



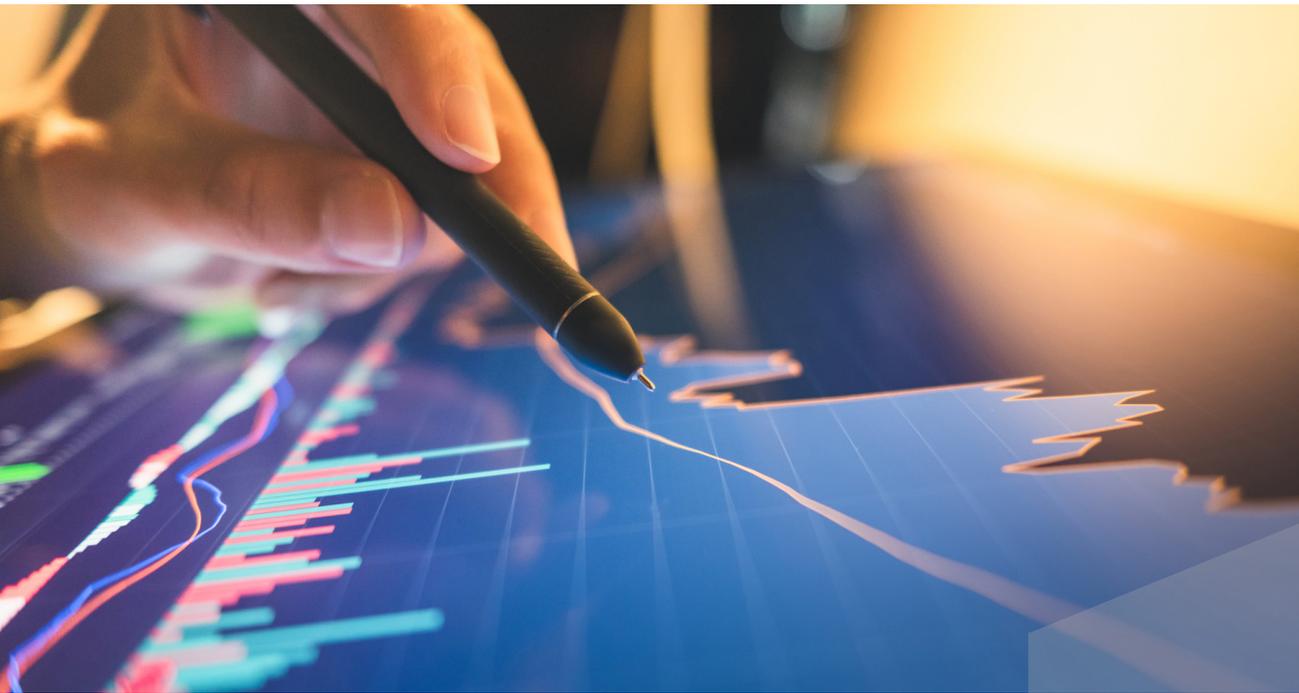
The State of the U.S. Retail Investor: *Insights & Implications*

2022 BNY Mellon Retail Investor Survey

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Consider Everything

Table of Contents

3	The 2022 BNY Mellon Retail Investor Survey
4	Introduction
6	Key Findings and Takeaways by Cohort
7	Nascent Investors
8	Traditional Investors
9	Established Investors
10	Retirement Investors
11	Further Explorations
13	Beyond Investment Triggers
14	Communications and Outreach



The 2022 BNY Mellon Retail Investor Survey

This research is based on a February 2022 online survey of 2,000 U.S. retail investors, which was a nationally representative sample of individuals with a minimum of \$10,000 in investible assets. Respondents were grouped into four investor groups or cohorts based on our statistical analysis:

- **Nascent Investors** are Generation Z and Millennials ages 18 to 29 who generally have a college education and earn less than \$75,000 a year. Most have less than five years of investing experience and own as little as \$10,000 or as much as \$100,000 in investible assets.
- **Traditional Investors** includes Millennials and Generation X investors in their mid-20s through 40s, generally with a college education and \$50,000 to \$100,000 in annual income. Most have less than five years of investing experience and own as little as \$10,000 or as much as \$100,000 in investible assets.
- **Established Investors** are Baby Boomers and Generation X investors in their 40s, 50s and 60s who generally hold undergraduate and graduate degrees, make roughly \$100,000 to \$200,000 a year. They have more than 10 years of investing experience and \$100,000 to \$1 million in investible assets.
- **Retirement Investors** in their 60s and older are experienced Investors with the longest holding period but shortest time horizon of any cohort, typically holding \$100,000 to \$500,000 in investible assets.

