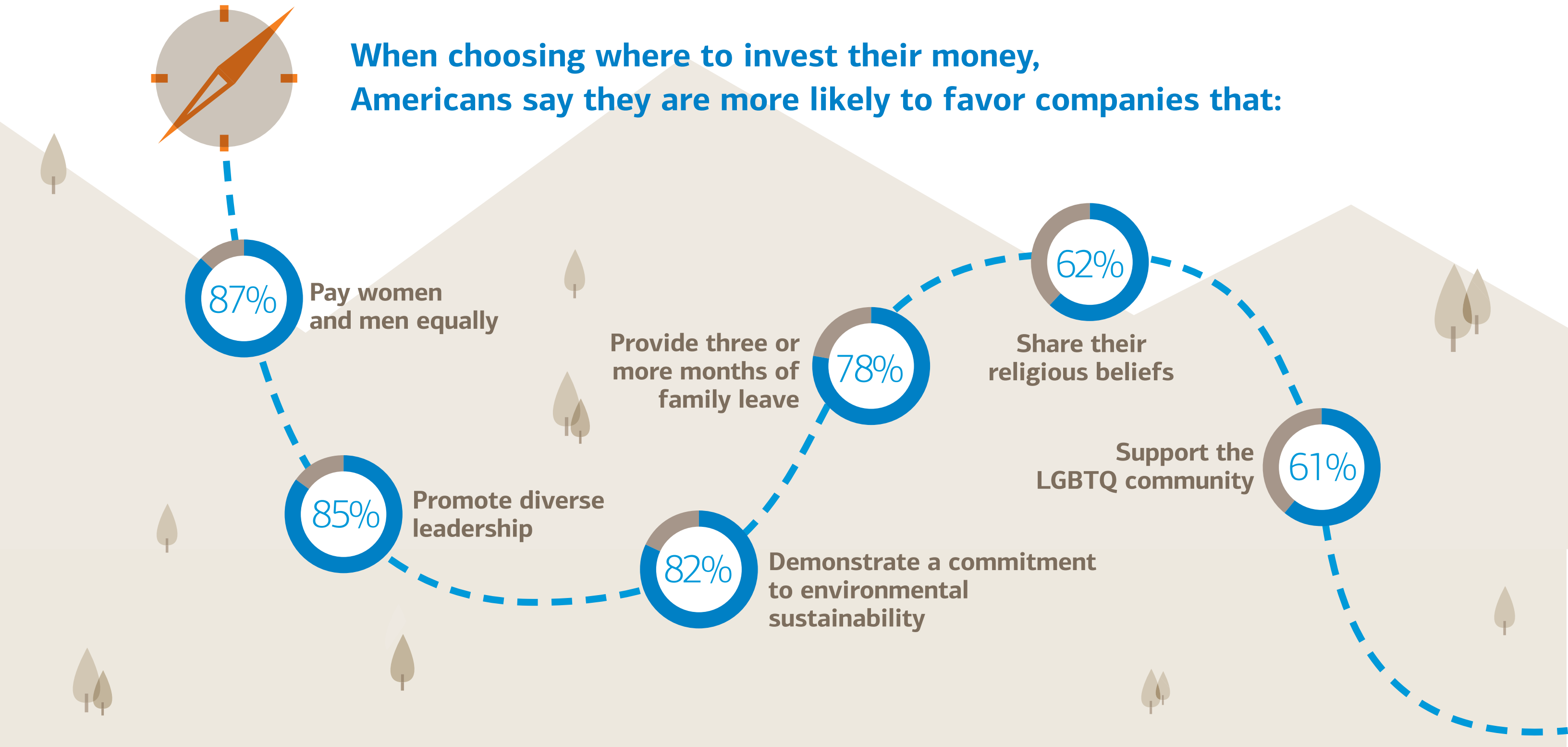
Investing with a purpose:
What socially conscious investors seek

Americans report putting others' needs before their own (78 percent), which may be why social responsibility[1] is growing in importance to investors. When Americans make investment decisions, they prioritize companies that pay women and men equally (87 percent) and those with diverse leadership (85 percent). Other important factors respondents consider when investing in a company's stock include whether the company provides three or more months of family leave (78 percent), shares their same faith (62 percent) and supports the LGBTQ community (61 percent).

As a generation, Gen Zers appear to be the most passionate about making a difference through their investments. Nearly all (88 percent, compared to 78 nationally) cite they will only invest in companies that share their values.

Gen Zers are most passionate about investing in companies with diverse leadership and those that provide three or more months of family leave (76 percent, respectively), whereas millennials are most passionate about diverse leadership and equal pay (87 percent, respectively). Paying women and men equally is the most important factor for Gen Xers (86 percent), baby boomers (93 percent) and seniors (93 percent).

When choosing where to invest their money, Americans say they are more likely to favor companies that:



Prioritizing a profit:
Earning potential drives investment decisions

Although socially conscious investing is important to investors, more than anything else, they want to see profit. When asked to rank the importance of making an impact or making a profit when investing, investors are consistently more likely to prioritize the latter. For stocks, respondents say market performance (88 percent) and ability to pay dividends (85 percent) are most important.

The majority (60 percent) also say they are more likely to invest in a profitable company with values they disagree with than a struggling company that shares their values (40 percent). To further this sentiment, more than half (57 percent) of Americans are more likely to invest in the most profitable company, regardless of its sector, than a company with a focus on environmental assets (43 percent).

Despite 34 percent of investors describing the stock market as "volatile," almost one-quarter (22 percent) of Americans view the stock market at "opportunistic." Furthermore, the majority (57 percent) of Americans, especially seniors (68 percent) and Gen Xers (67 percent), say they have made money in the stock market over the past year.

