



# The Evolving Landscape of *U.S. Retail Investing*

The Growing Influence of the Individual Investor

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*Consider Everything*

The United States retail investor market is evolving rapidly in an environment of new trading opportunities, fractional shareholding and changed pandemic-related behaviors. These dynamics have significant implications for both asset managers and corporate issuers. Although it is still early to draw definitive conclusions, it is essential to start by posing some of the right questions.

Companies want to know what may be driving movement in their stock prices. Corporate boards need to be aware of shifts in their investor base that could impact quorums and proxy voting.

The BNY Mellon Depository Receipts (DR) Global Investor Relations Advisory team (GIRA) recently hosted a webinar addressing the role of the retail investor in today's markets.

### The role of retail investors in today's markets



*Greater trading volumes due to the increasing purchasing power of retail investors*



*The characteristics of recent market entrants relative to prior retail investors*



*How investor relations (IR) teams are communicating in new ways, such as through the use of social media, with the retail segment*

The panel, moderated by BNY Mellon GIRA Senior Specialist Diana Soto, explored current trends and behavior of retail investors. The panelists were:

- **Jeff Chiapetta**, Vice President, Trading and Education, *Charles Schwab*
- **Dr. Angela Fontes**, Director, BEAD Program at NORC, *University of Chicago*
- **Eric Liu**, Co-founder and Head of Research, *Vanda Research*
- **Geoff Serednesky**, Managing Director, Research, *FTI Consulting*<sup>1</sup>

# Purchasing Power

U.S. households and nonprofits increased their direct and indirect holdings of stocks to 43% of total financial assets as of April 2021. That is a watermark representing the highest level recorded since 1952, according to Federal Reserve data.<sup>2</sup>

Research reveals that approximately 8.5%-10% of American adults opened a new taxable investment account in 2020, with about 3%–5% being such investors' first accounts, according to a 1,300-household national survey conducted by NORC at the University of Chicago and the FINRA Foundation.<sup>3</sup>

*In 2020, average daily net buying by individuals of U.S. listed equities increased fivefold compared to pre-2020 to \$1 billion and continued to rise an additional 30% by early May 2021, according to Vanda Research data, said panelist Eric Liu.*

Those transactions only represent cash buying, although options activity has meanwhile increased five to tenfold. Liu said that retail investors accounted for 20%–25% of trading in 2020, up from 10% previously. More significantly, the proportion rose as high as 60% during certain periods in 2020, notably in companies with a strong reputation for ESG after the U.S. election.<sup>4</sup>

Liu also noted that positive correlations between price movements and investor activity have resulted in longer momentum trends on both the upside and the downside from retail and institutional participants. In addition, engagement has increased, particularly among those working from home as a result of the pandemic. Increased retail investor interest in options is also creating new challenges for dealers, according to Liu, who explained that if a retail trader buys an option, the dealer needs to hedge that option by buying the underlying cash stock. The net result is that, for every dollar that the retail investor spends on an options premium, one can see that magnified in stock purchases by five times, ten times, or even more during peak periods.

The reduction in commissions to zero for equity shares and innovations like stock slices and fractional shares likely played a role in driving volume, observed panelist Jeff Chiapetta, who added that other recent successful investment themes have also encouraged engagement.



# Demographic Shifts

Some of the data describing today's new investors may help to explain behaviors and attitudes and in turn help answer important questions. For instance, are newer shareholders moving away from traditional preferences, such as dividend stocks or reliance on professional advisors? Do these new investors buy and hold?

Age demographics are the primary signifier of the new set of investors, Dr. Angela Fontes reported, with 22% under 30, versus only 6% before 2020. Likely reflecting the more modest savings of a younger generation, most new taxable accounts have less than \$500, which is below amounts of traditional investors.

The trading behavior of the new account holders differs from patterns witnessed in the more traditional cohort of retail investors. The majority of recent market entrants gravitate to mobile apps, compared with traditional investors, who prefer to use websites. The latter mainly obtain investment information from advisors or planners; new, younger investors typically turn to friends or family and rely on social media as a key tool in their research. It is noteworthy that the recent surge in trading volume has been driven by a small number of new investors, while 90% are trading fewer than three times per month, Dr. Angela Fontes reported.

*“One exciting finding is that much of the growth in stock market participation appears to be coming from diverse populations.”*

– Dr. Angela Fontes

For example, she has been highly impressed that among the 17% of new investors who are African-American, 53% of those are women. Also notable is the growing sophistication of new retail investors in terms of detail and analysis. Rational responses to COVID-19 cases and rapid deployment of funds can even resemble fast-moving hedge fund behavior, according to Liu.

