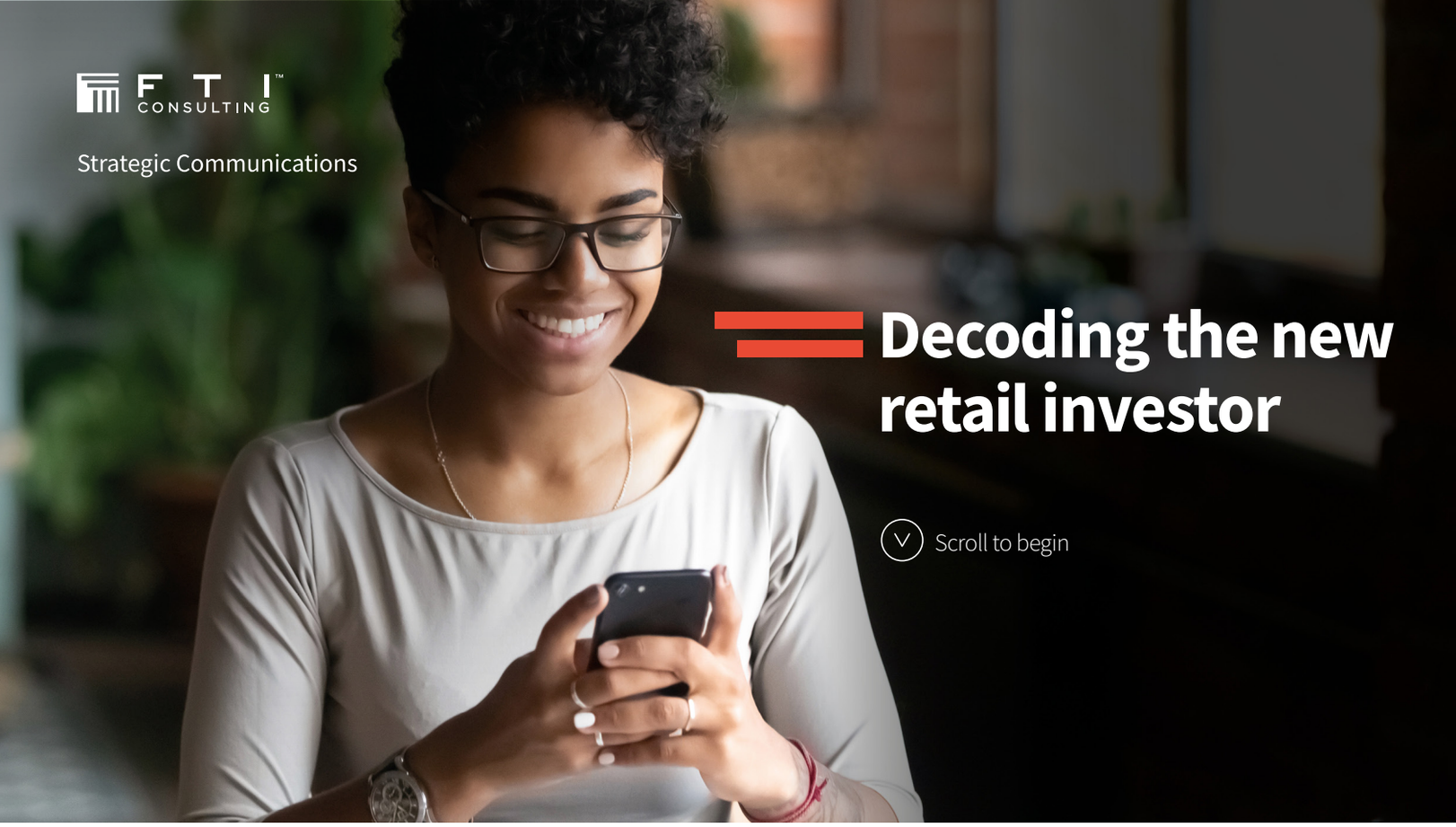
FTI CONSULTING

Strategic Communications



Decoding the new retail investor

Scroll to begin

The tide is turning

As we saw during the pandemic, retail investors can be a significant and unpredictable force. Situations like GameStop and more recently AMC may be outliers, but these examples prove symbolic of a new era of greater retail influence over stock markets.

In areas where large index funds, cut-throat hedge fund managers and algorithmic investment strategies have dominated, why is it now that the tide is turning? Why has the previously overlooked retail investor now become a force to be reckoned with?

The main reason is that investing is becoming more accessible by:

- The advent of commission-free trading, making it cheaper for retail investors to trade fractional shares.
- "Gamified" mobile phone trading apps becoming available to all and internet connections becoming faster.
- Trading accounts offering cheap leverage with generous credit.
- Social media being used as a platform for sharing success stories and encouraging a 'following the herd' mentality.

These factors are important individually, but combined they represent a subtle but powerful shift where retail investors feel emboldened and where companies recognise their influence. Understanding this new generation of investors, their behaviours and how to communicate with them is the first step towards integrating you, and your business, into this changing investment landscape.

And we're helping companies safely navigate new waters.