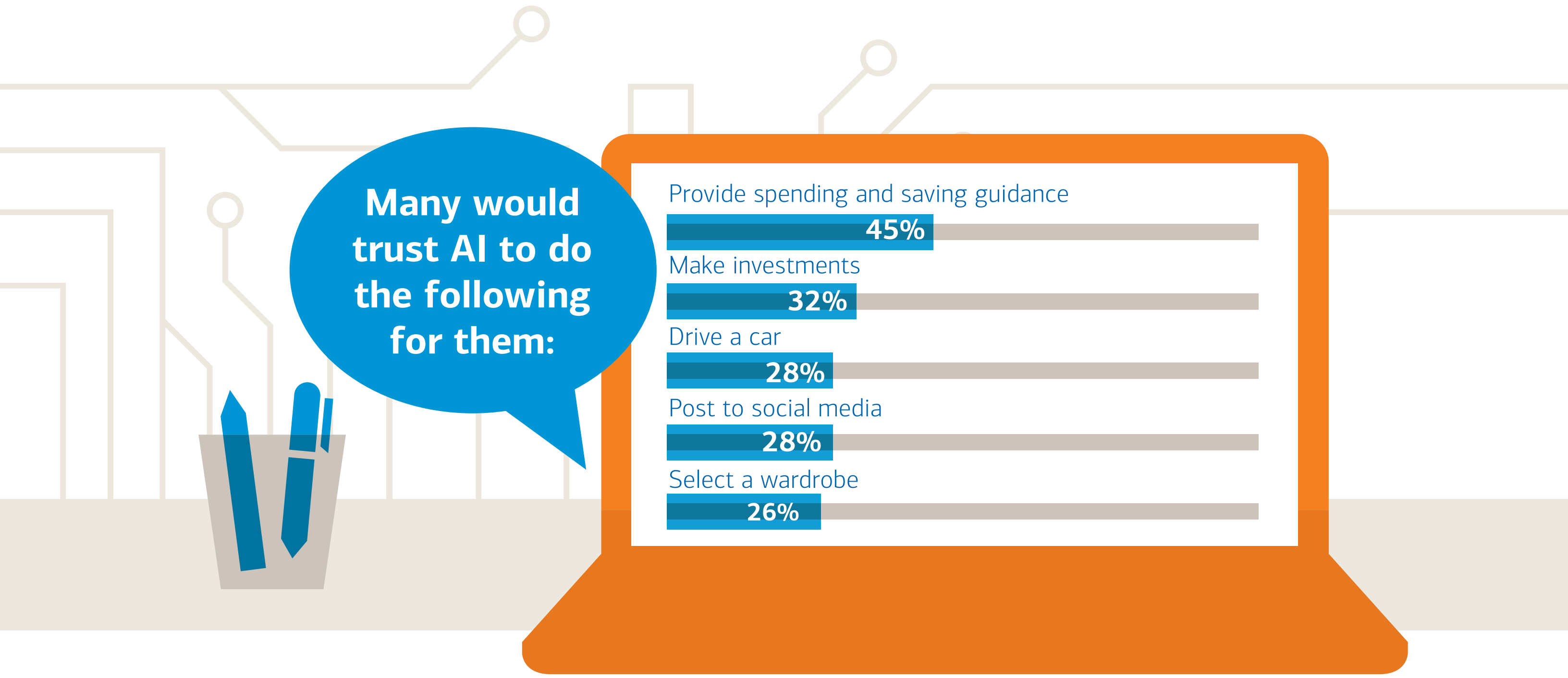
Americans say they are more likely to invest in:

The future of finance:
An intersection of digital and physical

Americans are increasingly comfortable with emerging technology when it comes to finances, as nearly half (40 percent) of Americans say they are comfortable consulting artificial intelligence (AI) for financial guidance. This could be because they have already adopted and trust AI to handle most of their financial activities, including paying bills (60 percent), providing spending and savings guidance (45 percent) and making investments (32 percent). In fact, Americans are more likely to trust AI with their finances than trust it to drive a car (28 percent), post to social media (28 percent) or select a wardrobe for them (26 percent).

This increased trust in emerging technologies may forecast what the future of finance looks like. Americans believe that in their lifetime, all financial decisions will be made with the help of technology (69 percent) and all money will be digital (51 percent). In looking to the next 20 years, Americans also predict the highest performing stocks will be for technologies that do not exist yet (78 percent).

When it comes to receiving financial advice, Americans still value knowledge and expertise. More investors are turning to professionals like financial advisors (81 percent) for counsel than their wealthiest friends (70 percent), older generations (69 percent), parents (66 percent) and friends (57 percent). However, exactly half of Americans are turning to finance apps for financial advice, and one in five would prefer digital advice over in-person guidance.



Methodology

Convergys (an independent market research company) conducted a nationally representative, panel-sample online survey on behalf of Merrill Edge April 9-20, 2018. The survey consisted of 1,000 mass affluent respondents throughout the U.S. Respondents in the study were defined as aged 18 to 40 (Gen Z/millennials) with investable assets between $50,000 and $250,000 or those aged 18 to 40 who have investable assets between $20,000 and $50,000 with an annual income of at least $50,000; or aged 41+ with investable assets between $50,000 and $250,000. For this purpose, investable assets consist of the value of all cash, savings, mutual funds, CDs, IRAs, stocks, bonds and all other types of investments such as a 401(k), 403(b), and Roth IRA, but excluding primary home and other real estate investments. We conducted an oversampling of 300 mass affluents in Atlanta. The margin of error is +/- 3.1 percent for the national sample and about +/- 5.6 percent for the oversample market, reported at a 95 percent confidence level.

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[1]Impact investing and/or environmental, social and governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values-based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

ARM6B6FF | June 7, 2018

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