# Today's Retail Investors

## Key Facts and Stats about Today's Retail Investors<sup>5</sup>

22%

of new retail investors are under 30, compared to 6% before 2020



17%

of new investors are African American, of which 53% are women



Most new taxable accounts have

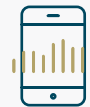
less than \$500



Recent market entrants prefer

mobile apps

to websites



New, young investors favor

friends, family and social media

for investment information



90%

of new retail investors trade fewer than three times per month



# Engagement Strategies *Include Social Media*

The role of investor relations is to communicate a company's business model and strategies in a relatable format for a diverse range of audiences. Moreover, any consumer-facing brand has clear incentives to build advocates among retail investors as a way to increase their business as well as engage shareholders. AMC, for example, has leaned into its meme-stock surge by creating a special loyalty program, including free tubs of popcorn, for its retail investors.<sup>6</sup>

It would be a fallacy, however, to conclude there is a strong relationship between a given level of retail ownership and equity performance. Companies can measure success through traffic to their website, downloads, social engagement and direct conversations with their retail shareholders. But firms "shouldn't expect to boost their share price simply through such engagement," Geoff Serednesky cautioned. He outlined four primary considerations that now govern corporate issuers' IR engagement with the retail segment.

**1 Companies should develop content and activities specific to their corporate identity.** Serednesky used the illustration of a French bank that has been organizing discussion events in the Louvre Museum for shareholders and investors.

**2 Investor programs should incorporate retail investor materials in their annual plans** for content, outreach activities and events. Digital formats permit customization of content tailored to individual tastes, such as retail investors seeking dividend yields. Or a growth company might present information about product updates and pipeline opportunities.

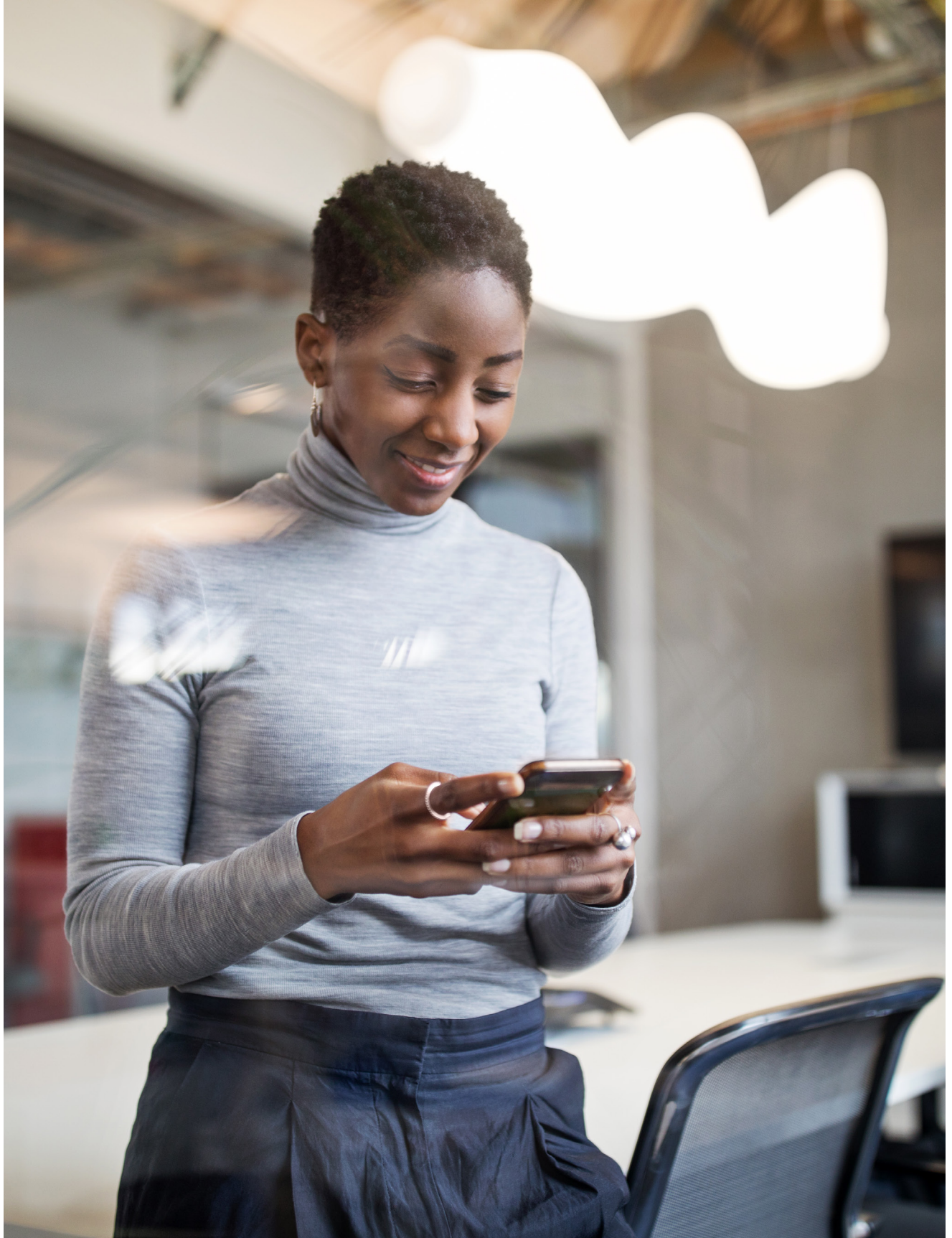
### **3 Investor engagement should be interactive and simplified.**

