# Investing in a coronavirus world: A brave new dawn?

*An analysis of how retail investors' behaviour has been changing during the coronavirus pandemic - and predictions for the new shape of the industry.*


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# Introduction



A decade on from a financial crisis that shook the foundations of the global economy - but led to record-breaking gains in the US and UK stock markets - the world now finds itself in a familiar position.

As coronavirus continues to disrupt entire industries, the financial markets remain on high alert, and we are arguably in the most volatile period in the history of global stock markets.

But volatility provides opportunity, and the retail investing industry has emerged as one of the few winners of the pandemic so far. Share-dealing demand has soared as investors clamber to take advantage of huge drops in many share prices, and to pick the companies best positioned to flourish in the current crisis.

Retail investing itself was already undergoing huge change. Like the enterprising mercantilists of the Dutch East India Company of the 17th century, new, low-cost investing platforms have innovated, and started to revolutionise how individuals interact with the stock market.

With the advent of cheaper trading on easy-to-use apps, and a plethora of readily available sources of information, news and education, there's perhaps never been a better time to be a retail investor. With easy access, though, also comes the risk that inexperienced investors could suffer heavy losses, followed by an erosion of trust in the industry.

This is a pivotal moment. Record low interest rates, lower fees, and better access to the stock market through fintech means we may be about to enter a new dawn in retail investing. The recent coronavirus-driven stock market crash may prove to be the catalyst that brings forward a shift in the industry - attracting more, and younger, investors and far greater engagement.

In this paper, we've published new Finder research and gathered data and insights from industry experts on the investing boom during lockdown, and how it could shape the industry's future.

## Contents

# A brief history of share dealing



Trading shares in a company may seem like a relatively modern idea, but it's 400 years old - at least. Most recently, though, low-cost trading is widening the appeal, and the audience.

**1602**
The Dutch East India Company establishes the first stock exchange

**1698**
The London Stock Exchange is founded

**1792**
The New York Stock Exchange is founded

**24 Oct. 1929**
The Wall Street Crash followed by the Great Depression

**1960s**
The first digital stock quote systems are developed

**8 Feb. 1971**
The NASDAQ launches as the first digital exchange

**19 Oct. 1987**
Black Monday triggers the US market's biggest ever one-day drop

**15 Sept. 2008**
Lehman Brothers collapses, triggering a global financial crisis

**2007-2009**
Leading US stock indices halve - the biggest crash since the Great Depression

**2015**
Robinhood launches in the US - the first platform to offer commission-free trading

**2017**
Trading 212 becomes the first to offer commission-free trades in the UK

**20 Feb. 2020**
Coronavirus stock market crash starts

# Movers and shakers

Fintech is quietly revolutionising retail investing in much the same way challengers like Revolut, Monzo and Starling Bank have transformed banking - by breaking down the biggest barriers to entry: ease-of-use and cost.

Digital brokerages first emerged in the 1990s and early 2000s, making it easier for retail investors to access their accounts. But fees were high, and have remained a barrier until recently.

“Historically, the share market has been one of the greatest creators of wealth for people around the world,” says Matt Leibowitz, CEO of challenger platform Stake, “but it's been limited to those that have access.”

The aptly-named Robinhood was first to offer commission-free trading for US retail investors in 2015, and this has since been replicated by other disruptors, primarily as a way to attract new customers.

### Top direct platforms by assets under administration (AUA), Sept 2019

1. Hargreaves Lansdown (£98.4bn)
2. interactive investor (£30.2bn)
3. Fidelity Personal Investing (£18.8bn)
4. Halifax Share Dealing (£13.5bn)
5. Barclays Smart Investor (£12.8bn)
6. AJ Bell YouInvest (£11.1bn)

Source: Platforum

### Top 10 most downloaded trading apps, March-April 2020

1. Trading 212
2. Plus500
3. Plum
4. Hargreaves Lansdown
5. Coinbase
6. Moneybox
7. MetaTrader 4
8. Freetrade
9. eToro
10. Crypto.com

Source: App Annie

The drop in fees has been accompanied by an “appification” of investing platforms, both among established platforms like Hargreaves Lansdown, AJ Bell and Fidelity, and challengers like Trading 212, Degiro and eToro. The challengers are growing fast, though they still have a long way to go to catch the incumbents - as data from market analysts Platforum and App Annie show above - but their influence is changing the whole market.