FTI Consulting has conducted primary research with 2,000 respondents, representative of the UK adult general population (aged 18+ years old).

FTI Consulting's work with retail investors across the UK profiles who these investors are, how they behave and their preferences.

These new investors are very different to their predecessors and this burst of hyperactive retail investor participation brings a very different psychological profile to financial markets.

Among the survey's key findings:

The chase is on when it comes to short-term rewards

- The new retail investor has a lower ability to delay gratification and scores lower on self-control measures, which may impact their investment approach.

If they can, they prefer to go green

- Compared to more experienced investors new investors are more likely to prioritise investing in socially responsible and sustainable companies.

Investment disintermediation is on the rise

- Online trading platforms are the preferred investment method - 39% of retail investors prefer to invest directly through an online trading platform.

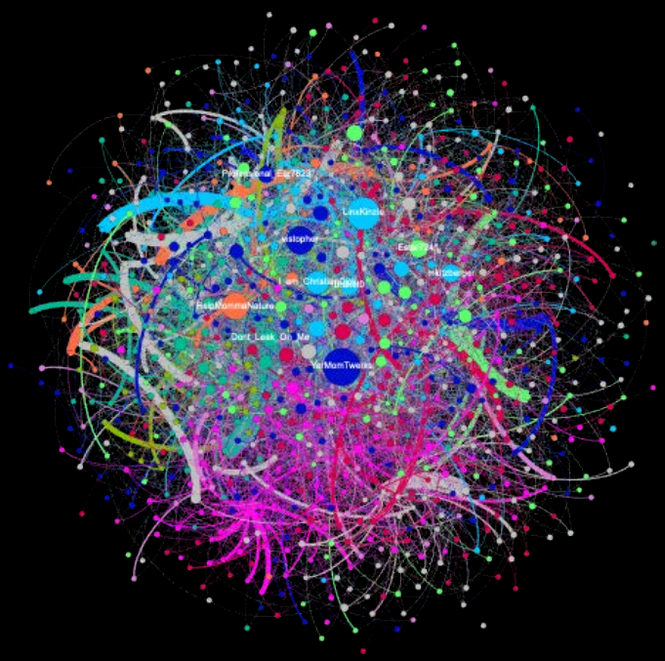
The Reddit 'revolution' is here to stay

- An overwhelming majority of new investors use online forums to source investment information (85%).
- YouTube is the most popular social media platform for investment information.

They demand companies communicate differently with them

- Half of new investors view social media as a reliable source of investment information, with younger generations less like to view the financial media as reliable.
- Newer investors are more likely to want companies to communicate with them through social channels.

Who are the 'Wolves' of Wall Street Bets?



- Using computational methods we carried out a social network analysis of the subreddit investment community r/wallstreetbets.
- We found that a small number of the accounts we identified were influencing and leading conversations around GameStop earlier this year – we have termed these accounts the 'Wolves of Wall Street Bets'.
- Around 130,000 different accounts engaged in conversation around $GME in the first half of the year but just 11 individuals drove conversation on r/wallstreetbets. The majority of other conversation was disparate.
- 11 of those 'wolf' accounts had more than 2,000 comments with their posts.
- These findings correspond with our broader research that new retail investors are more likely to follow the crowd and source investment information from online forums such as Reddit.

The Implications

Prepare for potential volatility

- New retail investors are more than twice as likely to just manage covering basic monthly living costs compared with more experienced retail investors.
- The research also shows that this new influx of investors are more likely to be chasing short term rewards.
- When these factors are combined with the ability to organise on social media platforms to coordinate portfolio strategies, actions of retail investors can raise concerns about market functioning and push prices away from fundamental values. Even without deliberate coordination, retail investors' inclination to use options for speculative trading can amplify market volatility.

Retail could now help shape your reputation

- With such a significant influx of new retail investors into the stock market, companies should consider how to harness shareholders and whether they can become broader advocates for businesses.
- 72% of retail investors agree with the statement "I would be more loyal to a company I have shares in" and an overwhelming majority of investors (82%) would even be prepared to pay more for a product or service from a company they have shares in.
- Over three quarters (77%) think they should be able to participate in IPOs. Even if a company does not need to court retail investors for capital, a sophisticated engagement strategy could build broader advocacy for your business.

Ensure monitoring is fit for purpose and consider new engagement strategies

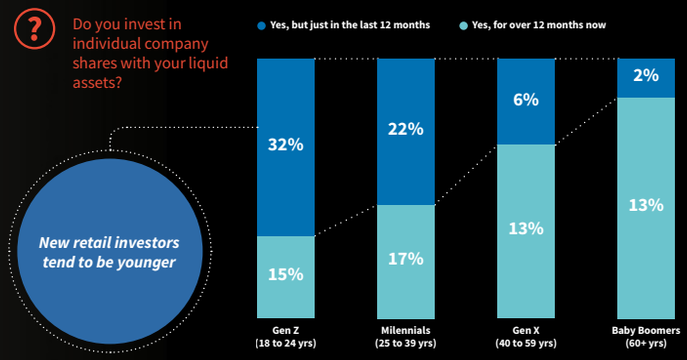
- Traditional investment information sources remain important but we see a fracturing of trust in the financial media. Younger generations are less likely to consider it to be a reliable source of investment information. They are more likely to source investment tips through online forums or social channels, with YouTube being the most popular.
- This is coupled with rising demand for companies to communicate with their shareholders through new channels. Ensure your investor relations team is tracking for mentions across different channels and information sources, not just traditional avenues, and consider whether you need a separate engagement and content strategy for retail investors.