Introduction

U.S. retail investors' heightened market activity and engagement has been fascinating to watch over recent years. There has been a number of factors which have had a profound impact on the retail investor segment, including the pandemic, technological advancement in trading, the inflationary impact and more.

It's well-known that COVID-19 triggered volatility in individual equities and the overall market as stock prices reflected fluctuations in corporate performance due to pandemic-related issues, such as rising costs and constraints on supply chains and staffing. But what is most interesting is how retail investors responded to these circumstances.

In assessing these trends, the inaugural BNY Mellon Retail Investor Survey has been tracking the pandemic's effect on the investing behavior of retail investors. In particular, many novice investors, driven by commission-free trading, saw buying opportunities during this period of stock market volatility. The ability to purchase fractional shares on trading apps advertised on social media sparked a "fear of missing out" for these individuals.

However, new entrants to retail investing are not the only story here. The 2022 BNY Mellon Retail Investor Study found strong retail investing activity and interest across all investor groups. Supporting this notion, the Federal Reserve reported U.S. households and nonprofits had 41% of their total financial assets in direct and indirect holdings of stocks as of December 2021 – nearly an all-time high since 1952.¹

The pandemic and recent market volatility continue to be a wild card. As we continue to flirt with bear market territory, it remains uncertain how retail investors will respond in our new normal of potentially milder COVID strains and fewer distancing restrictions. Will retail investors perceive even greater opportunities in stocks as the pandemic subsides? Or, will they back off as interest rates rise, and invest in traditional savings vehicles? Will the return of many workers to offices leave them less time and opportunity to play the market after all? The answers to these questions have significant implications for both asset managers and corporate issuers.

Our survey findings highlight the influences and key factors affecting the buying and selling decisions of individuals of varying ages, backgrounds, and levels of investment experience. These findings may prove indicative of retail investor behavior in a post-pandemic world.

Our survey categorized the retail investor respondents into four distinct groups. **"Nascent Investors"** are by and large the youngest, most inexperienced, enthusiastic and adventurous cohort when it comes to investing. While the **"Traditional Investors"** cohort is less experienced also, they are beginning to ramp up investing and seek out financial professionals, analyst reports/ratings and other sources for information and advice. The generally older, **"Established Investors"** are really shifting into high gear with their investment ambitions, activity and relatively large trades. While **"Retirement Investors"** are surprisingly active investors, they tend to outsource research and/or decisions to financial professionals rather than seeking information directly from companies.

¹ Federal Reserve of the United States, 1952–2021, as of Q4 2021, accessed April 23, 2022. https://www.federalreserve.gov/releases/z1/dataviz/z1/balance_sheet/chart/

While there are clear differences between the four groups, their collective enthusiasm about investing is equally clear.

The majority of respondents in all four cohorts view individual stocks as the asset class that will provide the greatest short- and long-term rates of return.

Mutual funds and corporate bonds received the top rankings from the next-largest subset for each group in the long term, while various groups ranked company bonds, ETFs, cryptocurrencies and mutual funds as the next most promising asset class in the short term. All four groups identified growth as the key factor in their investing decisions and expressed confidence in the reliability of their primary source of investing information, which included analyst reports/ratings for the youngest cohort and, at increasingly higher rates, financial professionals within the subsequent cohort.

The majority of investors read proxy statements (60%) and vote their proxies (58%), emphasizing the significance of governance to retail shareholders (where 47% want to be “more involved”). All four cohorts expressed the importance of environmental, social and governance (ESG) issues to their investment decisions – more than 80% for each of the younger cohorts and 64% of the Retirement Investors. However, fewer than 3% in any cohort considered ESG/sustainability a top investing priority when compared along with other factors.

The majority of investors

across cohorts expressed the importance of ESG issues to their investment decisions. However, **fewer than 3%** in any cohort considered it a top investing priority when compared alongside other factors.

Figure 1: How Important are the following factors when making an investment decision?

