Heart vs head: Are more investors choosing passions over pounds?

An analysis of how investors' passions impact their choices, plus expert predictions for the sector.

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Introduction

In May this year, Elon Musk proffered this advice to his Twitter followers: “Buy stock in several companies that make products & services that *you* believe in. Only sell if you think their products & services are trending worse. Don’t panic when the market does.”

So are more investors listening to their heart in 2022? And if so, what’s driving this behaviour and which investments are winning?

Investing in passions such as whisky, wine and art isn’t new, but there’s a growing number of ways to buy and hold these assets. Access to art investing has grown, thanks to securitisation - allowing individuals to buy shares in a holding company created to own a piece of art. New investment providers such as Masterworks, Mintus and Chip are offering alternative investments to customers, including luxury watches, wine and art. And eBay reported that Pokémon card sales increased by 574% from 2019 to 2020, leading it to launch The eBay Vault in June this year. The climate controlled vault stores trading cards bought on eBay.

Alongside these innovations on an old theme, we wanted to find out how far investors are listening to their heart when choosing stocks. A Finder poll in September found that 42% of investors consider their passions when making investment decisions, with those aged 16-24 more than twice as likely to invest based purely on passion than any other age group.

Then there are the events that can trigger interest in “passion” stocks. The run-up to the football season saw increased traffic on finder.com to pages related to buying shares in football clubs — a popular (but widely unprofitable) sector. The next World Cup, kicking off on 20 November, 2022 - could see a surge in interest in this type of stock.

While it might be exciting to sell a limited edition Pikachu for a small fortune or invest in a football team, what role are passions playing generally in investors’ choices? To explore this, we asked a panel of experts from across the sector - we’ve shared their views and our survey results in this report.

Contents

3 Expert panel

4 Investor motivations

5 Why “passion” investments?

6 Investor loyalty

7 Major events

8 Expert predictions

9 About Finder

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Expert panel

Matt Cooper, chief commercial officer, **Crowdcube**

In his 7 years at Crowdcube, Matt has driven the growth of Crowdcube to profitability, having advised companies like Monzo, Revolut, BrewDog and others on executing some of the largest and fastest crowdfunding raises in history. Matt is a regular guest speaker at both the London Business School and the London School of Economics on business and entrepreneurship.

Marc Hendriks, CIO, **GreenGrowth**

GreenGrowth is an impact investment platform that determines how an investor's carbon footprint can be impacted by their investments. Marc has 30 years of experience as a professional economist in the financial sector and CIO for an asset management company and a multi-family office. Marc was an early adopter of ESG principles for portfolio construction.

Jonquil Lowe, editor of ***The Good Retirement Guide***, published by Kogan Page

Jonquil is an economist and author specialising in personal finance. She has a background in stockbroking and has been head of money research at Which?. She is senior lecturer in economics and personal finance at the Open University, a senior fellow of the Higher Education Academy, and an associate member of the Chartered Institute for Securities and Investments. Jonquil's career spans 40 years and around 30 books.

Charlie Macpherson, head of investment, **CIRCA5000**

CIRCA5000 is an impact investment platform for UK investors and focuses on sustainability. Charlie holds a Masters in economics from the University of Edinburgh. Before CIRCA5000, Charlie worked at Schroders and Bain & Co.

Vedat Mizrahi PhD, CFO, **Mintus**

Vedat has a PhD in finance and has been lecturing in corporate finance and valuations at King's College in London. He worked at Deutsche Bank as an investment banker for over 12 years. He then joined Bank J. Safra Sarasin's Wealth Management team.

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Have investors changed their motivations for picking stocks recently?

Charlie Macpherson, CIRCA5000

We have definitely seen a...preference for ethical or environmental themes... [as] part of a longer term transition. In addition, big brands can often ride waves of retail interest that boosts valuations but doesn't always end well. There are a number of examples of these in the last year that investors have over allocated to... including Oatly, Beyond Meat and Deliveroo.

Matt Cooper, Crowdcube

We've seen in the public market how investors are making investments in brands they are already customers of. This is no different in the private markets, too, whereby investors are backing businesses they have a touchpoint with. We've also seen a huge increase in support for B-Corps, ethical companies and those with strong ESG values, likely driven by the desire to take affirmative action amidst the continued news focus on the climate crisis.