Who are the UK's new Retail Investors?

They belong to younger age cohorts

Before the Covid-19 pandemic, just 32% of those under the age of 40 invested in individual company shares. Now, that's risen to 54%.

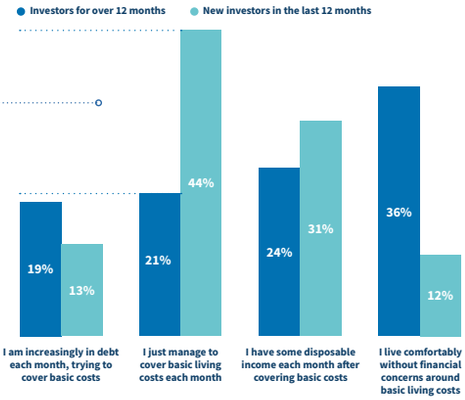
Do you invest in individual company shares with your liquid assets?



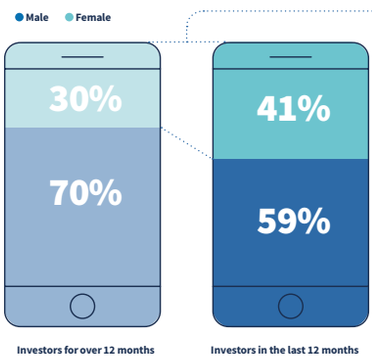
Many new investors are only 'just about managing' financially

Financially, 57% of these new retail investors are either just managing to cover basic living costs or increasingly in debt each month. With just 12% claiming to "live comfortably without financial concerns around basic living costs".

*New retail investors more **than twice as likely** to just manage covering basic monthly living costs*



+11%
more female new retail investors



? What is your gender?

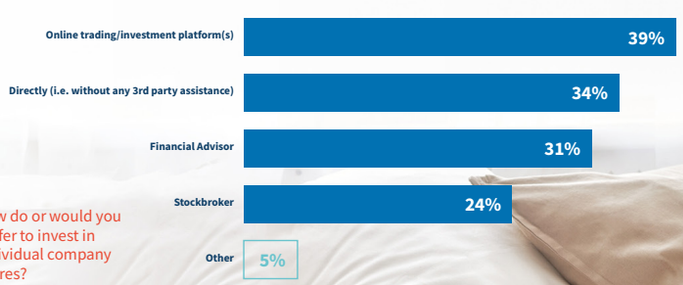
But the retail investor gender gap is shrinking

7 in 10 (70%) of older retail investors were men, while this new influx of investors since the pandemic are more balanced, with 41% being women.

Base Size = 574 respondents from the UK adult general population who have previously invested in company shares for over 12 months (n=290) or in the last 12 months (n=284)

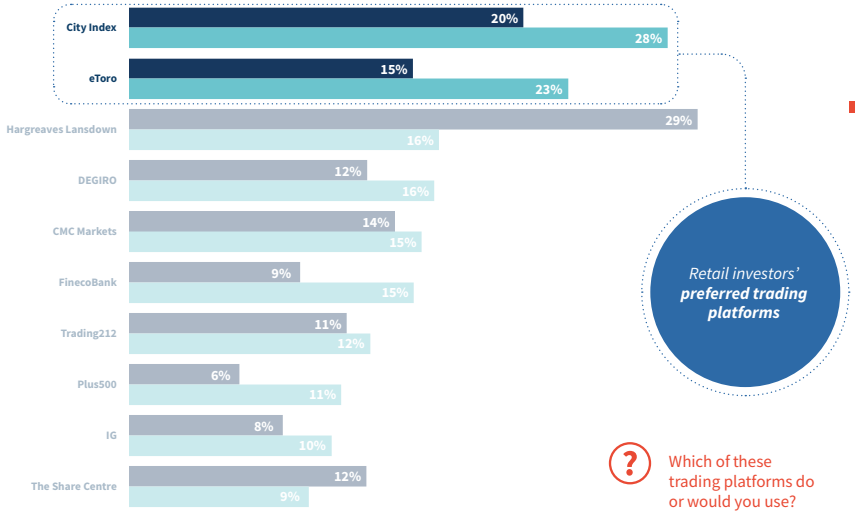
Investment disintermediation is on the rise

Using an 'online trading/investment platform' is the preferred method to invest in individual company shares for almost four in ten (39%), followed by a 'direct method (i.e. without any 3rd party assistance)' for 34% and with a 'financial advisor' for (31%) of retail investors.