All four groups identified growth as the most important and ESG as the least important factor for their investing decisions. Still, these groups express preference for portfolio diversification and may find non-U.S. investments attractive.



Key Findings and Takeaways *by Cohort*





NASCENT INVESTORS

Learning about investments, generating supplemental income and achieving financial stability are the primary goals of Nascent Investors. In addition, 13% of Nascent Investors – the largest percentage of any group – mentioned "fear of missing out" as the rationale for investing.

Their market activity was accelerated by new pandemic-related factors.

These factors include mobile technology's increased access to information, longer time at home during the pandemic, ease of opening accounts and ability to invest small amounts. Nearly half of those surveyed opened a new taxable investment account in the past 12 months stated they initiated a new position in publicly traded securities daily or weekly – although the average trade size per transaction was less than \$500 for 76% of this group. The majority monitor their investments daily or weekly, and 49% plan to increase or significantly increase their investment spending over the next year.

A total of 25% of Nascent Investors report owning cryptocurrencies (the largest percentage among the four cohorts), 16% own individual stocks, 14% own mutual funds and 8% own exchange-traded funds (ETFs). The majority (79%) cite an investment horizon of less than a year – and 42% of them say it's a week or less. They are more likely than other cohorts to seek value rather than dividend income, invest in micro-cap or penny stocks, and rely on their own research rather than analyzing company financial statements when increasing or decreasing a position. While 83% say ESG factors are important to consider when evaluating investment opportunities, just 2% consider driving ESG/sustainability their primary goal for investing. The qualitative responses from the percentage of those that do consider ESG in their investment decision making suggest that they rely on a variety of resources, including rules-based methodologies, stock valuation, and third party assessments.

Their primary sources of information before making investment decisions are more diverse than other cohorts, with top sources that include analyst reports/ratings (17%), financial professionals (16%) and social media (12%). A smaller percentage of Nascent Investors compared to the other cohorts consider analyst reports/ratings and financial professionals reliable (a relatively high 78% and 77% of respondents, respectively). Being new investors, this may be due to less experience with in-person or online financial advisors and less access to analyst reports.

76% of Nascent Investors had an average transaction size of less than \$500.

25% of Nascent Investors report owning cryptocurrencies (the largest percentage among the four cohorts).

42% of Nascent Investors have an investment horizon of one week.

PRIMARY SOURCES OF INFORMATION BEFORE MAKING INVESTMENT DECISIONS ARE DIVERSE

17%	Analyst Reports
16%	Financial professionals
14%	Friends and family
14%	Online news
12%	Social Media
11%	Company website
8%	Traditional Media
6%	Forums/blogs
3%	Other



TRADITIONAL INVESTORS

The survey data shows investors classified as Traditional Investors to be less likely than Nascent Investors to view investing as a source of supplemental income. Like Nascent Investors, most cite an investment horizon of less than a year (68%), with “one month” being the most frequent response (27%). Financial professionals are the primary information source for 22% of them, followed by analyst reports/ratings (20%) and friends and family (13%). They are more likely to consider forums and blogs, online sources and traditional media to be reliable than other cohorts. Social media is a primary information source for only 10%, and only 44% consider it reliable (compared with half of Nascent Investors).

Investors in this cohort are slightly more likely to own typical “traditional” asset classes than their younger Nascent Investors cohort, with 20% holding individual stocks, 16% in mutual funds and 12% in ETFs. While interest in cryptocurrency holdings of 20% was slightly lower than its younger cohort, interest remained significantly higher than older cohorts. The ability to invest smaller amounts, spare time at home and suggestions from friends and family were most often reported as reasons they began trading. Some 43% opened a new taxable investment account in the past year, 69% report an average trade size of \$500 or less, and 49% plan to increase or significantly increase their investment spending in the next 12 months. Similar to the Nascent Investors, 85% of Traditional Investors stated ESG is an important factor to consider when evaluating investment opportunities but driving ESG/sustainability is the primary investing goal for only 2%.

Traditional Investors are a particularly compelling group for asset managers and issuers given their propensity to consume information from traditional channels like financial advisors, analysts and brokers and their willingness to remain long-term investors. Both asset managers and issuers might find it worthwhile to prioritize outreach to this cohort through their preferred channels and note ESG as a potential

34% of Traditional Investors cite saving for retirement is their top investing goal followed by long-term financial stability (32%).