As an example, The Wall Street Journal reported that Tim Bixby, CFO of the financial firm Lemonade, participated in a two-hour interview on YouTube, answering live town hall questions as part of an effort to reach a retail audience, in particular younger or novice investors.<sup>7</sup>

### **4 Social media is instrumental for providing content,** whether via Twitter, LinkedIn, Facebook, YouTube, Reddit or Instagram. IR teams might contemplate working on social media platforms to build investor engagement in a consumer-friendly way and even collaborating with social influencers. Of course, care must be taken to vet influencers' full online history to avoid association with persons of questionable repute, especially those accused or found guilty of securities laws violations. In addition, IR teams must be extremely careful to ensure that their communications on social media comply with all applicable disclosure laws.

In many ways, the world of IR is still responding to the shock of the current news flow when considering retail investors. High-profile news stories about memes may have an emotional impact, but they create an imperfect picture of retail investor behavior and sentiment. Nevertheless, IR strategies are coalescing, and clever tactics continue to emerge. Among the most critical needs are an accurate picture of retail investors, from meme-lords to long-term buy-and-holders, understanding which new engagement tactics work well and why, knowing how to spot emerging meme activity and understanding wild share price volatility, and realizing how IR teams can make retail investors an integral part of their strategy rather than an afterthought.





# The Language of U.S. Retail Investing *is Changing*

## Terms that have evolved among U.S. individual investors over 2020-2021

**Apes:** Investors who take bullish views on stocks in social media channels (especially Reddit) and try to rally others to invest.

**Diamond hands:** A type of investor that insists on holding a position until it reaches an end goal, regardless of any risks or losses that may seem to be building in the interim.

**Fortnite:** A massive online battle game that also includes discussions among users. Many Fortnite users are also heavy Reddit users, discussing the game as well as stock trading ideas. The game had more than 350 million registered users in May 2020.<sup>8</sup>

**Fractional shares:** Portions of an equity stock that are smaller than one unit share. Many retail investment platforms allow users to invest in fractional shares of companies whose high share prices would otherwise be out of reach.

**Gamification:** Inclusion of game-like features such as points, levels, and digital prizes within an app or platform to create incentives for continued use. While regulators prohibit gamification of trading itself, some apps offer features such as badges and flashy trade confirmations that may incite some users to make trades.

**HODL:** Both an acronym for “hold on for dear life” and an intentional misspelling of the word “hold,” this term originally came from the world of cryptocurrency trading but now also finds use among meme stock investors who buy and hold, ignoring market volatility and refusing to trade stocks. The term has a negative connotation, implying naive ignorance on the part of the investor.

**Meme stocks:** Stocks whose names spread as quickly as the latest funny image or video to millions of internet users seemingly overnight, fueled by activity on many platforms including Reddit, TikTok, and even multi-player games such as Fortnite.

**Reddit:** A social news and discussion site broken down into different communities, called boards. Content moderation policies are often very loose, allowing a wide range of opinions, claims, and possibly inflammatory comments.

**Stonks:** An intentional misspelling of “stocks” used to create sharable image memes or to refer to financial decisions.