The next big challenge is engaging a new audience - and it seems the time is right. A survey we ran in 2018 showed that only 22% of Brits owned stocks and shares, and 49% had no plans to invest. In 2020, 33% said they owned shares, and only 33% said they had no plans to invest. In the space of two years, we’ve seen the proportion of Brits who invest leap by 11 percentage points. This is likely to increase, but it will take work.

> Our biggest competitor is not Hargreaves Lansdown, it’s the notion that you should not bother investing. It’s not understanding investing as a lifestyle choice.
>
> *Viktor Nebehaj, co-founder of Freetrade*

The retail investing industry currently finds itself on the crest of a wave, thanks to a combination of factors that may usher investing into the mainstream like never before.

## Stock market crash

The global stock market has endured a turbulent few months as a result of the pandemic, with historic daily falls and gains becoming commonplace. The FTSE 100 Index fell 34% from the start of 2020, wiping out roughly 8 years of gains in a matter of weeks.

For would-be investors who've observed a decade-long bull market, the recent crash may be a once-in-a-generation opportunity to join in. New Finder research shows that more non-investors felt encouraged to start by the recent market crash than the number who were put off by it.

## FTSE 100 rises and falls

### Biggest daily rises in FTSE 100 history

| | |
|---|---|
| 24 November 2008: | 9.8% |
| **24 March 2020:** | **9.1%** |
| 19 September 2008: | 8.8% |

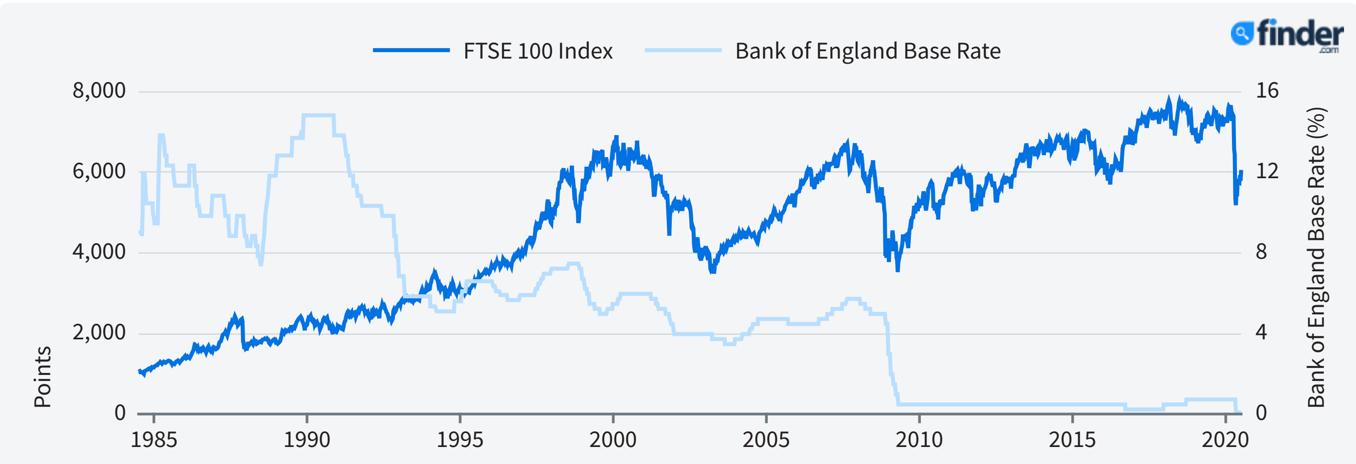
### Biggest daily drops in FTSE 100 history

| | |
|---|---|
| 20 October 1987: | -12.2% |
| **12 March 2020:** | **-10.9%** |
| 19 October 1987: | -10.8% |

## Low interest rates

Despite record stock gains, the global economy has struggled in the decade since the global financial crisis. Interest rates have been continually cut to encourage growth, but with little effect

For the public, this has effectively killed the benefits of one of the most popular investment vehicles - the humble savings account. Leaving your cash in the bank is no longer an attractive option for those who want their money to work for them.