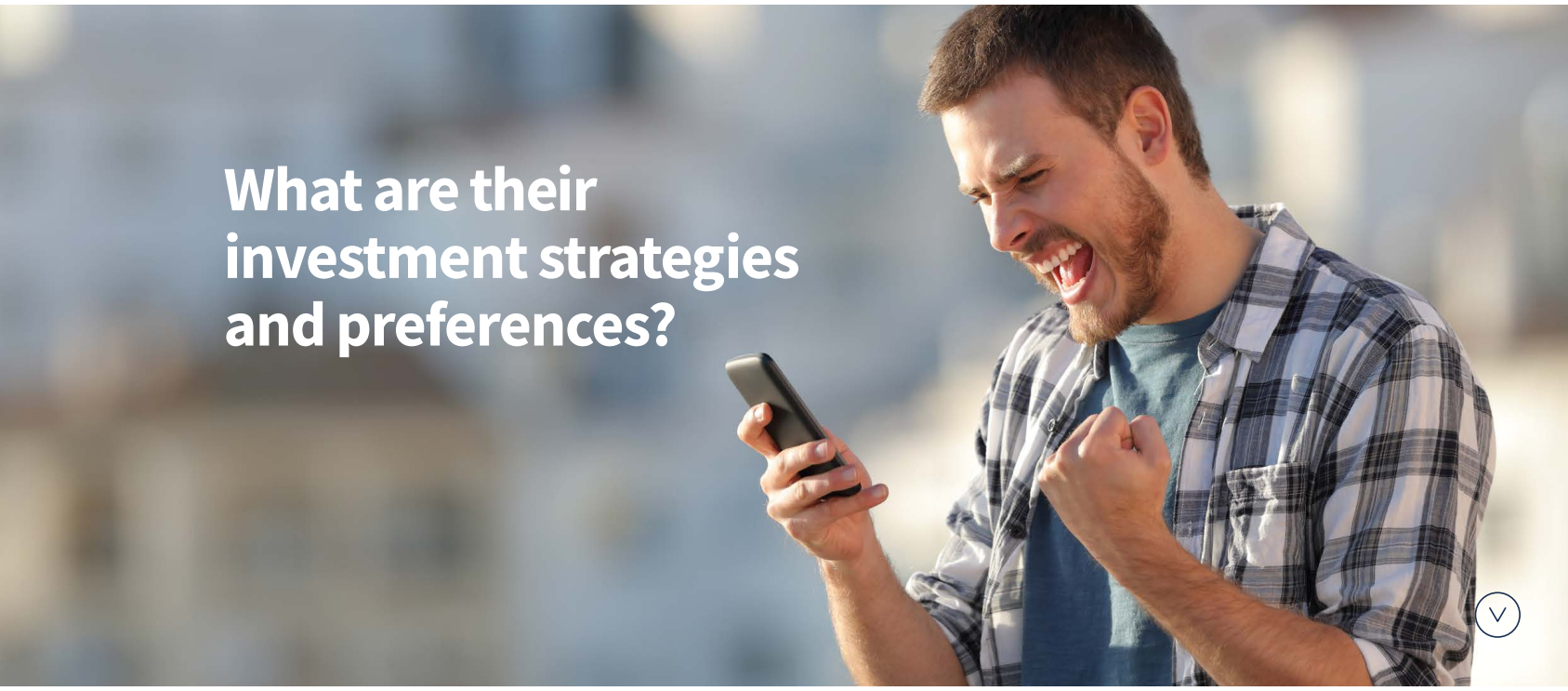
? How do or would you prefer to invest in individual company shares?

Investors for over 12 months Investors in the last 12 months



Certain Trading Platforms are more popular with newer investors

While City Index appears to have captured the highest proportion of retail investors overall with 24% (who would or do use it), this is also powered by 28% of new investors either using or considering using the platform.



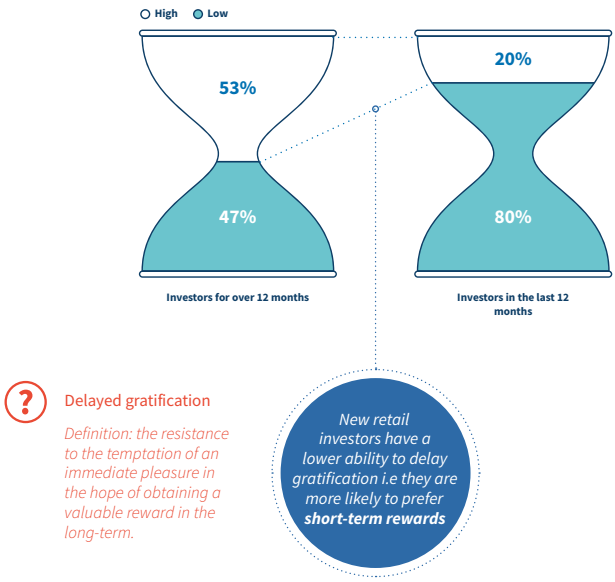
What are their investment strategies and preferences?