TRADITIONAL INVESTORS ARE MORE LIKELY TO OWN “TRADITIONAL” ASSET CLASSES

20%	Individual stocks
16%	Mutual funds
12%	ETFs

20% of Traditional Investors respondents own cryptocurrency holdings, a glaring exception to their increasing preference for more “traditional” asset classes.



ESTABLISHED INVESTORS

driver of increased returns and its importance for long-term sustainability.

This group of investors possess the most purchasing power of any cohort surveyed, and they are focused on further growing their investible assets and achieving their primary goal of saving for retirement. Those over age 50 with inadequate retirement savings may be making annual catch-up contributions to their 401(k) plans or other eligible retirement funds. Their investment triggers include financial performance (valuation) and growth. The majority (68%) has more than 10 years of investing experience. They are somewhat similar to Traditional Investors in owning individual stocks (20%), mutual funds (20%), ETFs (13%) and cryptocurrencies (10%, which is half the Traditional Investors cohort), and are more likely to own government/municipal bonds (8%) than Nascent Investors or Traditional Investors.

While investors in this group increasingly rely on financial professionals and monitor sell-side analysts' stock ratings and stock valuations, they also do their own research and most check their portfolios' performance at least monthly. Slightly more than half (51%) want information directly from corporate issuers. This cohort exhibits characteristics that emphasize investment diversification and minimizing fees. They have expressed little interest in driving ESG/sustainability as a primary objective in investing when compared across multiple factors, although 81% stated ESG is important as a standalone factor. In addition, a higher percentage of this group (47%) makes large trades of anywhere from \$1,000 to \$10,000 or more on average. Most plan to increase (40%)

68% of experienced account owners have more than 10 years of investing experience.

Issuers may choose to promote their **stock purchase plans** to experienced account owners, as this group emphasizes regular 401K contributions and minimum fees as priority investment preferences.

47% of experienced account owners make large trades of anywhere from \$1,000 to \$10,000 or more on average.



RETIREMENT INVESTORS

or maintain (51%) their current amount of investment spending, and 38% opened at least one taxable investment account in the past 12 months.

Retirement Investors are relatively conservative and experienced investors – 88% have been in the markets for 10+ years. Long-term financial security is their primary goal, so their considerations for investment criteria include financial performance (valuation), growth, dividends and portfolio diversification. Their relative caution is not surprising considering their conservative approach. The media perception is that Older Americans often mention a fear of outliving their money, which is a real concern because of rising inflation, healthcare and retirement costs, increased discretionary spending, and less investing time to recover from market downturns.

Financial professionals are the primary source of reliable information for Retirement Investors, who typically have annual check-ins with their brokers. Only 35% want information directly from corporate issuers, the smallest share of any cohort. Contrary to perceptions, Retirement Investors remain surprisingly active traders from their desktop or laptop computers. They initiate a new position in publicly traded securities at least once a month and 74% have an investment horizon of a year or more.

Retirement Investors are the group most likely to be rotating out of low-cost mutual funds – their favorite asset class – and into income-generating investment vehicles, such as bonds. However, bonds of any type represent only 15% of their portfolios, less than mutual funds (26%) or individual stocks (23%); ETFs are the next largest at 11%. Two-thirds of respondents intend to maintain their current amount of investment spending in the future. Only 64% of this cohort considers ESG to be important and, similar to the Established Investor cohort, they are not focused on driving ESG/sustainability as a primary investment goal.