"You've got this double whammy that's hitting cash - low interest rates and negative real rates, and secondly, quantitative easing and fiscal stimulus plans that are literally devaluing money," says Giles Coghlan, chief currency analyst at the broker HYCM. "If you keep your money in the bank, you can expect it to lose value."

## Accessible and low-cost investing

Finder analysis of the leading online platforms found most charge users a fee of between £3 and £12 per trade. In recent years, a raft of challengers like Trading 212, Revolut, Freetrade and eToro have begun to offer "commission-free" trades as a way to draw in new investors to their platforms.

New Finder research carried out in May 2020 shows that potential investors are more than twice as likely to consider the availability of accessible trading apps and platforms as a reason to invest than they were in 2018.

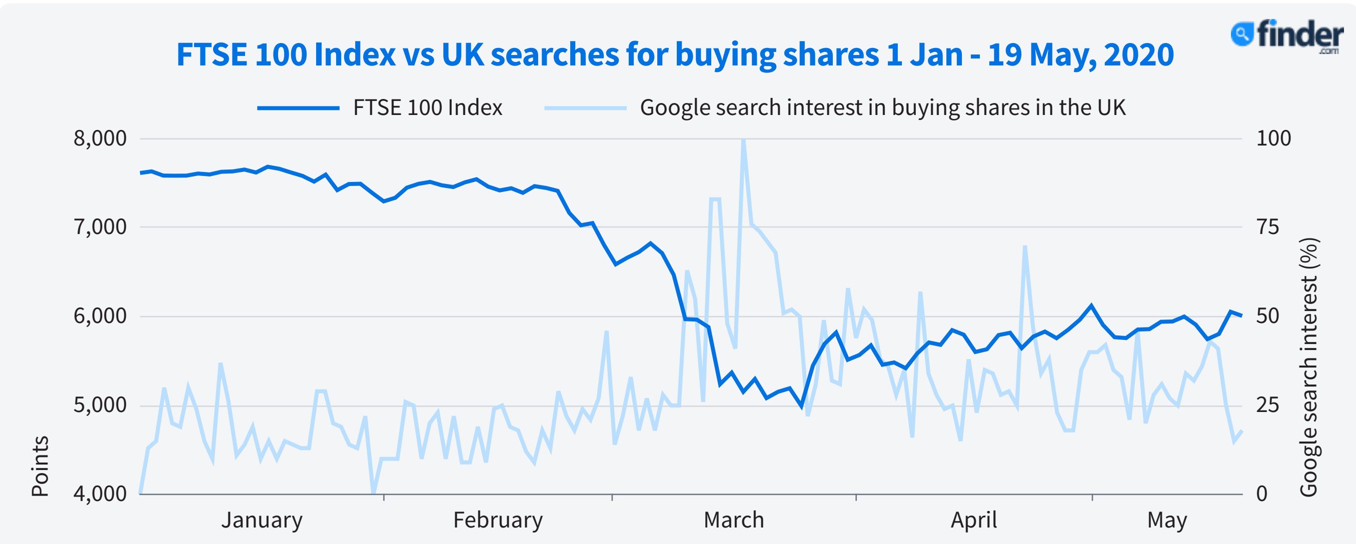
The rise of so-called robo-advisers like Nutmeg may also be having an impact, since they offer low-cost and hands-off investing portfolios to customers who want to get into the market but aren't sure how to do it.

## Greater awareness

The 24-hour news cycle, and natural focus on pandemic issues, mean that the stock market remains one of the few topics for news outside of health. With the economic impact one of the chief concerns of the pandemic, the stock market is dominating headlines like it did during the financial crisis.

"I think the pandemic has brought more people to the market," says Stake founder and CEO Matt Leibowitz. "If you read the papers of commentary, it's all about the COVID infection numbers, what a certain influencer or celebrity is doing in isolation, and what the stock market did.

"The stock market is a driver for sentiment around the world and people want to be connected to it - and there are more and more people that have an opinion on where the world is headed and want to be a part of that discussion. The market lets them do that and generate a return from their investments and their thesis."



The most recent stock market crash - like its predecessors - has bred interest in buying shares. But Finder research suggests this surge in demand may be part of a wider move towards investing, especially among younger generations.