They are more likely to be chasing short-term rewards

The new retail investors also vary considerably in terms of personality traits to the retail investors before them, scoring lower on measures of self-control. Determining whether their personalities lean towards short- or long-term rewards, we assessed investors on their ability to resist temptations of immediate pleasures in the hope of obtaining valuable rewards in the long-term (delayed gratification). The results find that new investors are significantly more likely to score low on this (New: 80% low; Old: 47% low). Using the classic experiment by Stanford University professor Walter Mischel (1972) as an example, they are more likely to eat a single marshmallow now rather than wait 15 minutes and have two as a reward for their patience.

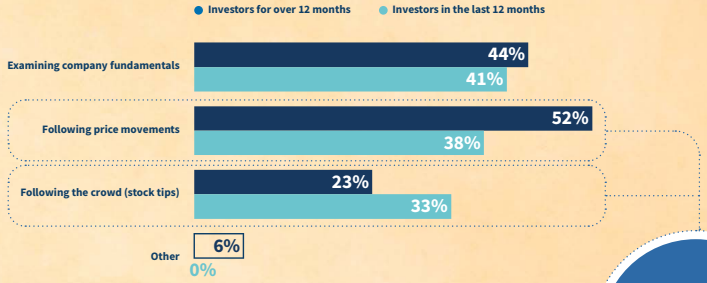
Retail investors' preferences towards immediate rewards are likely to impact how they approach investing, the type of companies they invest in and how quickly they liquidate their positions.

Base Size = 574 respondents from the UK adult general population who have previously invested in company shares for over 12 months (n=290) or in the last 12 months (n=284)



Many prefer to 'follow the crowd' when making investment decisions

Examination of company fundamentals is similar for approximately 4 in 10, new investors are significantly more likely to follow the crowd (stock tips) (33%) instead of following price movements (38%, -14% less than earlier investors).

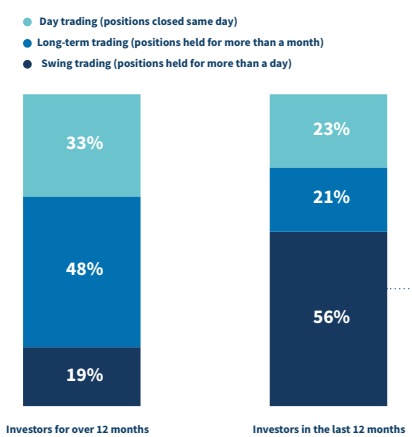


*New investors **more likely to follow the crowd** instead of following price movements*

Newer investors are more likely to engage in 'swing trading'

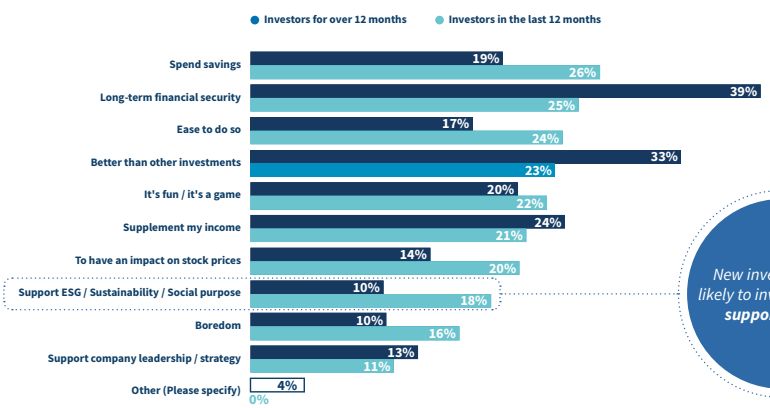
Unsurprisingly, over half of new retail investors are more likely to be swing traders, holding positions for more than a day in anticipation of big price changes (New investors: 56%; Old investors 19%), while the earlier investors are significantly more likely to be long-term traders (48%) or hands on day traders (33%).

Which of the following best describes your trading behaviour with individual company shares?



***More than half** of new retail investors are swing traders*

Which of the following best describes your trading behaviour with individual company shares?



*New investors more likely to invest in **shares supporting ESG***

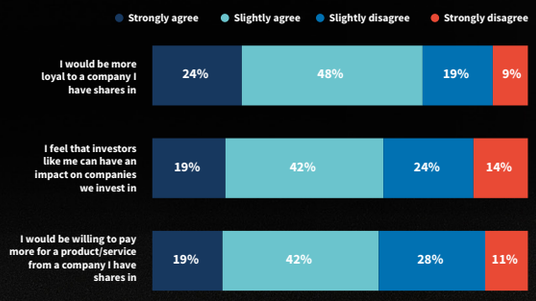
But they are also more likely to pick ESG stocks

New retail investors are significantly more motivated to invest in shares to 'support' 'ESG / Sustainability / Social purpose' (18%), compared to just 10% of earlier investors. This indicates that these new investors are more likely to prioritise socially responsible and sustainable companies.