FINANCIAL PROFESSIONALS

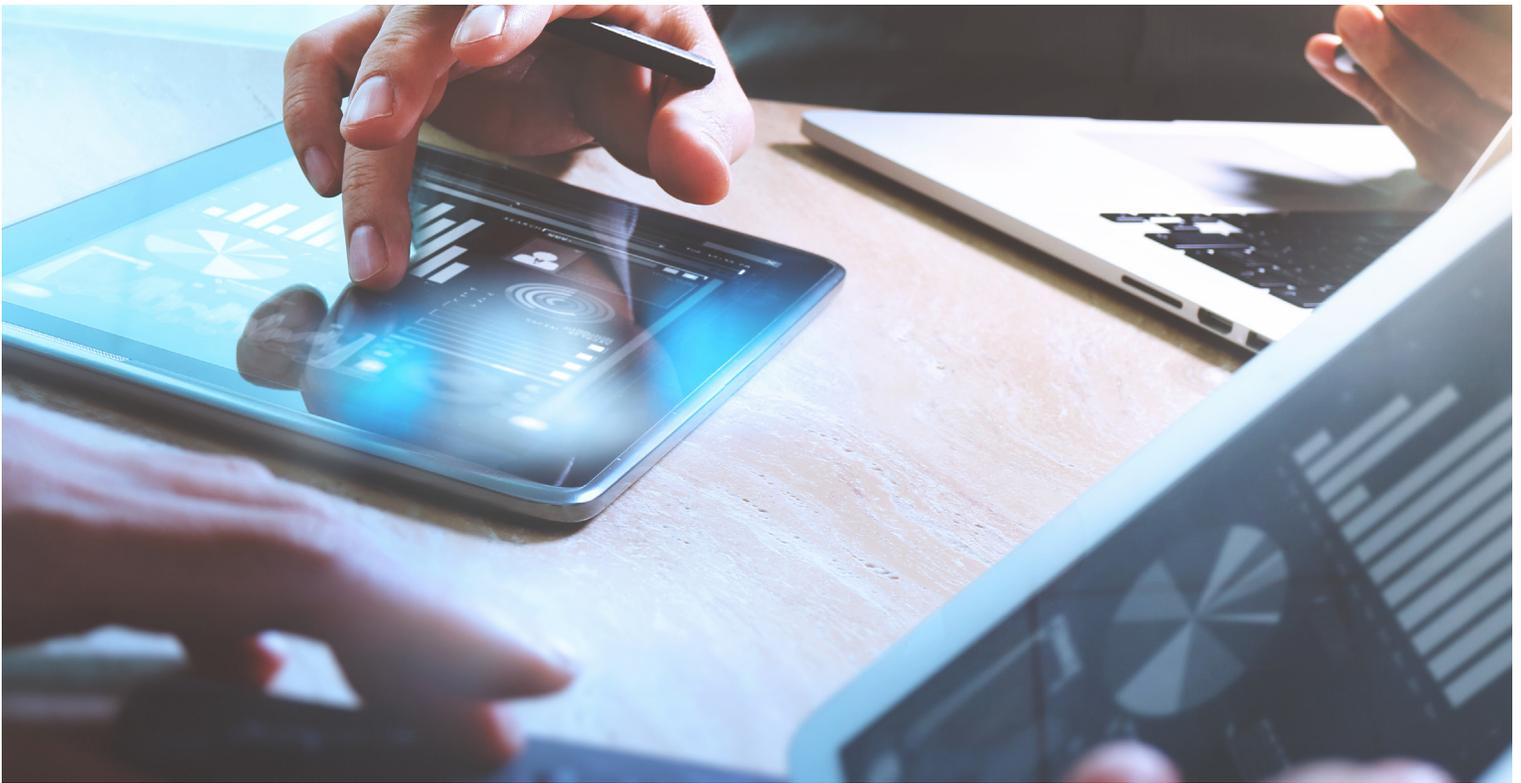
are the primary source of reliable information for Retirement Investors, who typically have annual check-ins with their brokers.

ONLY 35%

want information directly from corporate issuers, the smallest share of any cohort.

2/3

of respondents intend to maintain their current amount of investment spending in the future.



Further *Explorations*

This survey demonstrated several interesting contradictions, not the least of which is the treatment of ESG data and information by retail investors. While investors seem to state that ESG is material to their decision-making process, with 83% of the Nascent Investor cohort declaring it “important” or “very important,” only 3% used that information as a factor within their investment decision choices. This could be due to investors not understanding how issuers are differentiating themselves in their approaches to embedding ESG into their strategy, what products are available to them that use ESG criteria, or a lack of general understanding of the terminology and how it is being used by the market.

In the survey, we did not provide alternative definitions or choices such as “responsible investing,” nor did we ask investors if they wished to express their values in their investment decisions. It is possible, for example, that while issuers and asset managers use the term “ESG,” individual investors who wish to apply this lens to their investment criteria, consider this as impact or values-based investing due to a mismatch in terminology or a lack of common usage of these terms. Given the 42% growth in ESG funds from 2018 to 2020, according to US SIF,² we suspect that our results demonstrate not a lack of interest in sustainability but rather the lack of a common language or an appreciation for

² The US SIF 2020 Trends Report, found that investors are considering ESG factors across \$17 trillion of professionally managed assets, a 42% increase since 2018. <https://www.ussif.org/files/US%20SIF%20Trends%20Report%202020%20Executive%20Summary.pdf>

the types of products which are available in this space. Importantly, both issuers and asset managers should look to educate all types of investors on investment strategies, assets classes and products available to them.