## Changing attitudes to investing

A Finder survey of 2,000 UK adults in May 2020 shows an increase in those planning to invest in the stock market compared with the number two years ago, with low interest rates, dividends, stock performance and accessibility as the primary factors driving interest.

In our latest survey, 33% told us they currently own shares, compared with only 22% in 2018. Overall, 67% of respondents planned to invest - a 30% increase from our study in 2018.

Accessibility is a key factor - 19% cited the availability of easy-to-use apps and trading platforms as a reason they would invest in future, which is double the figure from 2018.

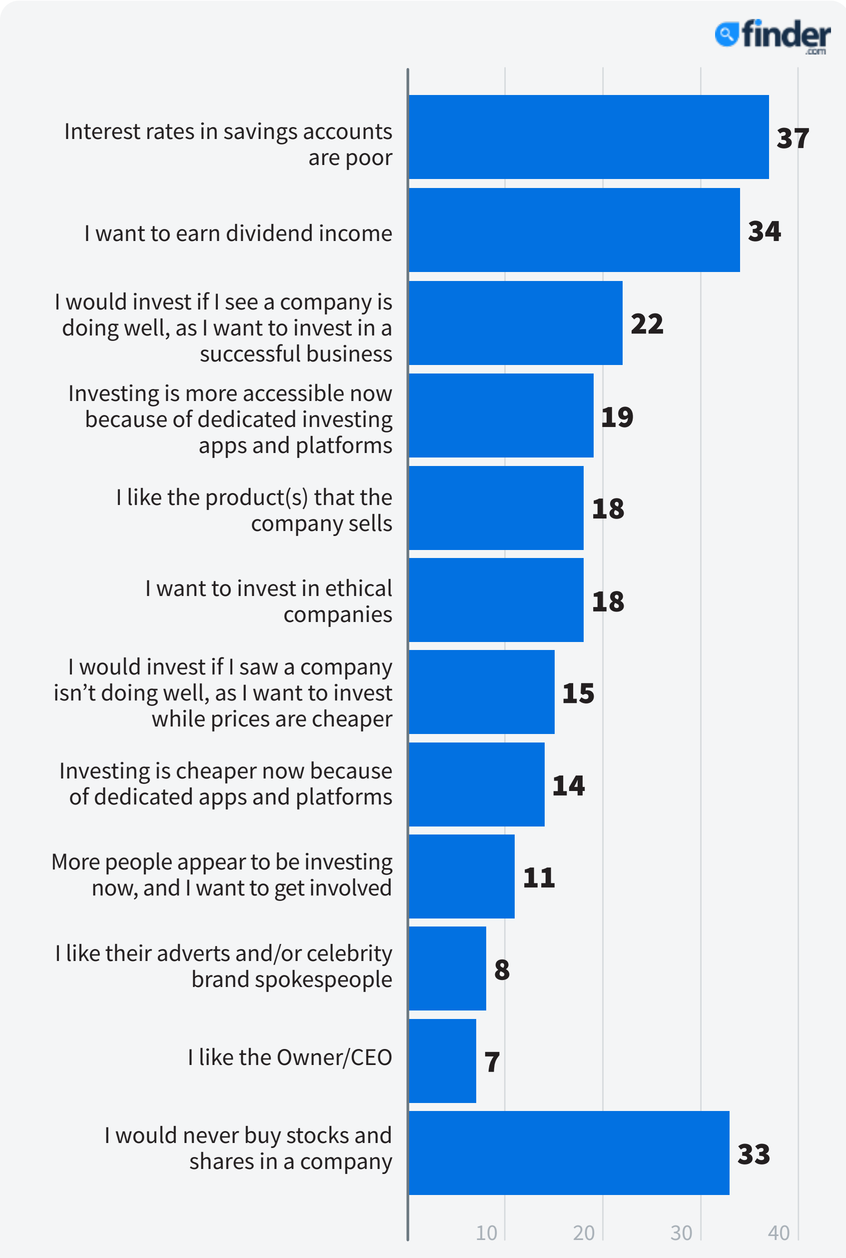
37% of respondents suggested low interest rates as a factor that has made them more likely to invest, a 68% increase on 2018 levels.

## The pandemic

Investor sentiment in the wake of the pandemic seems split, with 20% in our poll more likely to invest in the next 12 months as a result of the coronavirus stock crash, and another 20% less likely to.