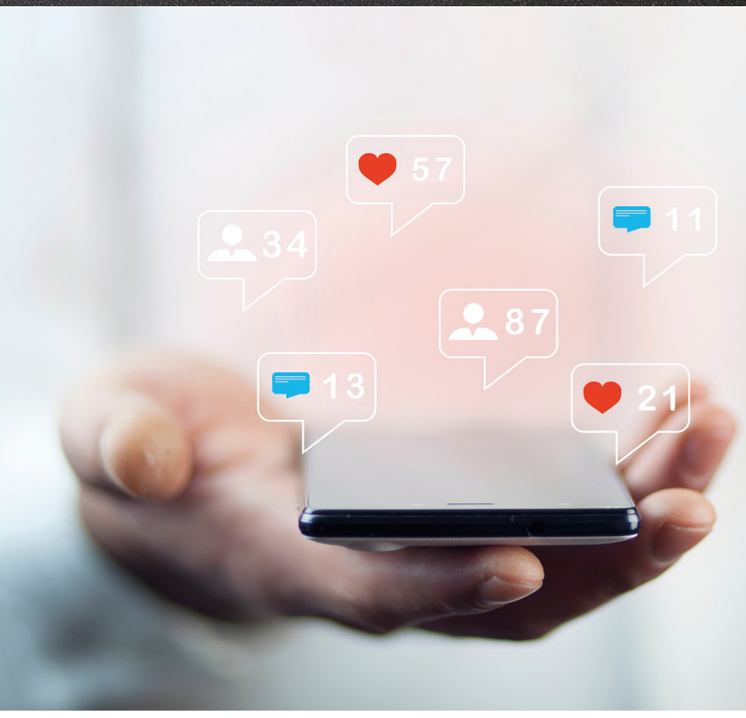
And could be advocates for the company's they invest in

Just over seven in ten (72%) of retail investors agree with the statement "I would be more loyal to a company I have shares in' and this is backed up with six in ten (60%) also agreeing that "I would be willing to pay more for a product/service from a company I have shares in'.

To what extent do you agree or disagree with the following statements



They think that IPOs should be accessible to them

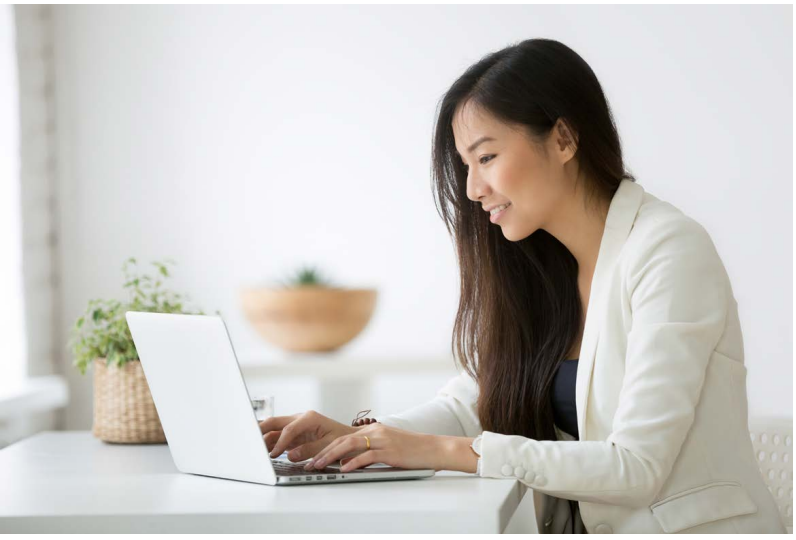


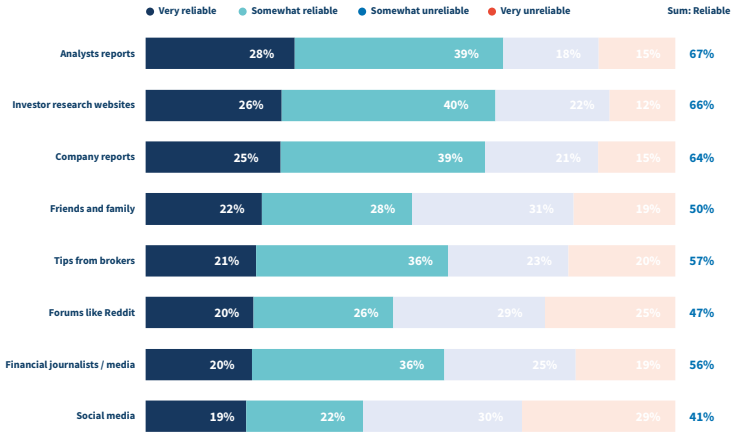
How do they consume investment information?

'Traditional' information sources are still considered the most reliable

Q10 How reliable do you consider the following information sources when investing in shares?

Around two-thirds of retail investors consider analyst reports (67%), investor research websites (66%) and company reports (64%) to be reliable information sources when investing in shares.





