The voices of "mum and dad" investors are growing louder

By Dr Irene Guiamatsia, Head of Research, Investment Trends

COVID-19 and the extraordinary measures taken by governments and policy makers in response has certainly disrupted the investing landscape in a significant way. As Australians adjust to a "new normal" in their daily lives and evaluate their saving, spending and investing decisions, it is useful to consider which recent trends might outlive the turbulence and which will fall away.

Unless one has been living under a rock, the "rise of the retail investor" is now a phrase well entrenched in the vernacular. As financial markets belatedly awoke to the reality of a once-in-a-century pandemic, hordes of existing and wannabe investors saw upside potential and took exposure to cash equities (shares, ETFs) via online platforms, many doing so for the very first time.

Investment Trends' most recent study of the Australian online investing market reveals the number of active retail online investors, that is those who bought or sold exchange-traded securities in a 12-month period, nearly doubled compared to pre-pandemic levels, from 750,000 to 1,430,000.

Why did the market grow?

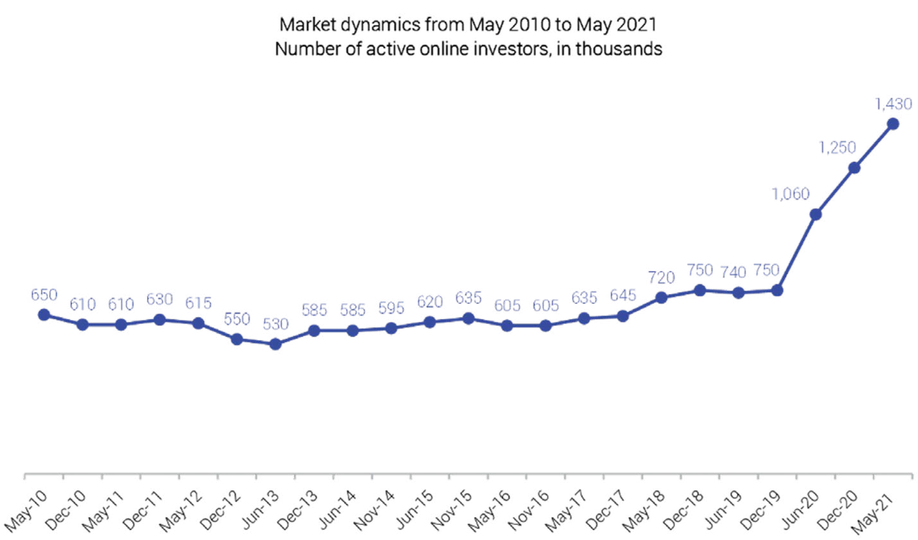
This is a simple question but requires a nuanced response.

A good place to start is to note the past 20 years strongly disprove the notion that financial crises are rare events – as evidenced by the GFC, the Greek sovereign debt crisis, and now COVID-19. Today's investors, both young and old, have had the opportunity to witness first-hand the large market corrections and subsequent effects of central bank intervention. And in March 2020, many had little qualms about catching a falling knife and inflows of new online investors have been sustained since.

On several occasions since the onset of the pandemic, we've asked first-time online investors what prompted them to start investing with an online platform. With remarkable consistency, the top three reasons have been – in order:

- the ability to trade with small amounts of money
- the desire to learn a new skill
- the low interest rate environment

Figure 1



In other words, while the impact of monetary policy cannot be overstated and lockdowns gave many the free time to research and stock pick (and extra cash in the bank), the availability of low-cost online platforms on the supply side was an all-important contributor to this perfect storm.

Education is the name of the game

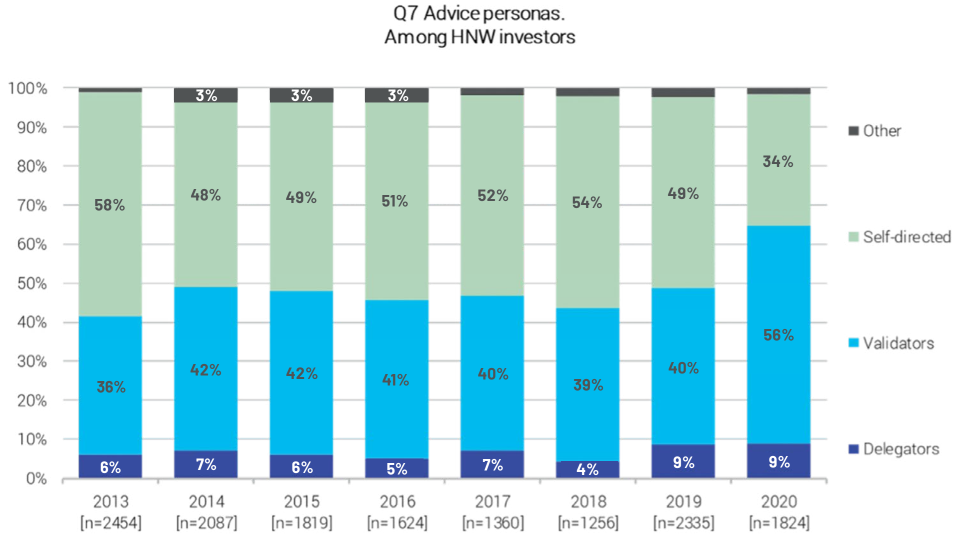
The common moniker used to refer to retail investors – "mum and dad" investors – is quickly losing relevance. Most new online investors are under the age of 40 and in fact, one in six are Gen Z (aged 18-25). This cohort is also more likely to be female, helping to boost female participation in a male-dominated sector.

The expansion of access to this wealth-building mechanism is to be lauded but comes with challenges. The reddit-fuelled Gamestop/AMC episode is an example of investors getting caught up in FOMO, making rash short-sighted investing decisions and following crowds with disputable wisdom is at times.

Our research strongly affirms that investors are hungry for knowledge, resources and tools to help them build long-term wealth. To fulfill that need, the various parties involved (such as online platforms, research providers and regulators) have the momentous task of curating and delivering information at scale to address this rapidly expanding market, yet tailor content in a way that resonates with each customer segment.

When it comes to perceived trustworthy information sources, the chasm across the age spectrum couldn't be wider: Young investors are vastly more likely to trust third-party educational websites, influencers and (interestingly) the regulator, whereas pre-retirees and retirees most often turn to their online platform.

Figure 2



Investors are increasingly vocal

As the number of online investors grow, a different but related trend is simultaneously unfolding, albeit with much less fanfare: Post pandemic, investors are vastly more likely to indicate they would be open to working collaboratively with a financial adviser to seek a second opinion or validate their investment ideas – the "rise of the validator" has certainly arrived.

A good illustration of this engagement model is in the emerging area of environmental, social and governance (ESG) investing, where end-investors seeking to do good with their investment portfolio are the ones taking the lead and driving the conversation with advisers, involving themselves in every step of the process, up to and including portfolio allocation decisions.

So far, this significant shift in attitudes to financial advice has gone unnoticed since it has yet to result in an actual increase in the uptake of financial advisers nationwide – but it does indicate a potential shift around the corner.

This is yet more proof that Australian retail investors want their voices heard and everyone should pay attention. E

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Investment Trends is the leading specialist market research organisation in the global wealth management industry

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