# COVID-19 Consequences: Influx of Individual Investors to the Market and the Role of Financial Literacy

By: Meysam Hamedi

Securities and Exchange Organization of Islamic Republic of Iran



### Factors have Influenced the Market after Outbreak of Covid-19





# Some Recent Facts about Retail Investors

#### The world is facing new generation of Investors: young with retail money

A Deutsche Bank survey found that almost <u>half of US retail investors were completely new</u> to the markets in 2020. Their age is average 34 and they use social media as a research tool to find trading ideas.

A growing trend within the retail community is <u>the use of leverage to enhance returns</u>. A Yahoo Finance/Harris poll found that <u>43% of respondents have used margin</u>, <u>options</u> or <u>both</u> since the beginning of the pandemic.

Bank of America shows that <u>people planned to put 37 percent of any forthcoming stimulus</u> cheques from the government <u>into stocks</u>. That could be as much as \$170bn.

While there were internet forums and newsletters in the 1990s, the <u>current social media</u> <u>environment is radically more powerful</u>

Bank of America reports that <u>retail investors account for roughly 20% and 30% of</u> <u>daily volume</u> on an average day in 2020 and 2021 respectively, up from just 10% of the market volume in 2019.

the dollar value of U.S. stocks and ETFs traded by retail investors was up 78% year over year in June 2021.

E-Trade found that half of investors under the age of 30 <u>check their account</u> <u>performance daily</u>, a behavior seen to a lesser degree in other demographics. While this seems like an innocent habit, in practice, <u>these investors tend to overreact to short-term movements</u> and daily news, placing trades at inopportune times.

#### Retail trading now accounts for almost as much volume as mutual funds and hedge funds combined

Market share of overall US equity trading volumes (%) Retail Mutual funds Traditional hedge funds Quant hedge funds Bank trading High-frequency market-makers 50 40 Retail trading 30 begins to take off again 20 10 0 2013 2010 2011 2012 2014 2015 2016 2017 2018 2020 2021 2019

Source: Bloomberg Intelligence © FT



#### Share of client participation in Capital Market at NSE (%)

Source: NSE.

Note: D11: Domestic Institutional Investors, F11: Foreign Institutional Investors, Prop traders: Proprietary Traders, Individual investors: individual domestic investors, NRIs, sole proprietorship firms and HUFs, Others: Partnership Firms/LLP, Trust / Society, AIF, Depository Receipts, PMS clients, Statutory Bodies, FDI, OCB, FNs, QFIs, VC Funds, NBFC, etc.

#### Trade Value by Type of Investors in mid 2020 to mid 2021



improving liquidity and the depth of order books

contribute to greater market volatility

Common Characteristics of retail Investors Presence in the Market

driven more by emotional rather than pure economic factors

They are sacrifice of crimes (particularly manipulation) in the market

Manipulation may take place based on individuals behaviour

Presence of Individuals in the market is a two edged sword!

When market surfing down, they absorb liquidity

#### This new breed of trader exhibits a potentially dangerous combination of characteristics:

#### Frequent Trades

## Lack of Diversification

Use of Leverage

Lack of enough Knowledge and Information Overconfident Investors

### Chinese retail investors' shareholding dominance is dwindling

Estimated holdings of China's stock market float (% of market cap)



Note: institutional holdings include state and corporate strategic investments; 2020 figures as of June 30 Source: China Renaissance

#### Chinese stocks get less jumpy in a crisis as retail holdings shrink

30-day stock volatility implied by options market



## Main Considerations

Besides regulatory initiatives like changing circuit breakers settings or limiting margin trading, financial literacy is of paramount importance for market participants, particularly as more volatile and illiquid products become accessible.

Financial literacy is important for improving not just levels of retail activity but also the *quality of activity* 

Back to Financial Literacy definition: "A combination of awareness, knowledge, skill, attitude and behaviour necessary to *make sound financial decisions* and ultimately achieve individual financial wellbeing"

*Financial education* and *accurate data* that supports transparency and accountability are key priorities for enabling sound investment decision-making by retail and professional investors alike.

#### • Individual investors Influx the Market when prices are rising or they expect it;

New comers (those who opened up trading accounts recently) Those whose experience seem low (individual with fewer than Who should be targeted? a year and low trading activities within last two years) Insiders, financial institutions and experienced traders in respect of crimes (they should be noticed that they all are under supervision) The risk inherited to the market **Regulators Prompt Financial Behaviour Biases** Strategic initiatives What should be Disseminated? Different types of crimes, alerts to investors and Regulatory sanctions Customize disclosure by issuers in respect of their performance and analytical reports by influencers The medium that is most referenced by individuals What delivery methods should be applied? Social Media influencers in the context of capital market

it is clear that there is a resistance to conventional practices such as financial literacy tests in this new era of investing and we have to confess that old methods are not applicable for this new generation. The strategy is to move forward side by side to the new generation....

# Thank You for Your Attention