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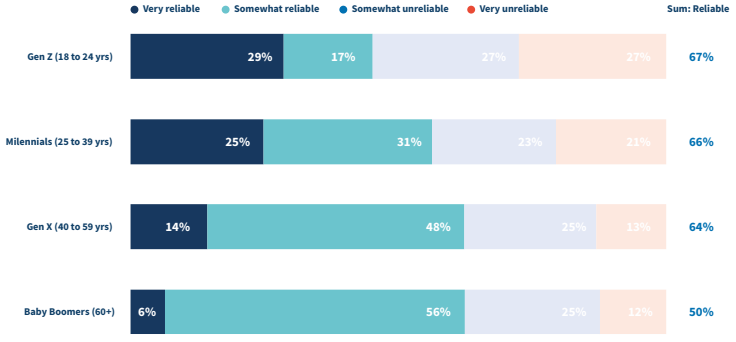


But trust in the financial media is lower amongst younger age groups

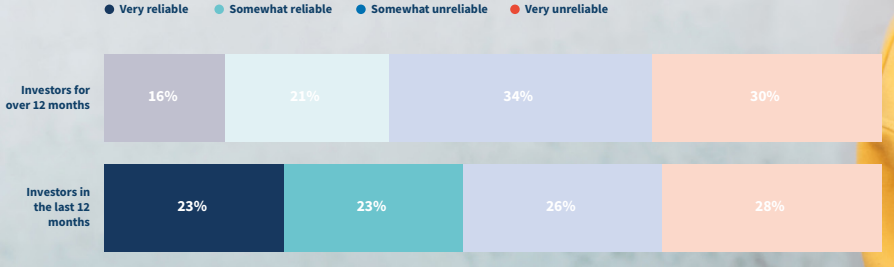
There are also clear generational discrepancies over what information was considered reliable when investi.

Younger age groups were more likely to consider financial journalists / media unreliable, 55% of Generation Z consider financial journalists / media unreliable sources of investment information, whilst conversely nearly two-thirds (62%) of over 40s consider financial journalists / media reliable sources of information.

And new investors are more likely to consider social media a reliable source of investment information

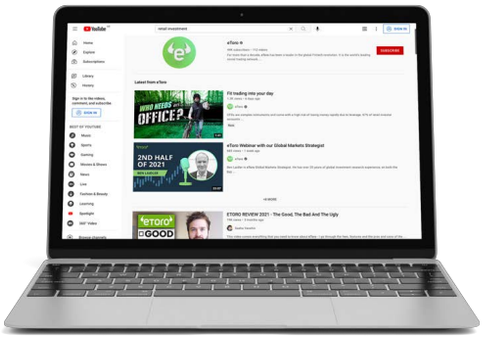
Nearly half (46%) of new retail investors consider social media either somewhat reliable or very reliable information sources when investing in shares, compared with 37% of earlier retail investors.

How reliable do you consider the following information sources when investing in shares?

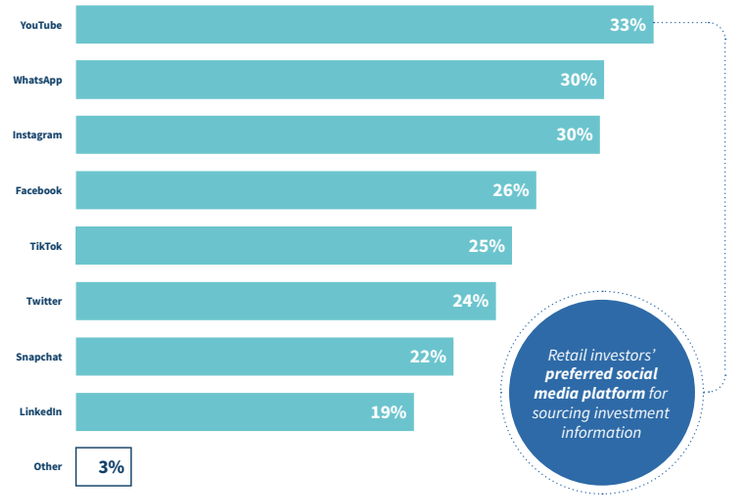


YouTube is the most popular social media platform for investment information

The most popular social media sources are YouTube (33%), followed by WhatsApp (30%) and Instagram (30%).



Which social media platforms do or would you get your investment information from?



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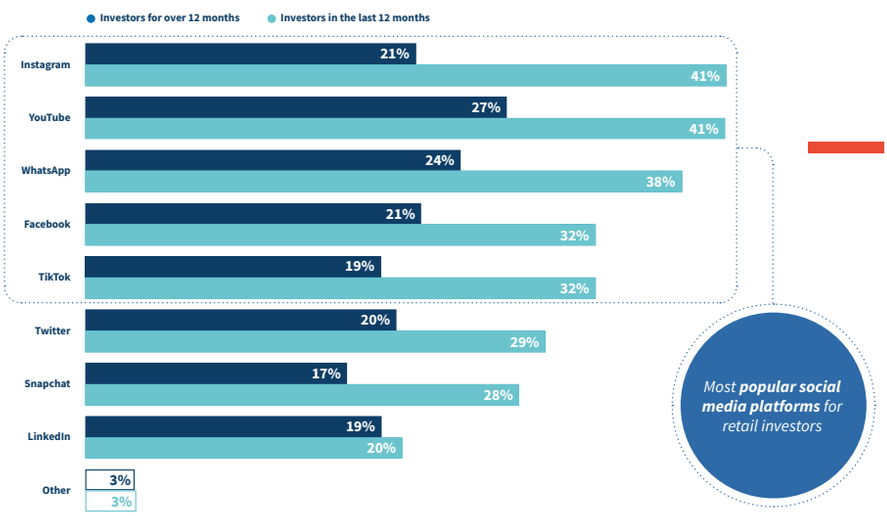
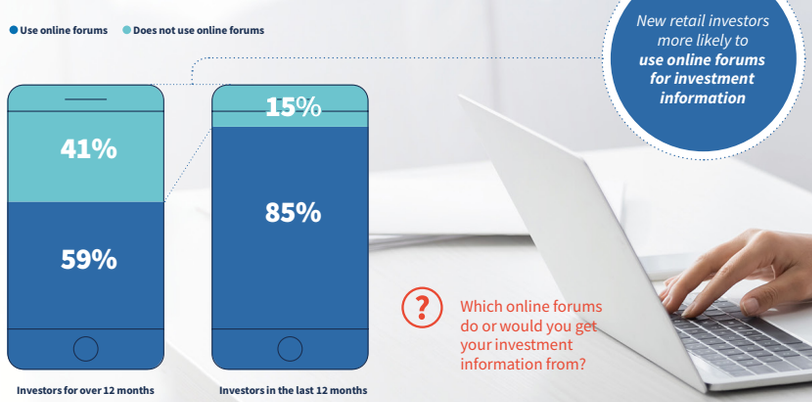