Top 12 physical "passion" investments

Jewellery	8%
Coins	8%
Cars	6%
Stamps	5%
Watches	5%
Art	5%
Diamonds	5%
Whisky	5%
Wine	4%
Antique furniture	4%
Trading cards	3%
Chinese ceramics	3%

Source: Finder survey, Sept 2022

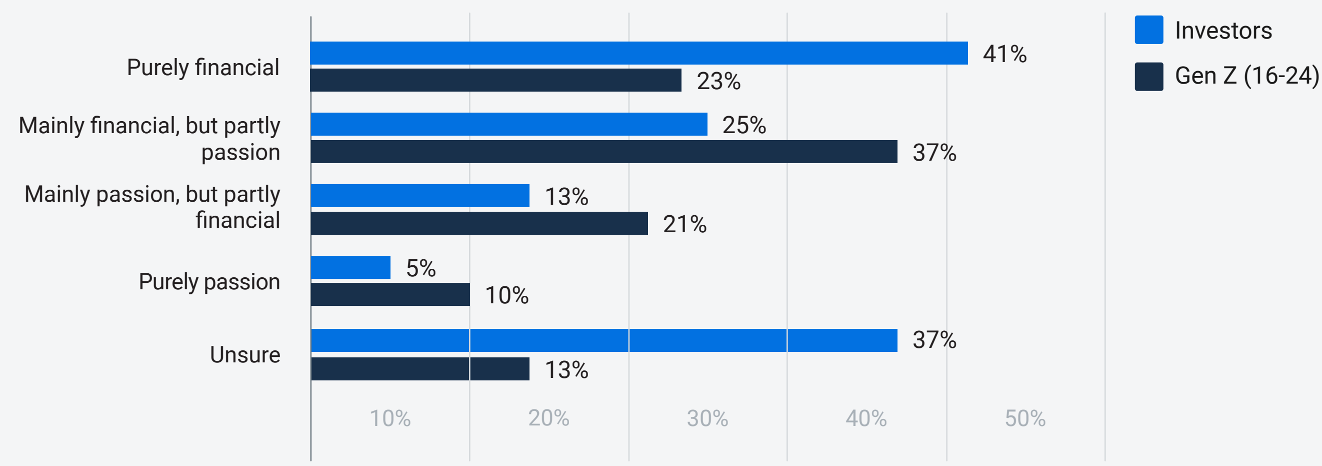
Jonquil Lowe, editor of *The Good Retirement Guide*

Investment Association data show that responsible investment has been growing fast, having doubled over the last 2 years. However, there is still a lack of transparency and consistency over the meaning and measurement of concepts such as "responsible", "sustainable" and "environmental, social and governance".

Marc Hendriks, GreenGrowth

According to the Global Sustainable Investment Alliance, ESG mandated assets now account for more than half of all professionally managed assets. A Charles Schwab survey shows...younger people [are] far more likely to invest in ESG funds than the baby boom generation.

What are your drivers when choosing investments?



Source: Finder survey, Sept 2022

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Charlie Macpherson, CIRCA5000

Many people invest in wine and lay it down with the intention to sell it in the future once it has matured. On the other hand, art is harder [to invest in], as it is more down to fashion trends. Picking the next artist to come into (or back into) fashion is, to an extent, dependent on luck and building a robust investment case. As a result it tends to be more of a hobby investment. Football clubs are just like any other business in that they have a P&L and a strategy so you can build the investment thesis, but it is also a notoriously easy way to lose money and so is often more of a hobby investment.

Matt Cooper, Crowdcube

Thanks to the rise of financial technology, so many more people now have the opportunity to invest in alternative assets like fine wine, whisky or art, and fractional ownership has made this possible. What’s more, education around why a diversified portfolio of both public and private investments, across asset classes, has become more widely available. A big part of passion is conviction and intent. Naturally, when someone is intellectually invested in a certain area or passion – be that art, whisky or football clubs – they understand the subject matter, they do their reading and really know their stuff. As such, investing in that area is a logical and sensible approach.

Jonquil Lowe, editor of *The Good Retirement Guide*

While there may be some hope of making an eventual gain from tangible investments, such as wine, art and classic cars, for many, the joy comes from ownership, building up a collection and/or networking with other aficionados, making this more of a hobby than a serious quest for profit. For others, particularly wealthier investors, passion investments may be part of a strategy of diversifying their portfolio beyond the standard asset classes of cash, bonds, property and equities.

Vedat Mizrahi PhD, Mintus

Threats to the global economy have increased dramatically since the beginning of 2022, leaving many investors wondering how to best protect their portfolios. The generally accepted rule for investors with varying risk profiles is the same: build a portfolio that can weather the volatility by being well-diversified. Art performs well in highly inflationary periods and protects wealth. An expanded money supply can drive demand-pull inflation — with more money in circulation, demand grows and prices go up.

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>
> *Jonquil Lowe*

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How much loyalty do investors have to "passion" investments?

Jonquil Lowe, editor of *The Good Retirement Guide*

Whether looking at more traditional investments or "passion" investments, a point to bear in mind is that it's easy to buy, but it can be very much harder to decide to sell. There are a variety of behavioural biases that contribute to the difficulty of letting go. For example, the "endowment effect" means we tend to put a higher value on something we own than the same item if we don't own it. So, you might be able objectively to advise a friend that it's the right time to sell, but if the asset is yours you will hang on for a higher price.