Notably, those who currently own no shares were more likely to invest in the next 12 months than those who had already invested.

However, 47% responded that the pandemic did not impact their opinion on investing in the medium-term, suggesting it is other factors that are shaping the change in investor attitudes.



Source: Finder research, May 2020

Fundamental shifts are happening in retail investing: younger generations seem to be embracing the idea, as it becomes more accessible via apps.

Finder's survey shows 75% of generation Z and millennials are planning to invest, but it's only 60% of baby boomers, traditionally the group most likely to do so. Data from Platforum, below, shows that the average age of investors has dropped.

Many gen Z and millennials said dedicated platforms and apps had made them more likely to invest (27% and 32% respectively). Cristina Puscas, associate analyst at Platforum, believes this has been key to attracting younger investors.

"One of the contributing factors is improved technologies, as fast and sleek user experience and mobile-driven features have simplified...accessing investments and trading."

The average age of **retail investors in 2014** was **56.** **In 2019,** it was **50.**

Source: Platforum

Millennials are also the group most attracted to dividends - 42% cited them as a reason to invest. Freetrade's Viktor Nebehaj says: "We've noticed that the vast majority of those investing in [dividend stocks] are millennials. They really, really love dividends."

Freetrade's customer base doubled in the first four months of 2020; the cash value of buy orders was up 350%, and total orders were up 800%. The average user age is 30, and 90% of all customers are under 40. Similarly, Stake's monthly new customer numbers have more than doubled since December 2019, with trading four times higher in the period.

Incumbents, too, are gaining: AJ Bell saw a record 9% increase in total customers in the first quarter of 2020. Hargreaves Lansdown revenue jumped 13% year-on-year for the first four months of 2020 - and the average age of its new business clients was 42 in March, down from 48 in March 2019. In fact, most new clients were under the age of 41.

While skyrocketing demand is undeniably good for investing platforms - and potentially for investors who have the opportunity to better build their wealth - it shines a spotlight on existing and new challenges facing the industry.

## Transparency

One of the central promises of fintech is greater transparency - something that new challengers are acutely aware of.

Viktor Nebehaj, of Freetrade, says he wants to build a new generation of...companies that doesn't prey on "information asymmetry". "We think it's very important to align your incentives with those of your customers, and we don't think financial services companies have done an amazing job at that."

There are encouraging signs. Holly Mackay, CEO of the investment comparison site Boring Money, says: "Transparency has improved a lot and some platforms are actually now quite good at being very clear on what investors will pay at the point of both trades and onboarding."

## Business models

A transparent free trading promise may be an attractive way to draw in new investors, but it's unlikely to be a sustainable model.

"The growth of zero commission trading on the surface should be good news for investors," says Tom Bailey, a writer at the interactive investor-owned Money Observer. "However, as ever there is never a free lunch. Many of these free trading platforms have several downsides. The biggest in my view is the restricted investment universe they sometimes offer. Some, for example, have no or very limited number of passive index trackers, mutual funds and closed-end investment trusts."

While the established platforms may charge higher fees, they offer reliable, robust and full-featured investing. As is often the case, you get what you pay for, and platforms offering "free" trades may struggle to compete with fully fledged brokerages, or make up the difference using FX charges or through the bid-offer spread. Some may use it as a loss-leading strategy to shepherd investors towards high-risk products or trades, such as CFDs.

As Stake CEO Matt Leibowitz suggests "You've seen a swath of new players come in, which means customers are getting great choice, but many of them are masquerading as brokerages when they're actually CFD platforms that trade against you. These make money when you lose money. The problem with brokerage is not actually being solved by the new players. It's not even an evolution or revolution, for many it's more exploitation."

For challenger platforms, finding a sustainable business model and fee structure that allows the platform to grow organically without exploiting customers is a primary focus. For many platforms, such as Freetrade, Stake and Revolut, offering a tiered subscription model is being tested as the way forward.

## Customer expectations

Confronted with poor interest rates, many new investors have turned to share trading as a way to improve their short- and long-term financial position. Trading platforms that best support customers in achieving their goals will thrive, especially during this period of economic uncertainty.

