Editorial

But This Time It's Different – the Rise of the Retail Investor

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After yet another year of Covid-19, the global financial markets have proven to be surprisingly robust, quite surprisingly so for many, if you take into consideration that the virus is still not under control. But apart from the striking recovery after the fast crash during the first lockdown, there has been another very interesting phenomenon: the return of the retail investor. One could not miss the headlines about meme stocks, the trading boom, and it seems like all the calls for more shareholders in Germany have finally had their effect. Of course, quite often people now compare the current rise of the retail investor with the one more than 20 years ago when "new economy" stocks were first skyrocketing and, then, often went bankrupt. But can both phenomena really be compared? Or to put it a little more crudely: Do boomers invest differently than zoomers? Back in the late 90s and early 2000s the trading boom was largely based on the idea of getting rich quickly. Is this different today?

Where does the trend to invest come from?
Unlike twenty years ago, most investors do not place bets on single stocks hoping to double their money in a short period of time. They rather use the access to capital markets to solve various issues. When it comes to investing, most people are in the same boat: Negative interest rates or even custody fees for deposit accounts plus an inflation rate higher than many younger investors have ever experienced before leave almost no alternative to investing in the stock market. Then, there is the question of retirement. Most people realize that possibly the state pension scheme will not be sufficient to keep living standards up in the future. Even before the new German government mentioned the plan of a capital-based pension fund in the coalition agreement, many investors took matters into their own hands and started investing with a clear goal in mind: saving up for retirement. Furthermore, the ongoing corona crisis has played its part in the return of the retail investor to the markets. First of all, over the past year, after the fastest crash in the history of stock markets, in 2020, markets have very quickly recovered and mostly risen. This positive sentiment has helped tremendously to get people to invest. Also from another point of view the pandemic "helped". Measures like the closure of restaurants, restricted travel and lockdowns meant two things: People saved and had more money to invest and, maybe more importantly, more time to think about their financial future. Neobrokers made it easy for everyone to open up a trading account from the comfort of their home.

But who are those investors and what do they invest in?
Through all the media hype about the rise of the retail investor and neobrokers, many people are led to believe that those investors are only teenagers and twenty-somethings betting their money on meme stocks and crypto currencies. That is not the case. The phenomenon is a lot broader. The average customer of the Scalable Broker, for example, is in their thirties. But what do people invest in? How do they use their newly found access to capital markets? The rise of the retail investor is also directly related to the rise of a certain type of financial product, the ETF. Over two thirds of our clients are invested in these cost-effective, broadly diversified, and passive funds. The focus clearly lies on well-known and mostly global benchmarks like the MSCI World or the FTSE All-Country-World. Savings plans are also very popular among investors, every second customer has at least one ETF savings plan, on average people save more EUR 450 a month into three ETFs. If we look into the top ten traded securities in the broker, we find eight ETFs and only two single stocks. This clearly shows that investors are focused on long-term investments rather than short-term gains. Of course, there is also speculation, but on a much smaller scale than one might expect given the hype around the "reddit traders versus hedge funds" topic in early 2021. In the Scalable Broker, less than 4% of the clients traded this stock at the time. The GameStop saga brought attention to the topic of stock market investments to people that had not at all been familiar with the field, but then mostly chose to invest in a smarter way.

So is it really different this time?
If you compare the rise of the retail investor to the boom more than 20 years ago, you can clearly see that there are many differences. Most importantly, the focus of investors has shifted. From single stocks to ETFs, from short term to long term. This does not mean that everyone who has opened up a trading account will stay in the market for the next two decades, but overall this new rise of the retail investor should last a lot longer than the last one.