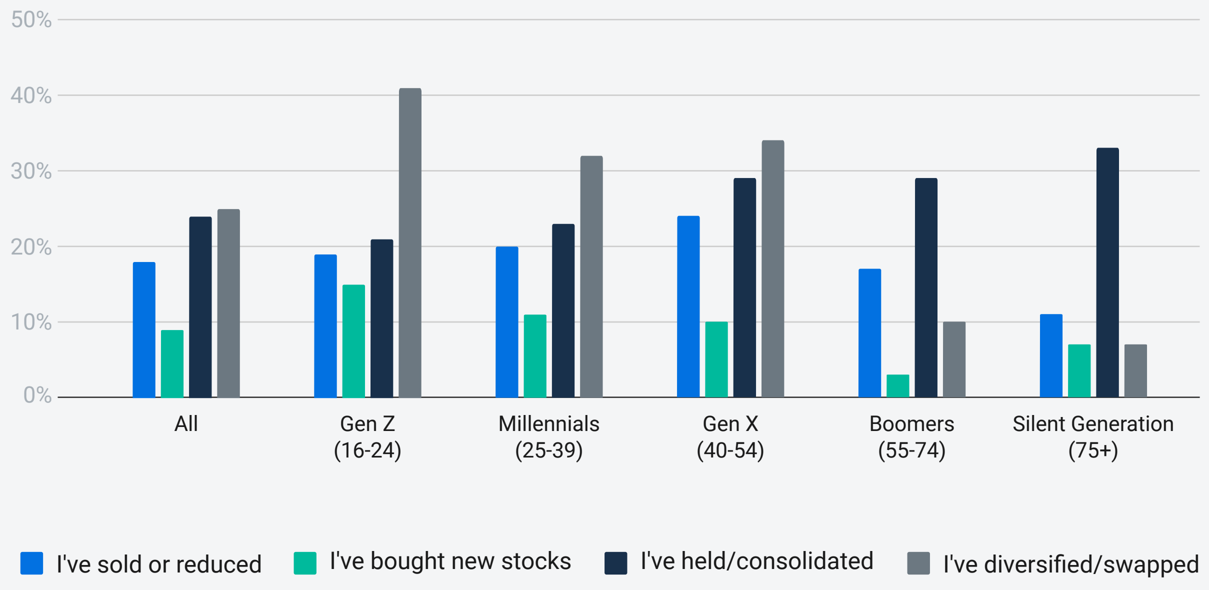
Matt Cooper, Crowdcube

Passion-driven investment is not charitable giving and doesn't make the investor completely irrational. People still approach investment in assets they're passionate about in the same way as they would any other asset class. In fact, investing based on deep interest and understanding means an investor has probably spent more time assessing their decision.

Charlie Macpherson, CIRCA5000

Combining passions with investments can be incredibly risky, especially if the motivation is profit. Investors are prone to cognitive biases at the best of times, but even more so if passion is thrown into the mix. The famous investor Peter Lynch had the mantra "invest in what you know" and consistently produced double the returns of the S&P 500. However, when we are passionate about something, it is easy to succumb to overconfidence bias — assuming we have superior knowledge of the proposition and are more likely to perform a lighter due diligence process. [Investor] research is plagued by confirmation and information biases.

Have you changed your approach to investing in 2022?



Source: Finder survey, results for investors, Sept 2022

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Matt Cooper, Crowdcube

World events clearly impact investment decisions and behaviour. The war in Ukraine, inflation and fears of recession all drive specific behaviours across private, public and institutional markets. On top of that, ongoing societal issues, like the climate crisis, that have been compounding for years also drive action. But investing isn't quite like "impulse buying" or that one-click response you might have with online shopping. It's a far slower and more deliberate action, and crucially, established, regulated companies dealing with retail investors will have processes and product journeys in place to ensure investors are making considered investment decisions.