Similarly, we noted contradictions in the reported rate of proxy voting. Among our cohorts, 38% to 40% of investors reported expressing their opinion via their proxy vote. This does not correlate with trends reported by Broadridge or quoted by the Harvard Law School Forum on Corporate Governance³ which noted in 2021 that only 30% of the shares held by retail investors were voted, a slight decline from the 31% in 2020 and 32% in 2019. Furthermore, when examining which of these votes were in agreement with shareholder proposals, the Harvard Law School Forum on Corporate Governance noted: “As a group, retail shareholders were half as likely to favor shareholder proposals as were institutional investors.”⁵ This source reports only 20% of retail shares voted “for” any proposal in the 2021 proxy season, and only 18% voted “for” environmental and social proposals. This leads us to question how issuers and funds could be clearer in their proxy materials or could potentially look for ways to increase the accessibility of these materials.

Finally, we asked our survey participants about their desire for contact directly from corporate issuers. Results here contradict the popular narrative that Generation Z is more likely to use text, social media or other formats of communication over the telephone. A surprising 21% of the Nascent Investor cluster, our youngest cohort, reported that they would like corporate issuers to reach them by telephone, more than the 6% who selected company websites as their preferred communication source (investors could choose more than one response).

We think this points to a need for further study on whether U.S. retail investors feel that they are getting information from all of their various types of investments across the appropriate medium, is trustworthy, and provides decision-useful and timely investment information.

³ 2022 Proxy Season Preview, The Harvard Law School Forum on Corporate Governance, March 14, 2022. <https://corpgov.law.harvard.edu/2022/03/14/2022-proxy-season-preview>

Beyond Investment Triggers: *Will Retail Investors Keep Buying?*

Our survey results include many favorable indications of continued growth in retail investing as the U.S. economy emerges from the pandemic. This seems to remain true despite the headwinds in the U.S. market coming from inflationary pressures, the recent 75 BP interest rate hike from the Federal Reserve, and also from global political and economic headwinds. Recent data still seem to show U.S. retail investors “buying the dip” as individual investors’ net flows into stocks and ETF’s hit an all-time high of \$28.2 billion in March 2022 despite the increased volatility in markets.⁴ Favored meme stocks⁵ such as GameStop Corporation (NYSE: GME) and AMC Entertainment Holdings (NYSE: AMC) have seen surges in share price and trading activity. While there remains some skepticism of the durability of the retail investor in aggregate, recent activity shows they are more durable than many market analysts have assumed.

To a wider extent than the common wisdom might suggest, the pandemic spurred stock market interest and activity among Nascent Investors and Traditional Investors groups with less than five years of investing experience. In both cases, long periods of time at home during the pandemic, ease of opening accounts and the ability to invest small amounts facilitated (mostly smaller) trades. As a result, these retail investors became comfortable with moving in and out of stock positions given their relatively short holding periods of less than a year.

Now, declining pandemic headwinds and rising interest rates are creating new losers and winners among publicly traded securities. For example, growth is declining⁵ among many e-commerce, streaming, telehealth and food-delivery companies as in-person interactions increase. Nascent Investors and Traditional Investors are well-positioned to react to these trends and grow their investments as planned, as they are earlier adopters of the growth investing methodology and are more likely to adapt. They’re likely to become even more interested in stocks as they progress into the next cohort groups and their goals change, perhaps further facilitated by the extreme volatility of cryptocurrency.

Likewise, Established Investors and Retirement Investors plan to increase or maintain investing spending over the next year. Given their sizable trading activity during the pandemic, they are unlikely to allow post-pandemic stock market uncertainties to deter them from reacting to market volatility by trading, initiating new positions in publicly traded securities and opening new taxable investment accounts. These two groups have the greatest purchasing power and are the most likely to leverage financial professionals to assess opportunities that can help them achieve their investment goals in a volatile post-pandemic market. Despite the perceived sophistication and growth of retail investors, there is still a lot to be done by corporate issuers and asset managers to proactively reach out to retail investors and educate them about various aspects of investing.