**TikTok:** A video-sharing social network for videos under one minute long. Its overall audience of nearly 700 million (100 million in the U.S.) users skews to Gen Y.<sup>9</sup> Some of these teen users are creating TikToks to promote stocks, share trading tips and create meme-worthy financial content. This content is completely unmoderated.<sup>10</sup>

**WallStreetBets:** A Reddit board that describes itself as “a community for making money and being amused while doing it. Or, realistically, a place to come and upvote memes when your portfolio is down.” It has nearly 10.5 million users.<sup>11</sup>

# Meme Stocks

The viral frenzy for meme stocks has captured more and more attention in 2021. Popularized by Reddit's WallStreetBets forum, the phenomenon made trading in certain stocks wildly volatile. Well-known examples include several companies whose shares had been languishing, impacted by changing consumer patterns before and during the pandemic.

Many such investors have found further motivation in the notion that they are doing battle with hedge funds.

- GameStop, which led the charge, was trading at \$19 per share in January 2021 after a long decline. By January 28, it peaked at \$483, reversed and plummeted to \$40, then resurged a month later, up 1,187% as of mid-2021.
- Movie chain AMC Entertainment was also affected by behavioral shifts resulting from COVID-19. It rose from about \$4 per share in 2020 to a May 2021 high of almost \$64. It is now using the activity to raise additional capital and expand its theater network.<sup>11</sup>

# End Notes

<sup>1</sup>Subsequent to the date of the webinar, Geoff Serednesky left FTI Consulting to become a Director at Brunswick Group LLP.

<sup>2</sup>Federal Reserve of the United States, [Balance Sheet of Households and Nonprofit Organizations, 1952 – 2021](#), as of June 10, 2021, accessed August 3, 2021.

<sup>3</sup>Mark Lush, Angela Fontes, Ph.D., and Meimeizi Zhu, FINRA Foundation, [“Consumer Insights: Money & Investing, February 2021,”](#) accessed August 3, 2021.

<sup>4</sup>Gunjan Banerji, The Wall Street Journal, [“Americans Can’t Get Enough of the Stock Market,”](#) May 2, 2021, [subscription firewall] accessed August 3, 2021.

<sup>5</sup>Mark Lush, Angela Fontes, Ph.D., and Meimeizi Zhu, FINRA Foundation, [“Consumer Insights: Money & Investing, February 2021,”](#) accessed August 3, 2021.

<sup>6</sup>Sarah Whitten, CNBC.com, [“AMC plans to reward retail investors with free popcorn and exclusive screenings,”](#) June 2, 2021, accessed August 3, 2021.

<sup>7</sup>Kristin Broughton, The Wall Street Journal, [“Lemonade CFO Uses Social Media to Connect With Individual Investors,”](#) May 3, 2021, [subscription firewall], accessed August 3, 2021.

<sup>8</sup>Fortnite (@FortniteGame), [“Fortnite now has over 350 million registered players! In April, players spent over 3.2 billion hours in game. Let’s keep the party going with our Party Royale Premiere LIVE on May 8 at 9PM ET featuring @DillonFrancis @steveaoki @deadmau5: https://fn.gg/PartyRoyalePremiere,”](#) May 7, 2020, 1:01 a.m. Tweet.

<sup>9</sup>Hootsuite, [“23 Important TikTok Stats Marketers Need to Know in 2021,”](#) May 5, 2021, accessed August 3, 2021.

<sup>10</sup>Rebecca Jennings and Emily Stewart, Vox, [“Terrible financial advice is going viral on TikTok,”](#) January 18, 2021, accessed August 3, 2021.

<sup>11</sup>Reddit, Wallstreetbets Wiki, accessed August 3, 2021.

<sup>12</sup>CMC Markets, [“5 booming meme stocks to watch,”](#) June 9, 2021, accessed August 3, 2021; Paul La Monica, CNN, [“How AMC and GameStop became Reddit faves,”](#) June 10, 2021, accessed August 3, 2021; Miles Udland, Yahoo! Finance, [“AMC just dropped the hammer on every meme stock CEO,”](#) June 3, 2021, accessed August 3, 2021.

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## Contacts



**Guy Gresham**  
*Group Head, Global IR Advisory  
& Investor Solutions*  
+1 212 815 4693  
guy.gresham@bnymellon.com



**Karen Bodner**  
*Head, Global IR Advisory*  
+1 212 815 2557  
karen.bodner@bnymellon.com



**Craig Douglas**  
*Principal, Investor Relations,*  
+61 3 9010 4008  
craig.douglas@bnymellon.com



**Laura Riley**  
*Principal, Market Connect  
& Investor Solutions*  
+1 212 815 2157  
laura.riley@bnymellon.com



**Robert Meyers**  
*Principal, Market Connect,*  
+1 212 815 3098  
robert.l.meyers@bnymellon.com



**Diana Soto**  
*Senior Specialist,  
Market Connect*  
+1 212 815 6184  
diana.soto@bnymellon.com

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