Saving For Retirement In A 'Gig Economy'

BY: **SABEEN PUREWALL**

The current global pandemic has led to a significant shift in financial markets. Perhaps more notably, the pandemic has significantly changed how the global population is now pivoting their investment strategies, retirement goals, and how individuals are employed to fund their retirement.

Prior to the pandemic, acronyms such as NFTs, SPACs, DeFi – and even more recent terms such as GME and 'diamond hands,' via the Reddit meme stock revolution – were not household terminologies amongst the general population (acronym legend below). This all changed during the early stages of the pandemic. When stay-at-home orders were passed in countries like Canada, many individuals elected to experiment with their financial support income, especially with the CERB benefit cheque in hand making it possible. Recently, this experiment was also propelled by the Wallstreetbets community on the Reddit app, where millions of investors not only created their own financial terms, but it has also led a group of participants within that community to buy heavily speculative stocks.

Recently, Canadians have been afforded time to monitor financial markets using low-fee or zero fee trading apps; in addition, this also empowered Canadians to capitalize on the work from home arrangement to venture into new sources of income to fund their retirement. While the Reddit revolution was great for sparking interest for new investors, it is not necessarily a stable or long-term viable investment or retirement strategy. Regardless, it has likely increased general financial literacy, which is a good thing.

Transformation Of The 'Gig Economy'

With the rise of eCommerce through giants such as Shopify and Amazon, entrepreneurship has never been more prevalent – especially with the colossal revenue losses that small bricks and mortar businesses have endured throughout the pandemic with provincial lockdown measures. It is also important to note that eCommerce platforms have largely evolved into all-encompassing fintech companies.

Individuals now have more flexibility in their career paths. Dropshipping has enabled people to launch a retail business in a very cost-effective manner with the support of the aforementioned behemoths that provide them with the ability to sell online, offline, and via social media. These giants also provide support via crucial analytical data that is typically only attainable by larger big box stores.

These fintech platforms are creating a new reality for employers and talent has now become a significant commodity. eCommerce has enabled start-ups to begin generating profits right away with the added advantage of global reach, the benefit of big data, and through a more targeted understanding of who their consumers are.

eCommerce has also significantly shifted capital accumulation. Workers can now apply their skills in several different employment paths allowing individuals to take on shorter-term employment, further supporting the notion that the 'Gig

Economy' will be more prevalent with Generation Z and the trend will likely continue with Generation Alpha.

It's becoming more evident that the above-mentioned generations are more focused on robo advisors because of the fees associated with trading are immensely attractive. However, can this model ensure that the current generation is saving enough for retirement or will they have to retire much later or rely on an inheritance to fund their retirement?

Scott Blair, chief investment officer at CWB Wealth Management, says, "Trillions of dollars have been injected into the global economy since the pandemic started. However, not all of the increased savings are going into bank accounts. We are seeing an increased level of risk taking in certain areas. Increasingly, people have turned to the stock market for excitement." As example, Blair tells of a client who recently commented on what he intends to do with his "fun money." Since he can't go to Las Vegas, he's bringing Las Vegas to his TFSA.

The Evolution Of Retirement Planning

Further complicating capital accumulation amongst the current iteration of the 'gig economy' or dropshippers is the notion that the robo advisor model does not force one to save – rather, it is up to the individual to do so. Unlike traditional employment models where employees are offered the opportunity to participate in a group retirement savings, defined benefit, defined contribution, and other retirement plans, the gig economy workers are forced to save on their own. With this trend, will employers continue to put a focus on traditional retirement options as a vehicle to retain or hire new talent?

"We believe there is great potential to harness a combination of partnerships and technology to provide contingent workers with access to the same kinds of quality retirement plans that employees have access to. This is a big challenge for our retirement system and one that we are working with partners to respond to." says Jonathan Weisstub, co-founder of Common Wealth Retirement, which has created the industry's first low-fee, digital retirement plan.

Financial literacy is also a key consideration. Many professionals, are often not financially savvy which is primarily due to the fact that the choices for investments in Canada are infinite – as at September 2020, there were 5,000+ mutual fund options available – selecting the right mix for retirement can be daunting for any individual. In addition, the old 60/40 principle has evolved to 80/20, alternative positions are now more prevalent within investor portfolios than ever before, thematic investing is an emerging trend, and NFTs are also becoming more mainstream. Most recently, the National Basketball Association partnered with Vancouver, BC-based blockchain technology company Dapper Labs to 'trade' player highlights/moments.

The previously mentioned strategies are not necessarily a match for every retirement portfolio as thematics tend to require more investor research due to their speculative nature and longer-term investment trends. NFTs have yet to prove that trading memes, art, or 'moments' via a digital asset class will deliver a better retirement outcome for mainstream investors. In addition, just as the case with Bitcoin, Dogecoin, or GME, the current hype or FOMO (fear of missing out) with NFTs will likely result in a correction and retirement portfolios may not be able to sustain the volatility.

"Back in 2017, we saw gains in Bitcoin, although the price did not get as high as it has this time around," says Blair. "Back then, it was more of a novelty and was mostly associated with the dark web and nefarious activities. Young people were more likely to be interested than older folks were and it was primarily contained to retail investors. Today, baby boomers are jumping on board and professional investors are also taking note.

"As a currency, Bitcoin is a disaster, it is simply too volatile. Imagine owning a business selling bikes for $5,000 that you purchase wholesale for $4,000. Someone buys the bike in bitcoin. The next day, the price of Bitcoin falls 20 per cent. All of your profit is gone due to the volatility of the currency. When seen this way, Bitcoin would make running a business very difficult; let alone managing your retirement portfolio."

Firms such as Common Wealth are now offering a fintech solution to the age-old retirement issue rather than taking the hype approach. While some self-directed investors have used their CERB funds to invest in meme stocks, Common Wealth's philosophy is one that considers retirement planning should not be just for large corporations. It should offer access to retirement security. It has also acknowledged that personal finances can be stressful and it has developed a new age solution to assist.

While the Reddit and Crypto revolution has made selected individuals a tidy profit with GME and other equities that short-sellers previously profited from; on the other hand, many have also seen the other end of the spectrum. Minds must typically be trained for individuals to invest for their retirement; that is not different form the past.

Common Wealth has simplified the processes to ensure a better retirement outcome, while also providing reduced pricing to investment options that are typically only available to institutional investors who usually benefit from economies of scale. **BPM**

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Legend:

- NFT - Non-fungible token
- SPAC - Special purpose acquisition vehicle
- DeFi - Decentralized Finance – financial services via blockchain technology and no centralized authority
- GME - NYSE symbol for GameStop Corporation
- Diamond hands - investors that hold investments, typically as part of a collective group, regardless of the risks involved or strength of the company's balance sheet
- CERB - Canada Emergency Response Benefit
- BTC - Bitcoin symbol tradeable on various cryptocurrency exchanges