4 Banerji, Gunjan, and Caitlin McCabe. “Buy the Dip’ Believers Are Tested by Market’s Downward Slide.” *The Wall Street Journal*, 10 May 2022, <https://www.wsj.com/articles/buy-the-dip-believers-are-tested-by-markets-downward-slide-11652197077>

5 According to the Merriam-Webster dictionary, a meme is “an idea, behavior, style, or usage that spreads from person to person within a culture.” A meme stock is one that gains popularity among retail investors through internet memes shared among traders on social media platforms such as Reddit and Twitter. Seeking Alpha, “What are Meme Stocks?” 10 May 2022

6 Ip, Greg. “The Postpandemic Normal Is Here and It Isn’t That Special.” *The Wall Street Journal*, 4 May 2022, <https://www.wsj.com/articles/the-postpandemic-normal-is-here-and-it-isnt-that-special-11651679066>



Communications and *Outreach Implications*

Effective engagement with each retail investor cohort can drive their investments and loyalty in the current and future market environment. Therefore, it is important for asset managers and public companies to tailor their engagement with retail investors to each cohort's goals, preferences and investment styles.

1 **MARKETING INITIATIVES.** Any asset manager or issuer needs to attract new investors. Nascent Investors and Traditional Investors are particularly appealing given their less-established information sources, investment patterns and brand loyalty – but that doesn't preclude growth among Established Investors and Retirement Investors. How can asset managers and public companies grab the attention of potential new shareholders, entice them to make purchases and convince shareholders to increase these investments over time? For any of the four cohorts, opportunities suggested by our research include leveraging favorable analyst research/ratings, engaging with financial professionals and news flow, all of which carry an implicit third-party endorsement. For example, a compelling investment appeal to growth investors would include news in layman's terms on new products, pipeline updates, or geographic and market expansion.

KEY TAKEAWAYS

Issuers: To improve brand awareness, issuers should leverage implicit third-party endorsements and amplify news flow on social media, if appropriate.

Asset Managers: To improve brand awareness, asset managers should promote investment products on key social channels as is most appropriate for each cohort.

2

INVESTOR EDUCATION. The benefits of investing on the merits of a given stock become more obvious as investors become more experienced and sophisticated. While only 11% of all respondents consider company materials/websites to be primary sources of investment information, those who do consult these sources overwhelmingly found them both reliable and effective. Stock purchases and shareholder loyalty can be driven by education about where to find information on factors relevant to retail investors' goals, such as a stock's growth or income drivers. Conversely, creative retail shareholder education and outreach programs can accelerate individuals' stock purchases. Asset managers have the ability to provide further insight beyond just the quarterly earnings call, but usually choose not to explain their investment positioning frequently. The post-pandemic stock market is volatile and affects some stocks more than others. This presents asset managers the tremendous opportunity to step up their education to clients by offering interim communications to explain their investment positioning in light of market swings.

3

GOVERNANCE COMMUNICATIONS. The majority of retail investors surveyed consider governance important enough to learn more about and said they both read and vote their proxies. This suggests a potentially untapped source of votes that would favor companies engaged in battles with activists or fighting off frivolous shareholder proposals that distract from running the business. Marshalling a critical mass of these retail votes requires appropriate language in the proxy statement. Retail investors dislike legalese and want proposals explained in plain, direct language. Similarly, asset managers that can produce creative, clear, concise, and educational material regarding corporate governance may yield a greater vote of confidence from investor clients and can use the material as a relationship building tool to improve investor understanding of how corporate governance affects the market.

KEY TAKEAWAYS

Issuers: To better educate investors, issuers should improve their online brand presence, host an attractive corporate website with a modern look and feel, and maximize their search engine optimization for investors.

Asset Managers: To better educate investors, asset managers should leverage all of their communications and find opportunities for investor touchpoints beyond the quarterly market recap to explain their investment positioning more regularly.

KEY TAKEAWAYS

Issuers: For improved governance participation, issuers should leverage user-friendly proxy voting technology and consider designing clear and concise governance documents, including proxy statements and annual reports.

Asset Managers: Consider leveraging governance education as a relationship building tool to improve investor understanding of corporate governance.

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