Charlie Macpherson, CIRCA5000

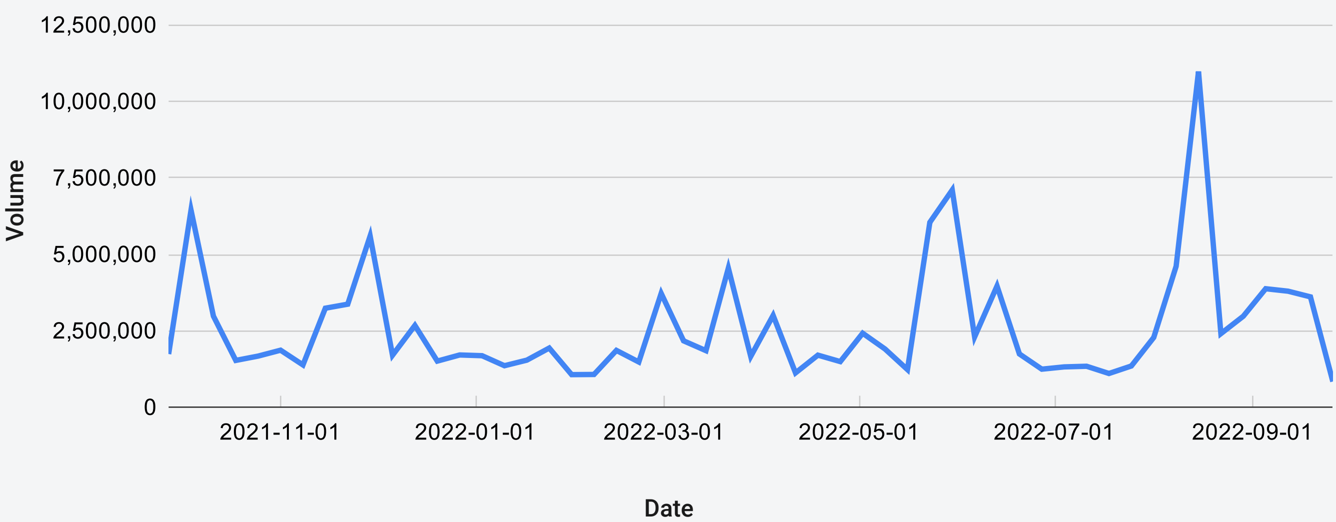
Sentiment and flows can be boosted by certain events: COP26 in 2021 was a great example. There were a few announcements that impacted the investment case but awareness of the issues at hand was boosted by constant press coverage which helped drive sentiment.

Vedat Mizrahi, Mintus

I am not sure that events have any impact on these investments but I can surely say that seasons do — art investments pick up during the busy auction periods in spring and winter. I do not see fractionalised art investment as a passion investment, but a purely financial investment.

At Mintus, we focus on the uncorrelated nature of this asset class and its returns compared to traditional asset classes. So, we believe as long as the returns are relatively better than the other asset classes, investors will hold on to their art investment.

Trading volume of Manchester United shares



Source: Yahoo Finance historical data

Marc Hendriks, GreenGrowth

The seismic change in financial market conditions this year will likely bring about a sea-change in investor behaviour because the driving force for investments over the last decade has been very low interest rates…The result has been to encourage investments into equities to an excessive degree for prudent risk management. Aside from the current bear market in equities…the higher yields on government and corporate bonds now emerging will attract investors into fixed income assets once the interest rate markets have stabilised. Within equities, the enthusiasm for so-called growth companies, aka tech companies, will be dampened and a switch back to value companies is likely to occur.

Jonquil Lowe, editor of *The Good Retirement Guide*

Older shareholders have traditionally opted to buy shares in companies that are familiar to them, such as M&S. However, knowing the products is not the same as understanding the business and whether it offers a good return.

For younger generations, investing in brands is a similar idea of choosing the familiar, but often with a focus on unique or limited items, such as special edition trainers. But the risk is so much higher — unlike shares in M&S, there is no stream of income and no formal exchange where trainers can be traded and priced on a continuous basis. The value of the trainers depends purely on there being other people who share the same taste and opinions about what assets are desirable. As fads change, what seemed like a valuable asset one day may become worthless the next. And that's the problem with many of the collectables that make up "passion" investments – ultimately their value depends on tastes, fashions and trends that may shift over time.

Vedat Mizrahi, Mintus

As the alternative industry becomes increasingly accessible and transparent, evidence is emerging for a new portfolio allocation strategy: 33/33/33. [It's] a portfolio that is split between stocks, bonds and alternatives, which has historically performed well, often outperforming other allocations. Once the domain of institutional and high-net-worth investors, alternative investments continue to grow in popularity and are making their way into the portfolios of retail investors.

Conclusion

Investors seem to be taking more inspiration from their heart in their investment choices, with an increasing number of ways to buy a stake in their passions, and spikes of interest in specific shares or investment types around major "passion" events — football season and COP26 being key examples.

Finder survey data shows that younger investors - gen Z - set more store by their passions when choosing investments than their older counterparts do. The question is whether passion will stay as a major driver for gen Z as they grow older.

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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

Zoe Stabler is a senior writer for Finder and specialises in investing. Zoe has a Diploma for Financial Advisers (DipFA) from the London Institute of Banking and Finance. She also has a BA in English literature and several years of experience in writing about all things personal finance. Before embarking on her journalism career, she worked as a management accountant.