And for new investors Instagram, YouTube and WhatsApp are the most popular sources

Online forums are also more popular with newer investors

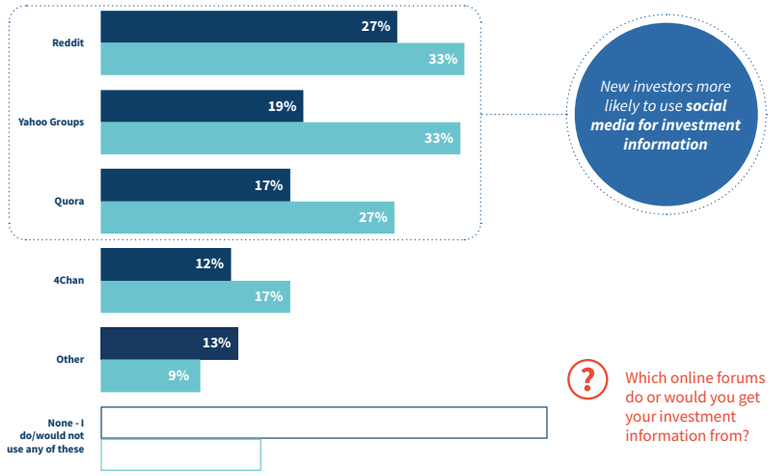
It's a similar story for online forums. Whereas only 59% of earlier investors used them, this has sky-rocketed to 85% of new retail investors.



Which online forums do or would you get your investment information from?

And a third of new investors use Reddit for investment information

The most popular online forum for all retail investors is Reddit with 30%, followed by Yahoo Groups with 25% (particularly driven by 33% for new investors) and Quora in third place with 22% (driven by 27% for new investors).

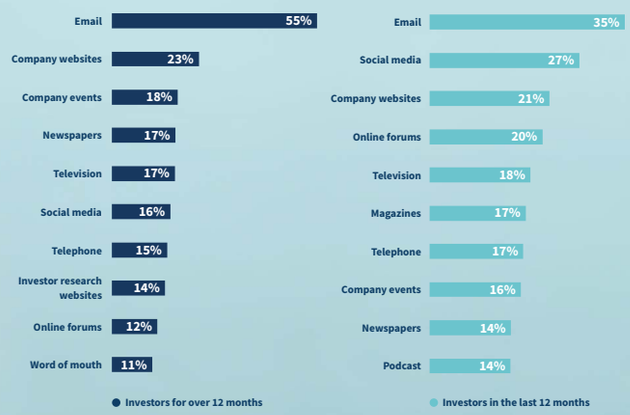


Email remains the preferred method for retail investors to hear from companies they own

Email, company websites and social channels are the preferred methods for companies to communicate with retail investors, but newer investors are more likely to want companies to communicate with them through social media channels and less likely to want to receive emails.

How would you like companies you have shares in to communicate with you?

– older vs new investor top 10 choices breakdown



Primary research methodology

UK General Population

This research was conducted from 25th – 26th March 2021.

Base: n=2,000 respondents, representative of the UK adult general population (aged 18+ years old). Results for both waves were weighted in terms of age, gender, location and voting behaviour to ensure representativeness.

Market sizing data refers to the 2019 estimates from the Office for National Statistics (ONS), where the UK population aged 18+ is: 52,673,433.

For more information:
Dan.Healy@fticonsulting.com

Survey Design

A proprietary survey designed to illuminate thoughts from the UK general population.

Distribution

Respondents were emailed to participate in the online survey.

Completion

Respondents complete the survey online at a time and on a device most convenient to them.

Data Collection & Validation

All responses are collated and followed by a deep investigation into key themes emerging from findings.

Results

All data, results and themes are compiled into a detailed report.

*Note: As a consequence of rounding up percentage results, the answers to some questions might not always add up to 100%.

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