"I think it's vital that we remember why...people choose to invest in the first place; they're looking to achieve a personal goal," says Tom Stevenson, investment director at Fidelity Personal Investing. "Whether it's planning for retirement, funding their child's education, or pursuing a career dream, many people will have seen their plans affected in some way, and this will naturally affect how they feel about making financial decisions in the more immediate future."

> A key role for the industry is to ensure that the right people are investing in the right products...that clients fully understand the risks of investing as well as the risk of staying in cash.
>
> *Danny Cox, Hargreaves Lansdown*

Trading platforms will also need to evolve alongside their users, especially those digital natives for whom ease-of-use is paramount. As Freetrade's Viktor Nebehaj explains, "accessibility is something that has become an expectation for certain age groups and certain demographics, but people of any age or from any walk of life benefits from it."

## Inexperienced investors

As the retail investing industry continues to attract new customers, it will need to better cater to those with less experience and knowledge.

As Giles Coghlan explains, trading platforms and advisers should shoulder some of the responsibility when it comes to educating new investors.

"Many retail traders won't be aware of the market dynamics, so they'll just be buying or selling based on where the price is. One of my main roles as a chief currency analyst is educating traders how to trade in an informed way, not a reckless way. "

This will not just be an issue for challenger platforms, but also established brokers seeing to attract new accounts.

But Holly Mackay, CEO of Boring Money, says: "...no-one has changed the dialogue to engage the less confident investors. Although the [challengers] have made an effort, these products are still effectively sales engines for investment products. "

### Matt Leibowitz, co-founder and CEO of Stake:

"We just need to evolve what brokerage is by using better technology to provide a better service at a better price point. It's about providing the old-school level of choice, but doing it in a much more refreshing way so that it's intuitive and affordable. I think there's still a lot more to be done in brokerage and...people just want a better experience that's more transparent, more open and more honest. Customers deserve to have a strong relationship with their investment platform, who work in their interests."

### Holly Mackay, CEO of Boring Money:

"Our research since lockdown confirms that many investors see the falls as a buying opportunity. So I think appetite for investments will remain high, although of course incomes, and hence investible assets or new money, will fall. The focus on costs will continue as disposable incomes fall - transparency and value for money will become more crucial. I also see the demand for sustainable investing accelerating dramatically - and businesses need to be ready now, not next year."

### Tom Stevenson, investment director at Fidelity Personal Investing:

"I expect to see a growing emphasis upon companies and the way in which they engage with the world around them. As we've seen over recent weeks, there's been a strong public reaction to companies that are seen to value the interests of their employees and customers, as well as shareholders...we have a role to play in being part of the recovery from this pandemic in the sense of how we service our customers…"

### Viktor Nebehaj, co-founder of Freetrade:

"During the 2007 financial crisis, brokers saw a similar surge in sign-ups and new users. There was a fear that these users would drop off as unemployment grew and people had less money to spend. Ultimately that never happened. So I think this crisis could end up being a boon for companies like Freetrade. We'll emerge on the other side of it with more users and on solid ground to succeed in less turbulent times."

## Conclusion

The coronavirus stock market crash may prove to have been the catalyst for a braver new world of retail investing - or a flash in the pan. Both incumbent and challenger platforms have seen a huge surge in demand during these turbulent months, especially among younger people. But the test for the industry will be converting this interest into a new generation of investors and finding a sustainable business model that works for both.

This industry now shoulders much of the burden for helping to improve Brits' financial futures. Continuing to harness the benefits of fintech to give investors easy access, and committing to being transparent, to foster trust, will help it succeed.

All investing should be regarded as longer term. The value of your investments can go up and down, and you may get back less than you invest. Capital is at risk.

## About Finder

Finder is a personal finance website which helps consumers compare products online so they can make better-informed decisions. Consumers can visit the website to compare utilities, mortgages, credit cards, insurance products, shopping voucher codes, and so much more before choosing the option that best suits their needs.

finder.com/uk launched in the UK in February 2017 and is privately owned and self-funded by two Australian entrepreneurs – Fred Schebesta and Frank Restuccia – who successfully grew finder.com.au to be Australia's most visited personal finance website (Source: Experian Hitwise).

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## About the author

Tom Stelzer is a writer at Finder specialising in personal finance and investing. He has an MA in media arts and production and a BA in journalism from the University of Technology Sydney.